

UNIVERSAL ELECTRONICS INC
Form 10-Q
August 08, 2018
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, 2018

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, 8th 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 (or for such shorter period that the registrant was required to file such reports), 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, every 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: 13,830,823 shares of Common Stock, par value \$0.01 per share, of the registrant were outstanding on August 6, 2018.

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, 2018 | December 31, 2017 |
|--|------------------|----------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 59,433 | \$ 62,438 |
| Restricted cash | — | 4,901 |
| Accounts receivable, net | 143,662 | 151,578 |
| Contract assets | 28,253 | — |
| Inventories, net | 147,186 | 162,589 |
| Prepaid expenses and other current assets | 14,312 | 11,687 |
| Assets held for sale | — | 12,517 |
| Income tax receivable | 2,509 | 1,587 |
| Total current assets | 395,355 | 407,297 |
| Property, plant, and equipment, net | 107,039 | 110,962 |
| Goodwill | 48,522 | 48,651 |
| Intangible assets, net | 26,708 | 29,041 |
| Deferred income taxes | 7,152 | 7,913 |
| Other assets | 4,326 | 4,566 |
| Total assets | \$ 589,102 | \$ 608,430 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Accounts payable | \$ 116,590 | \$ 119,165 |
| Line of credit | 111,000 | 138,000 |
| Accrued compensation | 32,964 | 34,499 |
| Accrued sales discounts, rebates and royalties | 7,987 | 8,882 |
| Accrued income taxes | 6,665 | 3,670 |
| Other accrued liabilities | 21,050 | 28,719 |
| Total current liabilities | 296,256 | 332,935 |
| Long-term liabilities: | | |
| Long-term contingent consideration | 9,730 | 13,400 |
| Deferred income taxes | 1,530 | 4,423 |
| Income tax payable | 2,520 | 2,520 |
| Other long-term liabilities | 1,581 | 1,603 |
| Total liabilities | 311,617 | 354,881 |
| 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; 23,861,547 and 23,760,434 shares issued on June 30, 2018 and December 31, 2017, respectively | 239 | 238 |
| Paid-in capital | 271,500 | 265,195 |
| Treasury stock, at cost, 9,927,853 and 9,702,874 shares on June 30, 2018 and December 31, 2017, respectively | (269,179) | (262,065) |
| Accumulated other comprehensive income (loss) | (18,011) | (16,599) |

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| | | |
|--|-----------|------------|
| Retained earnings | 292,936 | 266,780 |
| Total stockholders' equity | 277,485 | 253,549 |
| Total liabilities and stockholders' equity | \$589,102 | \$ 608,430 |

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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Table of ContentsUNIVERSAL ELECTRONICS INC.
CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share amounts)

(Unaudited)

| | Three Months Ended | | Six Months Ended | |
|--|--------------------|-----------|------------------|-----------|
| | June 30, | | June 30, | |
| | 2018 | 2017 | 2018 | 2017 |
| Net sales | \$162,523 | \$177,580 | \$327,221 | \$338,986 |
| Cost of sales | 135,764 | 133,829 | 263,260 | 254,201 |
| Gross profit | 26,759 | 43,751 | 63,961 | 84,785 |
| Research and development expenses | 6,059 | 4,946 | 12,110 | 10,444 |
| Factory transition restructuring charges | — | 449 | — | 5,699 |
| Selling, general and administrative expenses | 30,570 | 31,053 | 60,817 | 61,704 |
| Operating income (loss) | (9,870) | 7,303 | (8,966) | 6,938 |
| Interest income (expense), net | (1,279) | (562) | (2,349) | (955) |
| Gain on sale of Guangzhou factory | 36,978 | — | 36,978 | — |
| Other income (expense), net | (1,082) | (642) | (1,669) | (59) |
| Income before provision for income taxes | 24,747 | 6,099 | 23,994 | 5,924 |
| Provision for income taxes | 2,088 | 1,415 | 1,922 | 1,121 |
| Net income | \$22,659 | \$4,684 | \$22,072 | \$4,803 |
| Earnings per share: | | | | |
| Basic | \$1.61 | \$0.33 | \$1.57 | \$0.33 |
| Diluted | \$1.60 | \$0.32 | \$1.55 | \$0.33 |
| Shares used in computing earnings per share: | | | | |
| Basic | 14,070 | 14,404 | 14,078 | 14,427 |
| Diluted | 14,158 | 14,683 | 14,195 | 14,700 |

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, | |
| | 2018 | 2017 | 2018 | 2017 |
| Net income | \$22,659 | \$4,684 | \$22,072 | \$4,803 |
| Other comprehensive income: | | | | |
| Change in foreign currency translation adjustment | (5,058) | 608 | (1,412) | 1,991 |
| Comprehensive income | \$17,601 | \$5,292 | \$20,660 | \$6,794 |

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.

Table of ContentsUNIVERSAL ELECTRONICS INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

| | Six Months Ended June 30, | |
|--|------------------------------|-----------|
| | 2018 | 2017 |
| Cash provided by (used for) operating activities: | | |
| Net income | \$22,072 | \$4,803 |
| Adjustments to reconcile net income to net cash provided by (used for) operating activities: | | |
| Depreciation and amortization | 16,913 | 15,954 |
| Provision for doubtful accounts | 2 | 81 |
| Provision for inventory write-downs | 5,078 | 1,419 |
| Gain on sale of Guangzhou factory | (36,978) | — |
| Deferred income taxes | (557) | (1,035) |
| Shares issued for employee benefit plan | 590 | 591 |
| Employee and director stock-based compensation | 4,669 | 5,555 |
| Performance-based common stock warrants | 343 | 1,263 |
| Impairment of China factory equipment | 2,763 | — |
| Changes in operating assets and liabilities: | | |
| Accounts receivable and contract assets | 6,164 | (20,427) |
| Inventories | (16,061) | (11,249) |
| Prepaid expenses and other assets | (2,765) | (121) |
| Accounts payable and accrued liabilities | (7,329) | (15) |
| Accrued income taxes | 1,219 | (1,691) |
| Net cash provided by (used for) operating activities | (3,877) | (4,872) |
| Cash provided by (used for) investing activities: | | |
| Proceeds from sale of Guangzhou factory | 51,291 | — |
| Acquisitions of property, plant, and equipment | (13,416) | (17,519) |
| Refund of deposit received toward sale of Guangzhou factory | (5,053) | — |
| Acquisitions of intangible assets | (1,248) | (765) |
| Acquisition of net assets of Residential Control Systems, Inc. | — | (8,854) |
| Net cash provided by (used for) investing activities | 31,574 | (27,138) |
| Cash provided by (used for) financing activities: | | |
| Borrowings under line of credit | 23,000 | 85,000 |
| Repayments on line of credit | (50,000) | (42,987) |
| Proceeds from stock options exercised | 704 | 842 |
| Treasury stock purchased | (7,114) | (14,885) |
| Contingent consideration payments in connection with business combinations | (3,858) | — |
| Net cash provided by (used for) financing activities | (37,268) | 27,970 |
| Effect of exchange rate changes on cash, cash equivalents, and restricted cash | 1,665 | (1,383) |
| Net increase (decrease) in cash, cash equivalents, and restricted cash | (7,906) | (5,423) |
| Cash, cash equivalents, and restricted cash at beginning of year | 67,339 | 59,834 |
| Cash, cash equivalents, and restricted cash at end of period | \$59,433 | \$54,411 |
| Supplemental cash flow information: | | |
| Income taxes paid | \$4,191 | \$4,142 |
| Interest paid | \$2,525 | \$981 |
| 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, 2018
(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 and certain reclassifications have been made to prior year amounts in order to conform to the current year presentation. 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, 2018 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, 2017.

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.

Summary of Significant Accounting Policies

We adopted Accounting Standards Update ("ASU") 2014-09, "Revenue from Contracts with Customers," and all related amendments as of January 1, 2018. The impact of this new guidance on our accounting policies and consolidated financial statements is also described below. There have been no other significant changes in our accounting policies during the three and six months ended June 30, 2018 compared to the significant accounting policies described in our Annual Report on Form 10-K for the year ended December 31, 2017.

Revenue Recognition

Our performance obligations primarily arise from manufacturing and delivering universal control, sensing and automation products and AV accessories, which are sold through multiple channels, and intellectual property that is embedded in these products or licensed to others. These performance obligations are satisfied at a point in time or over time, as described below. Payment terms are typically on open credit terms consistent with industry practice and do not have significant financing components. Some contracts contain early payment discounts, which are recognized as a reduction to revenue if the customer typically meets the early payment conditions. Consideration may be variable based on indeterminate volumes.

Effective January 1, 2018, revenue is recognized over time when the customer simultaneously receives and consumes the benefits provided by our performance, our performance creates or enhances an asset that the customer controls, or when our performance creates an asset with no alternative use to us (custom products) and we have an enforceable right to payment for performance completed to date, such as a firm order or other contractual commitment from the customer. An asset does not have an alternative use if we are unable to redirect the asset to another customer in the

foreseeable future without significant rework. The method for measuring progress towards satisfying a performance obligation for a custom product is based on the costs incurred to date (cost-to-cost method). We believe that the costs associated with production are most closely aligned with the revenue associated with those products.

We recognize revenue at a point in time if the criteria for recognizing revenue over time are not met, the title of the goods has transferred, and we have a present right to payment.

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UNIVERSAL ELECTRONICS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2018

(Unaudited)

We typically recognize revenue for the sale of tooling at a point in time, which is generally upon completion of the tooling and, if applicable, acceptance by the customer.

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

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

We license our intellectual property including our patented technologies, trademarks, and database of control codes. When license fees are paid on a per-unit basis we record license revenue when our customers manufacture or ship a product incorporating our intellectual property and we have a present right to payment. When a fixed up-front license fee is received in exchange for the delivery of a particular database of infrared codes or the contract contains a minimum guarantee provision, we record revenue when delivery of the intellectual property has occurred. Tiered royalties are recorded on a straight-line basis according to the forecasted per-unit fees taking into account the pricing tiers.

Contract assets represent revenue which has been recognized based on our accounting policies but for which the customer has not yet been invoiced and thus an account receivable has not yet been recorded.

Under prior accounting standards, we recognized revenue on the sale of products when title of the goods had transferred, there was persuasive evidence of an arrangement (such as a purchase order from the customer), the sales price was fixed or determinable and collectability was reasonably assured. Revenue for term license fees were recognized on a straight-line basis over the effective term of the license when we could not reliably predict in which periods, within the term of the license, the licensee would benefit from the use of our patented inventions.

Recently Adopted Accounting Pronouncements

On January 1, 2018, we adopted ASU 2014-09 using the modified retrospective transition method. Under this method, we evaluated all contracts that were in effect at the beginning of 2018 as if those contracts had been accounted for under the new revenue standard based on the terms in effect as of the adoption date. Under the modified retrospective transition approach, periods prior to the adoption date were not adjusted and continue to be reported in accordance with historical U.S. GAAP. A cumulative catch-up adjustment was recorded to beginning retained earnings to reflect the impact of all existing arrangements under the new revenue standard.

The cumulative effects of the changes made to our consolidated January 1, 2018 balance sheet for the adoption of ASU 2014-09, were as follows:

| | As reported | Adjustments due to | Balance at |
|---|----------------|-----------------------|---------------|
| Consolidated Balance Sheet (In thousands) | 12/31/2017 | ASU 2014-09 | 1/1/2018 |
| Contract assets | \$ | —\$ 29,759 | \$ 29,759 |
| Inventories, net | 162,589 | (23,830) | 138,759 |
| Prepaid expenses and other current assets | 11,687 | (174) | 11,513 |

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| | | | |
|--|---------|-------|---------|
| Deferred income tax assets | 7,913 | (102 |) 7,811 |
| Accounts payable and other current liabilities | 332,935 | 1,528 | 334,463 |
| Deferred income tax liabilities | 4,423 | 20 | 4,443 |
| Retained earnings | 266,780 | 4,084 | 270,864 |

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UNIVERSAL ELECTRONICS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2018

(Unaudited)

The following tables compare the reported consolidated balance sheet and statements of operations as of and for the three and six months ended June 30, 2018, to pro forma amounts had the previous guidance been in effect. The guidance did not have a significant impact on the Company's unaudited condensed consolidated statement of cash flows.

| Consolidated Balance Sheet (In thousands) | As of June 30, 2018 | | |
|--|---------------------|---------------------------------|------------------|
| | As reported | Without Adoption of ASU 2014-09 | Effect of Change |
| Assets | | | |
| Contract assets | \$28,253 | \$— | \$28,253 |
| Inventories, net | 147,186 | 169,855 | (22,669) |
| Prepaid expenses and other current assets | 14,312 | 14,307 | 5 |
| Deferred income taxes | 7,152 | 7,250 | (98) |
| Liabilities and Equity | | | |
| Accounts payable and other current liabilities | \$296,256 | \$294,484 | \$1,772 |
| Retained earnings | 292,936 | 289,217 | 3,719 |
| Three Months Ended June 30, 2018 | | | |
| Consolidated Statements of Operations (In thousands) | As reported | Without Adoption of ASU 2014-09 | Effect of Change |
| Net sales | \$162,523 | \$156,133 | \$6,390 |
| Cost of sales | 135,764 | 129,745 | 6,019 |
| Selling, general and administrative expenses | 30,570 | 30,427 | 143 |
| Provision for income taxes | 2,088 | 2,040 | 48 |
| Net income | 22,659 | 22,478 | 181 |
| Earnings per share: | | | |
| Basic | \$1.61 | \$1.60 | \$0.01 |
| Diluted | \$1.60 | \$1.59 | \$0.01 |
| Six months ended June 30, 2018 | | | |
| Consolidated Statements of Operations (In thousands) | As reported | Without Adoption of ASU 2014-09 | Effect of Change |
| Net sales | \$327,221 | \$328,321 | \$(1,100) |
| Cost of sales | 263,260 | 264,001 | (741) |

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| | | | |
|--|--------|--------|-----------|
| Selling, general and administrative expenses | 60,817 | 60,837 | (20) |
| Provision for income taxes | 1,922 | 1,895 | 27 |
| Net income | 22,072 | 22,437 | (365) |
| Earnings per share: | | | |
| Basic | \$1.57 | \$1.59 | \$(0.03) |
| Diluted | \$1.55 | \$1.58 | \$(0.03) |

Other Accounting Pronouncements

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UNIVERSAL ELECTRONICS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2018

(Unaudited)

In August 2016, the Financial Accounting Standards Board ("FASB") issued ASU 2016-15, "Classification of Certain Cash Receipts and Cash Payments," which amends Accounting Standards Codification ("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. The adoption of ASU 2016-15 did not have a material impact to the presentation of our consolidated statement of cash flows.

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. The adoption of ASU 2016-16 did not have a material impact on our consolidated financial statements.

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. The adoption of ASU 2016-18 modified our current disclosures by reclassifying certain amounts within the consolidated statement of cash flows, but did not have a material effect on our consolidated financial statements.

Recent Accounting Updates Not Yet Effective

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 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 15, 2019. Early adoption is permitted. We do not expect the adoption of ASU 2017-04 will have a material impact on our consolidated financial statements.

In June 2018, the FASB issued ASU 2018-07, "Improvements to Nonemployee Share-Based Payment Accounting." This guidance expands the scope of Topic 718, "Compensation - Stock Compensation" to include share-based payment transactions for acquiring goods and services from non-employees, but excludes awards granted in conjunction with selling goods or services to a customer as part of a contract accounted for under ASC 606, "Revenue from Contracts with Customers." We are currently evaluating the impact that ASU 2018-07 will have on our consolidated financial statements.

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UNIVERSAL ELECTRONICS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2018

(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, | |
|------------------------------------|-----------------------|-----------|
| | 2018 | 2017 |
| United States | \$6,465 | \$ 10,489 |
| People's Republic of China ("PRC") | 34,710 | 23,283 |
| Asia (excluding the PRC) | 1,348 | 1,405 |
| Europe | 8,139 | 18,071 |
| South America | 8,771 | 9,190 |
| Total cash and cash equivalents | \$59,433 | \$ 62,438 |

Restricted Cash

In connection with the pending sale of our Guangzhou factory in the PRC (Note 10), a prospective buyer made a cash deposit of RMB 32 million (\$5.1 million based on April 2018 exchange rates) into an escrow account on September 29, 2016. Under the terms of the escrow account, these funds were not to be paid to us until the close of the sale.

Accordingly, this deposit was presented as restricted cash within our consolidated balance sheet. In April 2018, the sale transaction with this buyer was terminated and this deposit was returned to the buyer.

Note 3 — Accounts Receivable, Net and Revenue Concentrations

Accounts receivable, net were as follows:

| (In thousands) | June 30, December 31, | |
|---------------------------------|-----------------------|------------|
| | 2018 | 2017 |
| Trade receivables, gross | \$ 140,483 | \$ 142,299 |
| Allowance for doubtful accounts | (1,008) | (1,064) |
| Allowance for sales returns | (596) | (562) |
| Net trade receivables | 138,879 | 140,673 |
| Other | 4,783 | 10,905 |
| Accounts receivable, net | \$ 143,662 | \$ 151,578 |

Allowance for Doubtful Accounts

Changes in the allowance for doubtful accounts were as follows:

| (In thousands) | Six Months | |
|---------------------------------------|----------------|--------|
| | Ended June 30, | |
| | 2018 | 2017 |
| Balance at beginning of period | \$ 1,064 | \$ 904 |
| Additions to costs and expenses | 2 | 81 |
| (Write-offs)/Foreign exchange effects | (58) | (35) |
| Balance at end of period | \$ 1,008 | \$ 950 |

Sales Returns

The allowance for sales returns at June 30, 2018 and December 31, 2017 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 \$0.3 million and \$0.4 million on June 30, 2018 and December 31, 2017, respectively. The value of these returned goods was included in our inventory balance at June 30, 2018 and December 31, 2017.

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UNIVERSAL ELECTRONICS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2018

(Unaudited)

Significant Customers

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

| | Three Months Ended June 30, | | | 2017 | | |
|---------------------|-----------------------------|------|---|-----------------------------|------|---|
| | 2018 | | | | | |
| | \$ (thousands) of Net Sales | | | \$ (thousands) of Net Sales | | |
| Comcast Corporation | \$29,542 | 18.2 | % | \$42,951 | 24.2 | % |
| AT&T ⁽¹⁾ | \$— | — | % | \$21,740 | 12.2 | % |
| | Six Months Ended June 30, | | | 2017 | | |
| | 2018 | | | | | |
| | \$ (thousands) of Net Sales | | | \$ (thousands) of Net Sales | | |
| Comcast Corporation | \$67,517 | 20.6 | % | \$85,198 | 25.1 | % |
| AT&T ⁽¹⁾ | \$— | — | % | \$40,940 | 12.1 | % |

⁽¹⁾ Sales associated with this customer did not total more than 10% of our net sales for the indicated period.

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

| | June 30, 2018 | | December 31, 2017 | | | |
|---------------------|--------------------------------|---------------|--------------------------------|---------------|------|---|
| | | % of Accounts | | % of Accounts | | |
| | \$ (thousands) Receivable, Net | | \$ (thousands) Receivable, Net | | | |
| Comcast Corporation | \$19,570 | 13.6 | % | \$25,142 | 16.6 | % |

Note 4 — Inventories, Net and Significant Suppliers

Inventories, net were as follows:

| (In thousands) | June 30, | December 31, |
|---|-----------|--------------|
| | 2018 | 2017 |
| Raw materials | \$58,263 | \$ 43,638 |
| Components | 11,545 | 16,214 |
| Work in process | 5,908 | 1,847 |
| Finished goods | 79,007 | 105,178 |
| Reserve for excess and obsolete inventory | (7,537) | (4,288) |
| Inventories, net | \$147,186 | \$ 162,589 |

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(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, | |
| | 2018 | 2017 |
| Balance at beginning of period | \$4,288 | \$4,205 |
| Additions charged to costs and expenses ⁽¹⁾ | 4,564 | 1,218 |
| Sell through ⁽²⁾ | (680) | (576) |
| (Write-offs)/Foreign exchange effects | (635) | (640) |
| Balance at end of period | \$7,537 | \$4,207 |

(1) The additions charged to costs and expenses do not include inventory directly written-off that was scrapped during production totaling \$0.5 million and \$0.2 million for the six months ended June 30, 2018 and 2017, 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 Suppliers

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, | | % of Total Inventory Purchases | % of Total Inventory Purchases |
|----------------------------------|-----------------------------|----------|--------------------------------|--------------------------------|
| | 2018 | 2017 | | |
| Texas Instruments ⁽¹⁾ | \$— | \$11,450 | 11.0 | % |

| | Six Months Ended June 30, | | % of Total Inventory Purchases | % of Total Inventory Purchases |
|----------------------------------|---------------------------|----------|--------------------------------|--------------------------------|
| | 2018 | 2017 | | |
| Texas Instruments ⁽¹⁾ | \$— | \$20,578 | 10.7 | % |

(1) Purchases associated with this supplier did not total more than 10% of our total inventory purchases for the indicated period.

Related Party Supplier

During the three and six months ended June 30, 2018 and 2017, we purchased certain printed circuit board assemblies from a related party supplier. The supplier was considered a related party for financial reporting purposes because our Senior Vice President of Strategic Operations owned 40% of this supplier. In the second quarter of 2018, our Senior Vice President sold his interest in this supplier, and thus this supplier is no longer considered a related party. Total inventory purchases made from this supplier while it was a related party were \$1.1 million during the six months ended June 30, 2018 and \$1.6 million and \$2.6 million during the three and six months ended June 30, 2017, respectively.

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(Unaudited)

Note 5 — Goodwill and Intangible Assets, Net

Goodwill

Changes in the carrying amount of goodwill were as follows:

(In thousands)

| | |
|------------------------------|----------|
| Balance at December 31, 2017 | \$48,651 |
| Foreign exchange effects | (129) |
| Balance at June 30, 2018 | \$48,522 |

Intangible Assets, Net

The components of intangible assets, net were as follows:

| (In thousands) | June 30, 2018 | | | December 31, 2017 | | |
|--|----------------------|-----------------------------|-----------|----------------------|-----------------------------|-----------|
| | Gross ⁽¹⁾ | Accumulated | | Gross ⁽¹⁾ | Accumulated | |
| | | Amortization ⁽¹⁾ | Net | | Amortization ⁽¹⁾ | Net |
| Distribution rights | \$335 | \$ (176) | \$ 159 | \$344 | \$ (165) | \$ 179 |
| Patents | 13,662 | (5,218) | 8,444 | 13,250 | (5,310) | 7,940 |
| Trademarks and trade names | 2,786 | (1,746) | 1,040 | 2,786 | (1,594) | 1,192 |
| Developed and core technology | 12,560 | (7,079) | 5,481 | 12,560 | (6,071) | 6,489 |
| Capitalized software development costs | 198 | (113) | 85 | 142 | (77) | 65 |
| Customer relationships | 32,534 | (21,035) | 11,499 | 32,534 | (19,395) | 13,139 |
| Order backlog | — | — | — | 150 | (113) | 37 |
| Total intangible assets, net | \$62,075 | \$ (35,367) | \$ 26,708 | \$61,766 | \$ (32,725) | \$ 29,041 |

(1) This table excludes the gross value of fully amortized intangible assets totaling \$6.8 million and \$6.0 million at June 30, 2018 and December 31, 2017, respectively.

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, | |
| | 2018 | 2017 | 2018 | 2017 |
| Cost of sales | \$18 | \$55 | \$73 | \$74 |
| Selling, general and administrative expenses | 1,758 | 1,736 | 3,505 | 3,317 |
| Total amortization expense | \$1,776 | \$1,791 | \$3,578 | \$3,391 |

Estimated future annual amortization expense related to our intangible assets at June 30, 2018, was as follows:

(In thousands)

| | |
|---------------------------|----------|
| 2018 (remaining 6 months) | \$3,506 |
| 2019 | 6,922 |
| 2020 | 5,791 |
| 2021 | 2,253 |
| 2022 | 2,143 |
| Thereafter | 6,093 |
| Total | \$26,708 |

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Note 6 — Line of Credit

Our Second Amended and Restated Credit Agreement ("Second Amended Credit Agreement") with U.S. Bank National Association ("U.S. Bank") and Wells Fargo Bank, National Association provides for a \$170.0 million revolving line of credit ("Credit Line") that expires on November 1, 2019. The Credit Line may be used for working capital and other general corporate purposes including acquisitions, share repurchases and capital expenditures. Amounts available for borrowing under the Credit Line are reduced by the balance of any outstanding letters of credit. There were no outstanding letters of credit at June 30, 2018.

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

Under the Second 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 Second 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 Second Amended Credit Agreement. The interest rate in effect at June 30, 2018 was 3.84%. There are no commitment fees or unused line fees under the Second Amended Credit Agreement.

The Second Amended Credit Agreement includes financial covenants requiring a minimum fixed charge coverage ratio and a maximum cash flow leverage ratio. In addition, the Second Amended Credit Agreement contains other customary affirmative and negative covenants and events of default. As of June 30, 2018, we were in compliance with the covenants and conditions of the Second Amended Credit Agreement.

At June 30, 2018, we had \$111.0 million outstanding under the Credit Line. Our total interest expense on borrowings was \$1.4 million and \$0.6 million during the three months ended June 30, 2018 and 2017, respectively. Our total interest expense on borrowings was \$2.5 million and \$1.1 million during the six months ended June 30, 2018 and 2017, 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 rate and multiplying it by the year-to-date pre-tax book income.

We recorded income tax expense of \$2.1 million and \$1.4 million for the three months ended June 30, 2018 and 2017, respectively, and our effective tax rate was 8.4% and 23.2% for the three months ended June 30, 2018 and 2017, respectively. During the six months ended June 30, 2018 and 2017, we recorded income tax expense of \$1.9 million and \$1.1 million, respectively, and our effective tax rate was 8.0% and 18.9% during the six months ended June 30, 2018 and 2017, respectively. The decrease in our effective tax rate in the current year was primarily a result of the tax rate applicable to the gain recognized on the sale of our Guangzhou factory being lower than our blended consolidated tax rate.

The Tax Cuts and Jobs Act (the "Tax Act") was enacted on December 22, 2017. The Tax Act reduces the U.S. federal corporate income tax rate from 35% to 21%, requires companies to pay a one-time transition tax on earnings of certain foreign subsidiaries that were previously tax deferred and creates new taxes on certain foreign sourced earnings. We are applying the guidance in SAB 118 when accounting for the enactment-date effects of the Tax Act. At June 30, 2018, we have not completed our accounting for all of the tax effects of the Tax Act. Additionally, we have made a reasonable estimate of other effects. During the three and six month period ended June 30, 2018, we recognized no adjustments to the provisional amounts recorded at December 31, 2017. We are awaiting further guidance from the

U.S. federal and state regulatory bodies with regards to the final accounting and reporting of these items in the jurisdictions where we file tax returns. In all cases, we will continue to make and refine our calculations as additional analysis is completed. Our estimates may also be affected as we gain a more thorough understanding of tax law. These changes could be material to income tax expense.

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Additionally, we have provided provisional amounts for the legislative provisions that are effective as of January 1, 2018, including, but not limited to, the creation of the base erosion anti-abuse tax ("BEAT"), a new minimum tax, a new provision designed to tax global intangible low-taxed income ("Global Minimum Tax", or "GMT"), a new limitation on deductible interest expense, and limitations on the use of net operating losses. Our accounting for these elements of the Tax Act is incomplete; however, we were able to make reasonable estimates and therefore recorded provisional adjustments. Similar to the above elements, we are in the process of collecting and preparing necessary data, and interpreting guidance as issued by the U.S. Treasury Department, Internal Revenue Service, FASB, and other federal and state standard-setting regulatory bodies. However, we continue to gather additional information to complete our accounting for these items and expect to complete the accounting within the prescribed measurement period. Given the complexity of the GMT provisions, we are still evaluating the effects of the GMT provisions and have not yet determined our accounting policy. At June 30, 2018, we are still evaluating the GMT provisions and our analysis of future taxable income that is subject to GMT, we have included GMT related to current year operations only in our estimated annual effective tax rate and have not provided additional GMT on deferred items.

At June 30, 2018, we had gross unrecognized tax benefits of \$5.7 million, including interest and penalties, of which approximately \$5.4 million, if not for the state Research and Experimentation income tax credit valuation allowance, 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. Based on federal, state and foreign statute expirations in various jurisdictions, we do not anticipate any decrease in unrecognized tax benefits 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 \$0.6 million and \$0.5 million at June 30, 2018 and December 31, 2017, respectively, are included in our unrecognized tax benefits.

Note 8 — Accrued Compensation

The components of accrued compensation were as follows:

| (In thousands) | June 30, December 31, | |
|---|-----------------------|-----------|
| | 2018 | 2017 |
| Accrued social insurance ⁽¹⁾ | \$17,412 | \$ 17,727 |
| Accrued salary/wages | 9,789 | 7,910 |
| Accrued vacation/holiday | 2,908 | 2,769 |
| Accrued bonus ⁽²⁾ | 1,155 | 2,329 |
| Accrued commission | 669 | 1,089 |
| Accrued medical insurance claims | 321 | 286 |
| Other accrued compensation | 710 | 2,389 |
| Total accrued compensation | \$32,964 | \$ 34,499 |

PRC employers are required by law to remit the applicable social insurance payments to their local government.

Social insurance is comprised of various components such as pension, medical insurance, job industry insurance, (1) 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, 2018 and December 31, 2017.

(2) Accrued bonus includes an accrual for an extra month of salary ("13th month salary") to be paid to employees in certain geographies where it is the customary business practice. This 13th month salary is paid to these employees

if they remain employed with us through December 31st. The total accrued for the 13th month salary was \$0.1 million and \$0.7 million at June 30, 2018 and December 31, 2017, respectively.

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Note 9 — Other Accrued Liabilities

The components of other accrued liabilities were as follows:

| (In thousands) | June 30, December 31, | |
|--|-----------------------|-----------|
| | 2018 | 2017 |
| Advertising and marketing | \$304 | \$ 232 |
| Deferred revenue | 336 | 215 |
| Deposit for sale of Guangzhou factory | — | 4,901 |
| Duties | 792 | 1,184 |
| Freight and handling fees | 3,043 | 1,983 |
| Product development | 700 | 974 |
| Product warranty claim costs | 1,008 | 339 |
| Professional fees | 1,760 | 1,578 |
| Property, plant, and equipment | 509 | 2,151 |
| Sales taxes and VAT | 799 | 2,955 |
| Short-term contingent consideration | 3,870 | 3,800 |
| Third-party commissions | 535 | 599 |
| Tooling ⁽¹⁾ | 1,728 | 1,843 |
| Unrealized loss on foreign currency exchange contracts | 163 | 630 |
| Utilities | 165 | 103 |
| Other | 5,338 | 5,232 |
| Total other accrued liabilities | \$21,050 | \$ 28,719 |

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

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, | |
| | 2018 | 2017 |
| Balance at beginning of period | \$339 | \$134 |
| Accruals for warranties issued during the period | 769 | 167 |
| Settlements (in cash or in kind) during the period | (100) | (3) |
| Balance at end of period | \$1,008 | \$298 |

Restructuring Activities and Sale of Guangzhou Factory

In the first quarter of 2016, we implemented a plan to transition manufacturing activities from our southern-most China factory, located in the city of Guangzhou in the Guangdong province, to our other China factories. As a result, we incurred severance costs of \$0.4 million and \$5.7 million during the three and six months ended June 30, 2017, respectively, which are included within operating expenses. All operations ceased in our Guangzhou factory in the third quarter of 2017 and the transition to the other China factories was completed by the end of 2017. Since all operations at our Guangzhou manufacturing facility ceased as of the end of July 2017, the related building and land lease assets were classified as assets held for sale in our consolidated balance sheet at December 31, 2017.

On September 26, 2016, we entered into an agreement to sell our Guangzhou manufacturing facility for RMB 320 million. In accordance with the terms of the agreement, the buyer deposited 10% of the purchase price into an escrow

account upon the execution of the agreement, which we presented as restricted cash in our consolidated balance sheet at December 31, 2017 (also refer to Note 2). In April 2018, we and the buyer mutually agreed to terminate the sale. The mutually agreed termination took

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effect immediately with no incremental penalty or costs to either party. In connection with this termination, the deposit was returned to the buyer.

On April 23, 2018, we entered into a new agreement to sell our Guangzhou manufacturing facility to a second buyer for RMB 339 million (approximately \$51.4 million based on exchange rates in effect at the time of closing). On April 26, 2018, the second buyer paid to us a deposit of RMB 34 million (approximately \$5.1 million based on exchange rates in effect at the time of closing), which under the terms of the agreement was nonrefundable. Upon receipt by the Governmental Agency of the second buyer's application of approval of transfer, the second buyer was to pay to us RMB 237 million (approximately \$35.8 million based on exchange rates in effect at the time of closing). Additionally, within two days after the second payment was made to us, the second buyer was to deposit the remaining consideration of RMB 68 million (approximately \$10.3 million based on exchange rates in effect at the time of closing) into escrow, which was to be released to us upon the closing of the sale. Per the terms of the agreement, the sale was to be completed no later than June 30, 2018. On June 26, 2018, all conditions to closing were satisfied and the sale was completed, resulting in a pretax gain of \$37.0 million (\$32.1 million, net of income taxes).

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 supplied to 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 product 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 the 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. During this hearing, Ruwido sought to have a second product which we are currently selling to Telenet included in this case. In September 2017, the Court ruled in our favor that our current product cannot be made part of this case. The Court also refused to rule on whether the original product (which we are no longer selling) infringes the Ruwido patent, instead deciding to wait until the European Patent Office has ruled on our Opposition (see below). Finally, the Court ruled that our original product (which we are no longer selling) infringes certain of Ruwido's design rights, but stayed any decision of compensation and/or damages until all aspects of the case have been decided. We have filed an appeal as to the Court's ruling of infringement, and submission by the parties were due to the Court during the second quarter of 2018 with a hearing expected to take place in late 2018. Subsequent to the Court's ruling that a second product could not be added to the first case on the merits, Ruwido filed a separate case on the merits with respect to this second product, claiming that it too infringes the same patent at issue in the first suit. We have denied these claims. According to the Court's trial schedule, briefs from both parties will be due during the second half of 2018 and early 2019 with a trial date set for January 2019. 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 have assembled this additional information and the final hearing has been scheduled for January 29, 2019. On September 5, 2017, Ruwido and FMH filed a patent infringement case on the merits against UEBV and Telenet in the Netherlands alleging the same claims of infringement as in the Belgium Courts (see above). We have denied these claims and filed a counterclaim seeking to invalidate the Ruwido patent. A November 30, 2018 hearing date has been set by the Court.

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 consolidated 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.

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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. On May 11, 2018, our Board approved a repurchase plan authorizing the repurchase of up to \$10.0 million of our common stock. As of June 30, 2018, we had \$3.6 million of authorized repurchases remaining under the Board's authorizations. On July 26, 2018, our Board approved a new repurchase plan authorizing the repurchase of up to \$5.0 million of our common stock bringing the total amount of authorized repurchases as of approval date to \$5.4 million. We may utilize various methods to effect the repurchases, which could include open market repurchases, negotiated block transactions, accelerated share repurchases or open market solicitations for shares, some of which may be effected through Rule 10b5-1 plans. The timing and amount of future repurchases, if any, will depend upon several factors, including market and business conditions, and such repurchases may be discontinued at any time.

Repurchased shares of our common stock were as follows:

| | Six Months Ended June 30, | |
|----------------------------|------------------------------|----------|
| (In thousands) | 2018 | 2017 |
| Shares repurchased | 225 | 239 |
| Cost of shares repurchased | \$7,114 | \$14,885 |

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.

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.

Foreign Operations

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

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|----------------------------|--------------------------------|-----------|------------------------------|-----------|
| (In thousands) | 2018 | 2017 | 2018 | 2017 |
| United States | \$79,294 | \$85,569 | \$159,045 | \$167,497 |
| Asia (excluding PRC) | 27,467 | 26,916 | 54,867 | 51,566 |
| People's Republic of China | 20,627 | 21,835 | 40,744 | 37,578 |
| Europe | 20,330 | 19,740 | 39,460 | 37,164 |
| Latin America | 6,636 | 15,381 | 16,666 | 31,026 |
| Other | 8,169 | 8,139 | 16,439 | 14,155 |
| Total net sales | \$162,523 | \$177,580 | \$327,221 | \$338,986 |

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

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

| (In thousands) | June 30, 2018 | December 31, 2017 |
|----------------------------------|------------------|----------------------|
| United States | \$15,351 | \$ 14,674 |
| People's Republic of China | 92,261 | 96,984 |
| All other countries | 3,753 | 3,870 |
| Total long-lived tangible assets | \$111,365 | \$ 115,528 |

Note 13 — Stock-Based Compensation

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

| (In thousands) | Three Months Ended June 30, | | Six Months Ended June 30, | |
|--|--------------------------------|---------|------------------------------|---------|
| | 2018 | 2017 | 2018 | 2017 |
| Cost of sales | \$23 | \$19 | \$40 | \$34 |
| Research and development expenses | 201 | 144 | 356 | 263 |
| Selling, general and administrative expenses: | | | | |
| Employees | 1,737 | 1,975 | 3,265 | 3,719 |
| Outside directors | 504 | 794 | 1,008 | 1,539 |
| Total employee and director stock-based compensation expense | \$2,465 | \$2,932 | \$4,669 | \$5,555 |
| Income tax benefit | \$519 | \$889 | 982 | 1,704 |

Stock Options

Stock option activity was as follows:

| | Number of Options (in 000's) | Weighted-Average Exercise Price | Weighted-Average Contractual Term (in years) | Remaining | Aggregate Intrinsic Value (in 000's) |
|---|--|------------------------------------|---|-----------|---|
| Outstanding at December 31, 2017 | 520 | \$ 42.56 | | | |
| Granted | 119 | 44.95 | | | |
| Exercised | (30) | 23.46 | | | \$ 700 |
| Forfeited/canceled/expired | (7) | 27.74 | | | |
| Outstanding at June 30, 2018 ⁽¹⁾ | 602 | \$ 44.17 | 4.57 | | \$ 1,814 |
| Vested and expected to vest at June 30, 2018 ⁽¹⁾ | 602 | \$ 44.17 | 4.57 | | \$ 1,814 |
| Exercisable at June 30, 2018 ⁽¹⁾ | 404 | \$ 41.03 | 3.83 | | \$ 1,814 |

The aggregate intrinsic value represents the total pre-tax value (the difference between our closing stock price on the last trading day of the second quarter of 2018 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, 2018. This amount will change based on the fair market value of our stock.

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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, 2018 | Three Months Ended June 30, 2017 | Six Months Ended June 30, 2018 | Six Months Ended June 30, 2017 |
|---------------------------------------|--|--|--------------------------------------|--------------------------------------|
| Weighted average fair value of grants | \$— | \$— | \$14.26 | \$19.61 |
| Risk-free interest rate | —% | —% | 2.51 % | 1.75 % |
| Expected volatility | —% | —% | 33.09 % | 34.25 % |
| Expected life in years | 0.00 | 0.00 | 4.53 | 4.52 |

As of June 30, 2018, we expect to recognize \$2.8 million of total unrecognized pre-tax stock-based compensation expense related to non-vested stock options over a remaining weighted-average life of 2.0 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, 2017 | 162 | \$ 61.19 |
| Granted | 137 | 44.79 |
| Vested | (58) | 63.20 |
| Forfeited | (5) | 59.72 |
| Non-vested at June 30, 2018 | 236 | \$ 51.22 |

As of June 30, 2018, we expect to recognize \$9.8 million of total unrecognized pre-tax stock-based compensation expense related to non-vested restricted stock awards over a weighted-average life of 2.1 years.

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 (the first two-year period commenced on January 1, 2016 and ended December 31, 2017) 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. At June 30, 2018, 175,000 vested warrants were outstanding. To fully vest in the rights to purchase all of the remaining unearned 475,000 underlying shares, Comcast and its affiliates must purchase an aggregate of \$680 million in goods and services from us during the remaining four-year vesting period.

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(Unaudited)

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. Through June 30, 2018, no warrants had vested for the two-year period beginning January 1, 2018. The assumptions we utilized in the Black Scholes option pricing model and the resulting weighted average fair value of the warrants were the following:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|--|--------------------------------|---------|------------------------------|---------|
| | 2018 | 2017 | 2018 | 2017 |
| Fair value | \$6.92 | \$28.89 | \$6.92 | \$28.89 |
| Price of Universal Electronics Inc. common stock | \$32.88 | \$67.21 | \$32.88 | \$67.21 |
| Risk-free interest rate | 2.71% | 1.95% | 2.71% | 1.95% |
| Expected volatility | 40.20% | 35.05% | 40.20% | 35.05% |
| Expected life in years | 4.50 | 5.50 | 4.50 | 5.50 |

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) | 2018 | 2017 | 2018 | 2017 |
| Reduction/(increase) to net sales | (128) | 331 | 343 | 1,263 |
| Income tax benefit/(expense) | (32) | 123 | 86 | 471 |

At June 30, 2018, we estimated the number of warrants that will vest based on 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, 2018 was \$2.9 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) | 2018 | 2017 | 2018 | 2017 |
| Net gain (loss) on foreign currency exchange contracts ⁽¹⁾ | \$1,865 | \$(1,598) | \$534 | \$(1,364) |
| Net gain (loss) on foreign currency exchange transactions | (2,965) | 1,006 | (2,240) | 1,336 |
| Other income | 18 | (50) | 37 | (31) |
| Other income (expense), net | \$(1,082) | \$(642) | \$(1,669) | \$(59) |

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

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(Unaudited)

Note 16 — Earnings Per Share

Earnings per share was calculated as follows:

| (In thousands, except per-share amounts) | Three Months | | Six Months | |
|--|------------------------|---------|------------------------|---------|
| | Ended June 30, 2018 | 2017 | Ended June 30, 2018 | 2017 |
| BASIC | | | | |
| Net income | \$22,659 | \$4,684 | \$22,072 | \$4,803 |
| Weighted-average common shares outstanding | 14,070 | 14,404 | 14,078 | 14,427 |
| Basic earnings per share | \$1.61 | \$0.33 | \$1.57 | \$0.33 |
| DILUTED | | | | |
| Net income | \$22,659 | \$4,684 | \$22,072 | \$4,803 |
| Weighted-average common shares outstanding for basic | 14,070 | 14,404 | 14,078 | 14,427 |
| Dilutive effect of stock options, restricted stock and common stock warrants | 88 | 279 | 117 | 273 |
| Weighted-average common shares outstanding on a diluted basis | 14,158 | 14,683 | 14,195 | 14,700 |
| Diluted earnings per share | \$1.60 | \$0.32 | \$1.55 | \$0.33 |

The following number of stock options, shares of restricted stock and common stock warrants were excluded from the computation of diluted earnings per common share as their inclusion would have been anti-dilutive:

| (In thousands) | Three Months | | Six Months | |
|----------------------------|---------------------------|------|---------------------------|------|
| | Ended June 30, 2018 | 2017 | Ended June 30, 2018 | 2017 |
| Stock options | 382 | 165 | 357 | 147 |
| Restricted stock awards | 204 | — | 172 | 29 |
| Performance-based warrants | — | — | — | — |

Note 17 — Derivatives

The following table sets forth the total net fair value of derivatives:

| (In thousands) | June 30, 2018 | | | December 31, 2017 | | |
|-------------------------------------|------------------------------------|---------|---------|------------------------------------|---------|---------|
| | Fair Value Measurement Using Level | | | Fair Value Measurement Using Level | | |
| | Level 1 | Level 2 | Level 3 | Level 1 | Level 2 | Level 3 |
| Foreign currency exchange contracts | \$— | \$(157) | \$— | \$(565) | \$— | \$(565) |

We held foreign currency exchange contracts, which resulted in a net pre-tax gain of \$1.9 million and a net pre-tax loss of \$1.6 million for the three months ended June 30, 2018 and 2017, respectively. For the six months ended June 30, 2018 and 2017, we had a net pre-tax gain of \$0.5 million and a net pre-tax loss of \$1.4 million, respectively (see Note 15).

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(Unaudited)

Details of foreign currency exchange contracts held were as follows:

| Date Held | Type | Position Held | Notional Value (in millions) | Forward Rate | Unrealized Gain/(Loss) Recorded at Balance Sheet Date (in thousands) ⁽¹⁾ | Settlement Date |
|-------------------|---------------------------|-----------------------|------------------------------|--------------|---|------------------|
| June 30, 2018 | USD/Euro | USD | \$ 15.0 | 1.1575 | \$ (148) | July 27, 2018 |
| June 30, 2018 | USD/Chinese Yuan Renminbi | Chinese Yuan Renminbi | \$ 5.0 | 6.6195 | \$ (15) | July 27, 2018 |
| June 30, 2018 | USD/Brazilian Real | USD | \$ 1.0 | 3.8626 | \$ 6 | July 27, 2018 |
| December 31, 2017 | USD/Euro | USD | \$ 17.0 | 1.1858 | \$ (220) | January 5, 2018 |
| December 31, 2017 | USD/Chinese Yuan Renminbi | Chinese Yuan Renminbi | \$ 20.0 | 6.6481 | \$ (410) | January 5, 2018 |
| December 31, 2017 | USD/Brazilian Real | USD | \$ 2.5 | 3.2350 | \$ 65 | January 24, 2018 |

(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 liabilities.

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 purchase price of \$12.6 million was comprised of \$8.9 million in cash and \$3.7 million of contingent consideration. 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 previously sold and marketed by RCS.

Our consolidated statement of operations for the three and six months ended June 30, 2018 includes net sales of \$0.8 million and \$1.9 million, respectively, and net losses of \$0.6 million and \$0.9 million, respectively, attributable to RCS. Our consolidated statement of operations 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

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 on the agreed upon percentage of operating income as defined in the Asset Purchase Agreement ("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. At June 30, 2018, the fair value of earnout consideration attributed to RCS was \$2.4 million which is presented within long-term contingent consideration in our consolidated balance sheet.

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(Unaudited)

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 purchase price allocation was the following:

| (in thousands) | Estimated Lives | Fair Value |
|---|-----------------|------------|
| Accounts receivable | | \$429 |
| Inventories | | 1,508 |
| Prepaid expenses and other current assets | | 7 |
| Property, plant and equipment | 1-4 years | 14 |
| Current liabilities | | (408) |
| Net tangible assets acquired | | 1,550 |
| Trade name | 8 years | 400 |
| Customer relationships | 10 years | 5,000 |
| Order backlog | 1 year | 150 |
| Goodwill | | 5,494 |
| Total purchase price | | 12,594 |
| Less: Contingent consideration | | (3,700) |
| Cash paid | | \$8,894 |

Management's determination of the fair value of intangible assets acquired was 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. The fair value assigned to RCS customer relationships and order backlog intangible assets were determined utilizing a multi-period excess earnings approach.

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.

| (In thousands, except per-share amounts) | Three Months Ended June 30, | | Six Months Ended June 30, | |
|--|-----------------------------|-----------|---------------------------|-----------|
| | 2018 | 2017 | 2018 | 2017 |
| Net sales | \$162,523 | \$177,580 | \$327,221 | \$339,548 |
| Net income | 22,659 | 4,767 | 22,072 | 4,541 |
| Basic earnings per share | \$1.61 | \$0.33 | \$1.57 | \$0.31 |
| Diluted earnings per share | \$1.60 | \$0.32 | \$1.55 | \$0.31 |

For purposes of determining pro forma net income, adjustments were made to the three and six months ended June 30, 2017. The pro forma net income 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. Additionally, acquisition costs totaling \$0.1 million are excluded from pro forma net income. 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 installers 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 over one million individual device functions and approximately 8,500 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 control 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 almost 500 issued and pending United States patents related to remote control, home security, safety and automation as well as hundreds of foreign counterpart patents and applications in various territories around the world.

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, 2018:

• Net sales decreased 8.5% to \$162.5 million for the three months ended June 30, 2018 from \$177.6 million for the three months ended June 30, 2017.

• Our gross margin percentage decreased from 24.6% for the three months ended June 30, 2017 to 16.5% for the three months ended June 30, 2018.

• Operating expenses, as a percent of net sales, increased from 20.5% for the three months ended June 30, 2017 to 22.6% for the three months ended June 30, 2018.

• Our operating income decreased from operating income of \$7.3 million for the three months ended June 30, 2017 to an operating loss of \$9.9 million for the three months ended June 30, 2018, and our operating margin percentage decreased from 4.1% for the three months ended June 30, 2017 to an operating deficit of 6.1% for the three months ended June 30, 2018.

• Our effective tax rate decreased to 8.4% for the three months ended June 30, 2018, compared to 23.2% for the three months ended June 30, 2017.

Our strategic business objectives for 2018 include the following:

• continue to develop and market the advanced remote control products and technologies that 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.

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

Critical Accounting Policies and Estimates

The preparation of financial statements in conformity with accounting principles 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. As further discussed in "Notes to Consolidated Financial Statements - Note 1," effective January 1, 2018, we adopted Accounting Standards Update ("ASU") 2014-09, "Revenues from Contracts with Customers." The critical accounting policy below updates 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, 2017.

Revenue Recognition

Our performance obligations primarily arise from manufacturing and delivering universal control, sensing and automation products and AV accessories, which are sold through multiple channels, and intellectual property that is embedded in these products or licensed to others. These performance obligations are satisfied at a point in time or over time, as described below. Payment terms are typically on open credit terms consistent with industry practice and do not have significant financing components. Some contracts contain early payment discounts, which are recognized as a reduction to revenue if the customer typically meets the early payment conditions. Consideration may be variable based on indeterminate volumes.

Effective January 1, 2018, revenue is recognized over time when the customer simultaneously receives and consumes the benefits provided by our performance, our performance creates or enhances an asset that the customer controls, or when our performance creates an asset with no alternative use to us (custom products) and we have an enforceable right to payment for performance completed to date, such as a firm order or other contractual commitment from the customer. An asset does not have an alternative use if we are unable to redirect the asset to another customer in the foreseeable future without significant rework. The method for measuring progress towards satisfying a performance obligation for a custom product is based on the costs incurred to date (cost-to-cost method). We believe that the costs associated with production are most closely aligned with the revenue associated with those products.

We recognize revenue at a point in time if the criteria for recognizing revenue over time are not met, the title of the goods has transferred, and we have a present right to payment.

We typically recognize revenue for the sale of tooling at a point in time, which is generally upon completion of the tooling and, if applicable, acceptance by the customer.

A provision is recorded for estimated sales returns and allowances and is deducted from gross sales to arrive at net sales in the period the related revenue is recorded. These estimates are based on historical sales returns and allowances, analysis of credit memo data and other known factors. Actual returns and claims in any future period are inherently uncertain and thus may differ from our estimates. If actual or expected future returns and claims are

significantly greater or lower than the reserves that we have established, we will record a reduction or increase to net revenue in the period in which we make such a determination.

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

We license our intellectual property including our patented technologies, trademarks, and database of control codes. When license

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fees are paid on a per-unit basis we record license revenue when our customers manufacture or ship a product incorporating our intellectual property and we have a present right to payment. When a fixed up-front license fee is received in exchange for the delivery of a particular database of infrared codes or the contract contains a minimum guarantee provision, we record revenue when delivery of the intellectual property has occurred. Tiered royalties are recorded on a straight-line basis according to the forecasted per-unit fees taking into account the pricing tiers. Contract assets represent revenue which has been recognized based on our accounting policies but for which the customer has not yet been invoiced and thus an account receivable has not yet been recorded.

Under prior accounting standards, we recognized revenue on the sale of products when title of the goods had transferred, there was persuasive evidence of an arrangement (such as a purchase order from the customer), the sales price was fixed or determinable and collectability was reasonably assured. Revenue for term license fees were recognized on a straight-line basis over the effective term of the license when we could not reliably predict in which periods, within the term of the license, the licensee would benefit from the use of our patented inventions.

Recent Accounting Pronouncements

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

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Results of Operations

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

| | Three Months | | Six Months | |
|--|----------------|---------|----------------|---------|
| | Ended June 30, | | Ended June 30, | |
| | 2018 | 2017 | 2018 | 2017 |
| Net sales | 100.0 % | 100.0 % | 100.0 % | 100.0 % |
| Cost of sales | 83.5 | 75.4 | 80.5 | 75.0 |
| Gross profit | 16.5 | 24.6 | 19.5 | 25.0 |
| Research and development expenses | 3.7 | 2.8 | 3.7 | 3.1 |
| Factory transition restructuring charges | — | 0.2 | — | 1.7 |
| Selling, general and administrative expenses | 18.9 | 17.5 | 18.5 | 18.2 |
| Operating income (loss) | (6.1) | 4.1 | (2.7) | 2.0 |
| Interest income (expense), net | (0.8) | (0.3) | (0.7) | (0.3) |
| Gain on sale of Guangzhou factory | 22.8 | — | 11.3 | — |
| Other income (expense), net | (0.7) | (0.4) | (0.5) | (0.0) |
| Income before provision for income taxes | 15.2 | 3.4 | 7.4 | 1.7 |
| Provision for income taxes | 1.3 | 0.8 | 0.6 | 0.3 |
| Net income | 13.9 % | 2.6 % | 6.8 % | 1.4 % |

Adoption of ASU 2014-09. Effective January 1, 2018, we adopted ASU 2014-09 on a modified retrospective basis. Thus the comparability between periods of reported net sales, gross profit and selling, general and administrative expenses is impacted. The discussion below provides insights into underlying business trends that affected our reported results of operations. For further details as to the impact of adopting ASU 2014-09, refer to Note 1 in "Notes to Consolidated Financial Statements."

Three Months Ended June 30, 2018 versus Three Months Ended June 30, 2017

Net sales. Net sales for the three months ended June 30, 2018 were \$162.5 million, a decrease of 8.5% compared to \$177.6 million for the three months ended June 30, 2017. Net sales by our Business and Consumer lines were as follows:

| | Three Months Ended June 30, | | Three Months Ended June 30, | |
|-----------------|-----------------------------|---------|-----------------------------|---------|
| | 2018 | 2017 | 2018 | 2017 |
| | \$ (millions) of total | | \$ (millions) of total | |
| Business | \$147.3 | 90.6 % | \$164.5 | 92.6 % |
| Consumer | 15.2 | 9.4 | 13.1 | 7.4 |
| Total net sales | \$162.5 | 100.0 % | \$177.6 | 100.0 % |

Net sales in our Business lines (subscription broadcasting, OEM, and computing companies) were 90.6% of net sales for the three months ended June 30, 2018 compared to 92.6% for the three months ended June 30, 2017. Net sales in our Business lines for the three months ended June 30, 2018 decreased by 10.5% to \$147.3 million from \$164.5 million. The decrease in Business line net sales was primarily due to decreased sales to subscription broadcasting customers in North America, which was largely driven by lower order levels from customers undergoing platform transitions. Additionally, we experienced a decrease in sales in Latin America, particularly in Brazil. These decreases were partially offset by increased sales of home security products and the strengthening of the Euro exchange rate versus the U.S. Dollar.

Net sales in our Consumer lines (One For All® retail and private label) were 9.4% of net sales for the three months ended June 30, 2018 compared to 7.4% for the three months ended June 30, 2017. Net sales in our Consumer lines for the three months ended June 30, 2018 increased by 16.0% to \$15.2 million from \$13.1 million during the three months ended June 30, 2017 driven primarily by growth in North America and Europe as well as the strengthening of the Euro exchange rate versus the U.S. Dollar.

Gross profit. Gross profit for the three months ended June 30, 2018 was \$26.8 million compared to \$43.8 million for the three months ended June 30, 2017. Gross profit as a percent of sales decreased to 16.5% for the three months

ended June 30, 2018 compared to 24.6% for the three months ended June 30, 2017. The gross margin percentage was unfavorably impacted by factory underutilization associated with ceasing manufacturing activities while transitioning our Asia operations onto our new global ERP system, which went live in Asia in April 2018; inflation in the cost of certain components; the strengthening of the Chinese Yuan

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Renminbi relative to the U.S. Dollar; and asset write-downs associated with the sale and closure of our Guangzhou factory. These unfavorable impacts were partially offset by production efficiencies achieved in our factories in China. Research and development ("R&D") expenses. R&D expenses increased 22.5% to \$6.1 million for the three months ended June 30, 2018 from \$4.9 million for the three months ended June 30, 2017 primarily due to our continued investment in the development of new products that enhance the user experience in home entertainment and home automation.

Factory transition restructuring charges. In the first quarter of 2016, we implemented a plan to transition manufacturing activities from our southern-most China factory, located in the city of Guangzhou in the Guangdong province, to our other China factories. As a result, we incurred severance costs of \$0.4 million for the three months ended June 30, 2017.

Selling, general and administrative ("SG&A") expenses. SG&A expenses decreased slightly to \$30.6 million for the three months ended June 30, 2018 from \$31.1 million for the three months ended June 30, 2017.

Interest income (expense), net. Net interest expense was \$1.3 million for the three months ended June 30, 2018 compared to net interest expense of \$0.6 million for the three months ended June 30, 2017 as a result of an increased level of borrowings on our line of credit.

Gain on sale of Guangzhou factory. In June 2018, we completed the sale of our Guangzhou manufacturing facility in exchange for cash proceeds of \$51.3 million, resulting in a pre-tax gain of \$37.0 million.

Other income (expense), net. Net other expense was \$1.1 million for the three months ended June 30, 2018 compared to net other expense of \$0.6 million for the three months ended June 30, 2017. This change was driven primarily by foreign currency losses associated with fluctuations in the Argentinian Peso and Chinese Yuan Renminbi exchange rates versus the U.S. Dollar.

Provision for income taxes. Income tax expense was \$2.1 million for the three months ended June 30, 2018 compared to \$1.4 million for the three months ended June 30, 2017. Our effective tax rate was 8.4% for the three months ended June 30, 2018 compared to 23.2% for the three months ended June 30, 2017. The decrease in our effective tax rate was primarily a result of the tax rate applicable to the gain recognized on the sale of our Guangzhou factory being lower than our blended consolidated tax rate.

Six Months Ended June 30, 2018 versus Six Months Ended June 30, 2017

Net sales. Net sales for the six months ended June 30, 2018 were \$327.2 million, a decrease of 3.5% compared to \$339.0 million for the six months ended June 30, 2017. Net sales by our Business and Consumer lines were as follows:

| | Six Months Ended June 30, 2018 | | 2017 | |
|-----------------|-----------------------------------|---------|------------------------|---------|
| | (\$ millions) of total | | (\$ millions) of total | |
| Business | \$299.5 | 91.5 % | \$314.9 | 92.9 % |
| Consumer | 27.7 | 8.5 | 24.1 | 7.1 |
| Total net sales | \$327.2 | 100.0 % | \$339.0 | 100.0 % |

Net sales in our Business lines (subscription broadcasting, OEM, and computing companies) were 91.5% of net sales for the six months ended June 30, 2018 compared to 92.9% for the six months ended June 30, 2017. Net sales in our Business lines for the six months ended June 30, 2018 decreased by 4.9% to \$299.5 million from \$314.9 million. The decrease in Business line net sales was driven primarily by decreased sales to subscription broadcasting customers in North America, which was largely driven by lower order levels from customers undergoing platform transitions. Additionally, we experienced a decrease in sales in Latin America, particularly in Brazil. These decreases were partially offset by increased sales of home security products, increased sales to consumer electronics companies in Asia, the continued rollout of higher end platforms in Europe, and the strengthening of the Euro exchange rate versus the U.S. Dollar.

Net sales in our Consumer lines (One For All® retail and private label) were 8.5% of net sales for the six months ended June 30, 2018 compared to 7.1% for the six months ended June 30, 2017. Net sales in our Consumer lines for the six months ended June 30, 2018 increased by 14.9% to \$27.7 million from \$24.1 million during the six months

ended June 30, 2017 driven primarily by growth in Europe and North America as well as the strengthening of the Euro exchange rate versus the U.S. Dollar.

Gross profit. Gross profit for the six months ended June 30, 2018 was \$64.0 million compared to \$84.8 million for the six months ended June 30, 2017. Gross profit as a percent of sales decreased to 19.5% for the six months ended June 30, 2018 compared to 25.0% for the six months ended June 30, 2017. The gross margin percentage was unfavorably impacted by factory underutilization

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associated with ceasing manufacturing activities while transitioning our Asia operations onto our new global ERP system, which went live in Asia in April 2018; the strengthening of the Chinese Yuan Renminbi relative to the U.S. Dollar; inflation in the cost of certain components; and asset write-downs associated with the sale and closure of our Guangzhou factory. These unfavorable impacts were partially offset by production efficiencies achieved in our factories in China.

Research and development expenses. R&D expenses increased 16.0% to \$12.1 million for the six months ended June 30, 2018 from \$10.4 million for the six months ended June 30, 2017 primarily due to our continued investment in the development of new products that enhance the user experience in home entertainment and home automation.

Factory transition restructuring charges. In the first quarter of 2016, we implemented a plan to transition manufacturing activities from our southern-most China factory, located in the city of Guangzhou in the Guangdong province, to our other China factories. As a result, we incurred severance costs of \$5.7 million for the six months ended June 30, 2017.

Selling, general and administrative expenses. SG&A expenses decreased slightly to \$60.8 million for the six months ended June 30, 2018 from \$61.7 million for the six months ended June 30, 2017.

Interest income (expense), net. Net interest expense was \$2.3 million for the six months ended June 30, 2018 compared to net interest expense of \$1.0 million for the six months ended June 30, 2017 as a result of an increased level of borrowings on our line of credit.

Gain on sale of Guangzhou factory. In June 2018, we completed the sale of our Guangzhou manufacturing facility in exchange for cash proceeds of \$51.3 million, resulting in a pre-tax gain of \$37.0 million.

Other income (expense), net. Net other expense was \$1.7 million for the six months ended June 30, 2018 compared to net other expense of \$0.1 million for the six months ended June 30, 2017. This change was driven primarily by foreign currency losses associated with fluctuations in the Argentinian Peso, Chinese Yuan Renminbi and Euro exchange rates versus the U.S. Dollar.

Provision for income taxes. Income tax expense was \$1.9 million for the six months ended June 30, 2018 compared to \$1.1 million for the six months ended June 30, 2017. Our effective tax rate was 8.0% for the six months ended June 30, 2018 compared to 18.9% for the six months ended June 30, 2017. The decrease in our effective tax rate was primarily a result of the tax rate applicable to the gain recognized on the sale of our Guangzhou factory being lower than our blended consolidated tax rate.

Liquidity and Capital Resources

Sources and Uses of Cash

| (In thousands) | Six Months Ended June 30, 2018 | Increase (Decrease) | Six Months Ended June 30, 2017 |
|---|--|------------------------|--|
| Cash provided by (used for) operating activities | \$(3,877) | \$ 995 | \$(4,872) |
| Cash provided by (used for) investing activities | 31,574 | 58,712 | (27,138) |
| Cash provided by (used for) financing activities | (37,268) | (65,238) | 27,970 |
| Effect of exchange rate changes on cash, cash equivalents and restricted cash | 1,665 | 3,048 | (1,383) |
| Net increase (decrease) in cash, cash equivalents, and restricted cash | \$(7,906) | \$(2,483) | \$(5,423) |

| | June 30, 2018 | Increase (Decrease) | December 31, 2017 |
|---------------------------|------------------|------------------------|----------------------|
| Cash and cash equivalents | \$59,433 | \$ (3,005) | \$ 62,438 |
| Working capital | 99,099 | 24,737 | 74,362 |

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Net cash used for operating activities was \$3.9 million during the six months ended June 30, 2018 compared to \$4.9 million of net cash used for operating activities during the six months ended June 30, 2017. Although net cash flows from operations were consistent between periods, accounts receivable produced cash inflows of \$6.1 million during the six months ended June 30, 2018 versus cash outflows of \$20.4 million during the six months ended June 30, 2017, largely as a result of decreased net sales in the second quarter of 2018. Inventory turns decreased from 3.9 turns at June 30, 2017 to 3.2 turns at June 30, 2018, primarily due to orders that were originally expected to be shipped in the first half of 2018 being pushed out to later periods as a result of delays in customer platform transitions. We expect inventory turns to improve in the second half of 2018 as these delayed launches commence.

Net cash provided by investing activities during the six months ended June 30, 2018 was \$31.6 million compared to cash used in investing activities of \$27.1 million during the six months ended June 30, 2017. The increase in cash provided by investing activities was driven primarily by the sale of our Guangzhou factory, which closed in June 2018 and generated cash proceeds of \$51.3 million. Additionally, we invested \$8.9 million to acquire the net assets of Residential Control Systems, Inc. in April 2017.

Net cash used in financing activities was \$37.3 million during the six months ended June 30, 2018 compared to \$28.0 million of net cash provided by financing activities during the six months ended June 30, 2017. The change in financing activity cash flows was driven primarily by borrowing and repayment activity on our line of credit. During the six months ended June 30, 2018 we had net repayments on our line of credit of \$27.0 million, compared to net borrowings of \$42.0 million during the six months ended June 30, 2017.

During the six months ended June 30, 2018, we repurchased 224,979 shares of our common stock at a cost of \$7.1 million compared to our repurchase of 239,470 shares at a cost of \$14.9 million during the six months ended June 30, 2017. 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. See Note 11 contained in "Notes to Consolidated Financial Statements" for further information regarding our share repurchase programs.

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 | \$15,296 | \$4,416 | \$6,280 | \$4,117 | \$483 |
| Purchase obligations ⁽¹⁾ | 2,030 | 2,030 | — | — | — |
| Contingent consideration ⁽²⁾ | 13,600 | 3,870 | 8,780 | 950 | — |
| Total contractual obligations | \$30,926 | \$10,316 | \$15,060 | \$5,067 | \$483 |

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

⁽²⁾ Contingent consideration consists of contingent payments related to our purchases of the net assets of Ecolink Intelligent Technology, Inc. ("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. 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."

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| (In thousands) | June 30, December 31, | |
|-------------------------------|-----------------------|-----------|
| | 2018 | 2017 |
| Cash and cash equivalents | \$59,433 | \$ 62,438 |
| Available borrowing resources | 59,000 | 32,000 |

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, may be subject to state income taxes and foreign withholding taxes. Additionally, repatriation of some foreign balances is restricted by local laws. We have not provided for the state income tax liability or foreign withholding tax 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.

On June 30, 2018, we had \$6.5 million, \$34.7 million, \$1.3 million, \$8.1 million and \$8.8 million of cash and cash equivalents in the United States, the PRC, Asia (excluding the PRC), Europe, and South America, respectively. On December 31, 2017, we had \$10.5 million, \$23.3 million, \$1.4 million, \$18.1 million, and \$9.2 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 Second Amended and Restated Credit Agreement ("Second Amended Credit Agreement") with U.S. Bank National Association ("U.S. Bank") and Wells Fargo Bank, National Association provides for a \$170.0 million revolving line of credit ("Credit Line") that expires on November 1, 2019. The Credit Line may be used for working capital and other general corporate purposes including acquisitions, share repurchases and capital expenditures. Amounts available for borrowing under the Credit Line are reduced by the balance of any outstanding letters of credit. There were no outstanding letters of credit at June 30, 2018.

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 First Amendment to the Second 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 Second 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 Second Amended Credit Agreement. The interest rate in effect at June 30, 2018 was 3.84%. There are no commitment fees or unused line fees under the Second Amended Credit Agreement.

The Second Amended Credit Agreement includes financial covenants requiring a minimum fixed charge coverage ratio and a maximum cash flow leverage ratio. In addition, the Second Amended Credit Agreement contains other customary affirmative and negative covenants and events of default. As of June 30, 2018, we were in compliance with the covenants and conditions of the Second Amended Credit Agreement.

At June 30, 2018, we had an outstanding balance of \$111.0 million on our Credit Line and \$59.0 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 2017 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.

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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 loss of market share due to competition; the delay by or failure of our customers to order products from us due to delays by them of their new product rollouts, their failure to grow as we anticipated, their internal inventory control measures, or their loss of market share; 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 effects of doing business internationally, including the effects that changes in laws and regulations may have on our business; 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; 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 Second 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 Second 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 \$0.8 million annual impact on net income based on our outstanding line of credit balance at June 30, 2018.

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, 2018, we had wholly-owned subsidiaries in Argentina, Brazil, British Virgin Islands, 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, 2018, 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, 2018, net income in the second quarter of 2018 would fluctuate by approximately \$9.6 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

During the first quarter of 2018, we implemented the second phase of a multi-year, company-wide program to transition to a new global enterprise resource planning ("ERP") software system. This second phase included our Asia operations, and thus now our North America and Asia operations are utilizing this new ERP system. In connection with this implementation, the design of our internal controls over financial reporting remained largely intact; however, we have updated our affected internal controls over financial reporting as necessary to accommodate modifications to our business processes and accounting processes. This global ERP implementation effort is projected to continue through 2019. We do not believe that the ERP implementation has or will have an adverse effect on our internal control over financial reporting.

Except as described above, there have been no other changes in our internal control over financial reporting during the fiscal quarter covered by this Quarterly Report on Form 10-Q that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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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 information presented below updates and supplements the risk factors discussed in "Part I, Item 1A: Risk Factors" of the Company's 2017 Annual Report on Form 10-K incorporated herein by reference. The reader should carefully consider these risk factors in connection with the other information in this report. These factors may cause our actual results to differ materially from those stated in forward-looking statements contained in this document and elsewhere.

International Business Risk

We operate our businesses worldwide. There are risks inherent in doing business internationally, including global financial market turmoil; economic volatility and global economic slowdown; currency exchange rate fluctuations and inflationary pressures; the requirements of local laws and customs relating to the publication and distribution of content and the display and sale of advertising; import or export restrictions and changes in trade regulations; difficulties in developing, staffing and managing foreign operations; issues related to occupational safety and adherence to diverse local labor laws and regulations; and potentially adverse tax developments. In addition, doing business internationally subjects us to risks relating to political or social unrest, as well as corruption and government regulation, including U.S. laws such as the Foreign Corrupt Practices Act, that impose stringent requirements on how we conduct our foreign operations. If any of these events occur, our businesses may be adversely affected, and costs as well as timing to mitigate these risks are difficult to estimate and may exceed management's expectations.

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

The following table sets forth, for the three months ended June 30, 2018, 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 ⁽¹⁾ | Weighted Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs | Total Dollar Value of Shares Purchased as Part of Publicly Announced Plans or Programs ⁽²⁾ | Maximum Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs ⁽³⁾ |
|--------------------------------|---|---------------------------------------|--|---|---|
| April 1, 2018 - April 30, 2018 | 1,041 | \$ 52.43 | — | \$— | \$ — |
| May 1, 2018 - May 31, 2018 | 87,013 | 30.44 | 85,826 | 2,614,243 | 7,385,757 |
| June 1, 2018 - June 30, 2018 | 123,387 | 30.76 | 122,696 | 3,773,019 | \$ 3,612,738 |
| Total | 211,441 | \$ 30.74 | 208,522 | \$6,387,262 | |

Of the repurchases in April, May and June, 1,041, 1,187 and 691 shares, respectively, represent common shares of ⁽¹⁾ the Company that were owned and tendered by employees to satisfy tax withholding obligations in connection with the vesting of restricted shares.

Amounts in this column reflect the weighted average price paid for shares purchased under our share repurchase ⁽²⁾ authorizations. The weighted average price includes commissions paid to brokers on shares purchased under our share repurchase authorizations.

⁽³⁾

On May 11, 2018, our board of directors approved a repurchase plan authorizing the repurchase of up to \$10.0 million of our common stock. Under this authorization, shares may be repurchased in privately negotiated and/or open market transactions, including under plans complying with Rule 10b5-1 under the Exchange Act. On June 30, 2018, we had \$3.6 million of authorized repurchases remaining under the Board's authorizations.

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ITEM 6. EXHIBITS
EXHIBIT INDEX

| | |
|-------------|---|
| <u>10.1</u> | <u>First Amendment To Second Amended and Restated Credit Agreement dated as of May 4, 2018 between Universal Electronics Inc. and U.S. Bank National Association and Wells Fargo Bank, National Association (filed herewith)</u> |
| <u>10.2</u> | <u>Termination of Equity Transfer Agreement dated April 17, 2018 between CG Development Limited and Guangzhou Junhao Investment Co., Ltd. and Gemstar Technology (China) Co., Limited (filed herewith)</u> |
| <u>10.3</u> | <u>Share Transfer Agreement dated April 23, 2018 between C.G. Development Limited and Guangzhou MuXia Hotel Management Co. Ltd. and Gemstar Technology (China) Co., Ltd. (filed herewith)</u> |
| <u>10.4</u> | <u>2018 Equity and Incentive Compensation Plan</u> |
| <u>10.5</u> | <u>Form of Restricted Stock Award Agreement under the 2018 Equity and Incentive Compensation Plan</u> |
| <u>10.6</u> | <u>Form of Stock Option Agreement under the 2018 Equity and Incentive Compensation Plan</u> |
| <u>31.1</u> | <u>Rule 13a-14(a) Certifications of Paul D. Arling, Chief Executive Officer (principal executive officer) of Universal Electronics Inc.</u> |
| <u>31.2</u> | <u>Rule 13a-14(a) Certifications of Bryan M. Hackworth, Chief Financial Officer (principal financial officer and principal accounting officer) of Universal Electronics Inc.</u> |
| <u>32</u> | <u>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</u> |
| 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, 2018 UNIVERSAL ELECTRONICS INC.

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