

UNIVERSAL ELECTRONICS INC  
Form 10-Q  
November 06, 2015  
UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

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FORM 10-Q

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(Mark One)

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

For the quarterly period ended September 30, 2015

OR

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

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

Commission File Number: 0-21044

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

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

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

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

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

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

|                                                  |                                                       |
|--------------------------------------------------|-------------------------------------------------------|
| Large accelerated filer <input type="checkbox"/> | Accelerated filer <input checked="" type="checkbox"/> |
|--------------------------------------------------|-------------------------------------------------------|

|                                                                                              |                                                    |
|----------------------------------------------------------------------------------------------|----------------------------------------------------|
| Non-accelerated filer <input type="checkbox"/> (Do not check if a smaller reporting company) | Smaller reporting company <input type="checkbox"/> |
|----------------------------------------------------------------------------------------------|----------------------------------------------------|

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 14,498,648 shares of Common Stock, par value \$0.01 per share, of the registrant were outstanding on November 4, 2015.



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)

|                                                                                                                                                                 | September 30,<br>2015 | December 31,<br>2014 |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------|----------------------|
| <b>ASSETS</b>                                                                                                                                                   |                       |                      |
| Current assets:                                                                                                                                                 |                       |                      |
| Cash and cash equivalents                                                                                                                                       | \$64,308              | \$112,521            |
| Restricted cash                                                                                                                                                 | 4,623                 | —                    |
| Accounts receivable, net                                                                                                                                        | 112,054               | 97,989               |
| Inventories, net                                                                                                                                                | 112,998               | 97,474               |
| Prepaid expenses and other current assets                                                                                                                       | 6,462                 | 6,856                |
| Income tax receivable                                                                                                                                           | 56                    | 77                   |
| Deferred income taxes                                                                                                                                           | 5,175                 | 5,048                |
| Total current assets                                                                                                                                            | 305,676               | 319,965              |
| Property, plant, and equipment, net                                                                                                                             | 89,060                | 76,135               |
| Goodwill                                                                                                                                                        | 43,381                | 30,739               |
| Intangible assets, net                                                                                                                                          | 33,952                | 24,614               |
| Deferred income taxes                                                                                                                                           | 6,643                 | 6,146                |
| Other assets                                                                                                                                                    | 5,516                 | 5,471                |
| Total assets                                                                                                                                                    | \$484,228             | \$463,070            |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>                                                                                                                     |                       |                      |
| Current liabilities:                                                                                                                                            |                       |                      |
| Accounts payable                                                                                                                                                | \$90,762              | \$69,991             |
| Line of credit                                                                                                                                                  | 47,000                | —                    |
| Accrued compensation                                                                                                                                            | 32,782                | 40,656               |
| Accrued sales discounts, rebates and royalties                                                                                                                  | 6,491                 | 8,097                |
| Accrued income taxes                                                                                                                                            | 4,326                 | 4,263                |
| Deferred income taxes                                                                                                                                           | —                     | —                    |
| Other accrued expenses                                                                                                                                          | 21,380                | 13,358               |
| Total current liabilities                                                                                                                                       | 202,741               | 136,365              |
| Long-term liabilities:                                                                                                                                          |                       |                      |
| Long-term contingent consideration                                                                                                                              | 11,200                | —                    |
| Deferred income taxes                                                                                                                                           | 8,684                 | 8,456                |
| Income tax payable                                                                                                                                              | 566                   | 566                  |
| Other long-term liabilities                                                                                                                                     | 1,976                 | 2,062                |
| Total liabilities                                                                                                                                               | 225,167               | 147,449              |
| 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; 23,100,243 and 22,909,884 shares issued on September 30, 2015 and December 31, 2014, respectively | 231                   | 229                  |
| Paid-in capital                                                                                                                                                 | 224,036               | 214,710              |
|                                                                                                                                                                 | (199,646              | ) (120,938           |

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Treasury stock, at cost, 8,601,895 and 7,008,475 shares on September 30, 2015 and December 31, 2014, respectively

|                                                 |           |           |   |
|-------------------------------------------------|-----------|-----------|---|
| Accumulated other comprehensive income (loss)   | (11,842   | ) (4,446  | ) |
| Retained earnings                               | 245,901   | 226,066   |   |
| Universal Electronics Inc. stockholders' equity | 258,680   | 315,621   |   |
| Noncontrolling interest                         | 381       | —         |   |
| Total stockholders' equity                      | 259,061   | 315,621   |   |
| Total liabilities and stockholders' equity      | \$484,228 | \$463,070 |   |

See Notes 4 and 9 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 INCOME STATEMENTS

(In thousands, except per share amounts)

(Unaudited)

|                                                                | Three Months Ended<br>September 30, |           | Nine Months Ended<br>September 30, |           |
|----------------------------------------------------------------|-------------------------------------|-----------|------------------------------------|-----------|
|                                                                | 2015                                | 2014      | 2015                               | 2014      |
| Net sales                                                      | \$160,467                           | \$147,780 | \$440,723                          | \$423,940 |
| Cost of sales                                                  | 117,658                             | 102,665   | 320,225                            | 298,721   |
| Gross profit                                                   | 42,809                              | 45,115    | 120,498                            | 125,219   |
| Research and development expenses                              | 4,134                               | 4,210     | 12,664                             | 12,606    |
| Selling, general and administrative expenses                   | 29,642                              | 27,120    | 82,298                             | 81,164    |
| Operating income                                               | 9,033                               | 13,785    | 25,536                             | 31,449    |
| Interest income (expense), net                                 | (16)                                | ) 66      | 198                                | (21)      |
| Other income (expense), net                                    | (558)                               | ) (655)   | ) (272)                            | ) (1,338) |
| Income before provision for income taxes                       | 8,459                               | 13,196    | 25,462                             | 30,090    |
| Provision for income taxes                                     | 2,185                               | 2,325     | 5,624                              | 6,458     |
| Net income                                                     | 6,274                               | 10,871    | 19,838                             | 23,632    |
| Net income attributable to noncontrolling interest             | 3                                   | —         | 3                                  | —         |
| Net income attributable to Universal Electronics Inc.          | \$6,271                             | \$10,871  | \$19,835                           | \$23,632  |
| Earnings per share attributable to Universal Electronics Inc.: |                                     |           |                                    |           |
| Basic                                                          | \$0.42                              | \$0.69    | \$1.28                             | \$1.50    |
| Diluted                                                        | \$0.41                              | \$0.68    | \$1.25                             | \$1.46    |
| Shares used in computing earnings per share:                   |                                     |           |                                    |           |
| Basic                                                          | 14,966                              | 15,723    | 15,535                             | 15,764    |
| Diluted                                                        | 15,230                              | 16,103    | 15,834                             | 16,135    |

See Notes 4 and 9 for further information concerning our purchases from related party vendors.

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

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## UNIVERSAL ELECTRONICS INC.

## CONSOLIDATED COMPREHENSIVE INCOME STATEMENTS

(In thousands)

(Unaudited)

|                                                                           | Three Months Ended<br>September 30, |          | Nine Months Ended September<br>30, |          |
|---------------------------------------------------------------------------|-------------------------------------|----------|------------------------------------|----------|
|                                                                           | 2015                                | 2014     | 2015                               | 2014     |
| Net income                                                                | \$6,274                             | \$10,871 | \$19,838                           | \$23,632 |
| Other comprehensive income (loss):                                        |                                     |          |                                    |          |
| Change in foreign currency translation adjustment                         | (4,236                              | ) (2,935 | ) (7,396                           | ) (4,779 |
| Total comprehensive income (loss)                                         | 2,038                               | 7,936    | 12,442                             | 18,853   |
| Comprehensive income (loss) attributable to<br>noncontrolling interest    | 3                                   | —        | 3                                  | —        |
| Comprehensive income (loss) attributable to<br>Universal Electronics Inc. | \$2,035                             | \$7,936  | \$12,439                           | \$18,853 |

See Notes 4 and 9 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 STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

|                                                                                         | Nine Months Ended September 30, |            |
|-----------------------------------------------------------------------------------------|---------------------------------|------------|
|                                                                                         | 2015                            | 2014       |
| Cash provided by operating activities:                                                  |                                 |            |
| Net income                                                                              | \$19,838                        | \$23,632   |
| Adjustments to reconcile net income to net cash provided by operating activities:       |                                 |            |
| Depreciation and amortization                                                           | 14,459                          | 13,445     |
| Provision for doubtful accounts                                                         | 189                             | 16         |
| Provision for inventory write-downs                                                     | 2,258                           | 2,385      |
| Deferred income taxes                                                                   | (515)                           | ) 777      |
| Tax benefit from exercise of stock options and vested restricted stock                  | 1,023                           | 2,141      |
| Excess tax benefit from stock-based compensation                                        | (1,071)                         | ) (2,124)  |
| Shares issued for employee benefit plan                                                 | 734                             | 703        |
| Stock-based compensation                                                                | 5,923                           | 4,831      |
| Changes in operating assets and liabilities:                                            |                                 |            |
| Restricted cash                                                                         | (4,623)                         | ) —        |
| Accounts receivable                                                                     | (17,851)                        | ) (13,988) |
| Inventories                                                                             | (20,261)                        | ) (577)    |
| Prepaid expenses and other assets                                                       | 426                             | (403)      |
| Accounts payable and accrued expenses                                                   | 21,821                          | 13,647     |
| Accrued income taxes                                                                    | 180                             | (1,138)    |
| Net cash provided by operating activities                                               | 22,530                          | 43,347     |
| Cash used for investing activities:                                                     |                                 |            |
| Acquisition of net assets of Ecolink Intelligent Technology, Inc., net of cash acquired | (12,482)                        | ) —        |
| Acquisition of property, plant, and equipment                                           | (26,376)                        | ) (12,480) |
| Acquisition of intangible assets                                                        | (1,877)                         | ) (1,374)  |
| Net cash used for investing activities                                                  | (40,735)                        | ) (13,854) |
| Cash provided by (used for) financing activities:                                       |                                 |            |
| Borrowings under line of credit                                                         | 69,500                          | —          |
| Repayments on line of credit                                                            | (22,500)                        | ) —        |
| Proceeds from stock options exercised                                                   | 1,648                           | 6,400      |
| Treasury stock purchased                                                                | (78,708)                        | ) (15,184) |
| Excess tax benefit from stock-based compensation                                        | 1,071                           | 2,124      |
| Net cash provided by (used for) financing activities                                    | (28,989)                        | ) (6,660)  |
| Effect of exchange rate changes on cash                                                 | (1,019)                         | ) (43)     |
| Net increase (decrease) in cash and cash equivalents                                    | (48,213)                        | ) 22,790   |
| Cash and cash equivalents at beginning of year                                          | 112,521                         | 76,174     |
| Cash and cash equivalents at end of period                                              | \$64,308                        | \$98,964   |

## Supplemental cash flow information:

|                   |         |         |
|-------------------|---------|---------|
| Income taxes paid | \$3,922 | \$4,091 |
| Interest paid     | \$68    | \$—     |

See Notes 4 and 9 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

SEPTEMBER 30, 2015

(Unaudited)

Note 1 — Basis of Presentation and Significant Accounting Policies

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

Our results of operations for the three and nine months ended September 30, 2015 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, 2014.

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 of impairment of long-lived assets, intangible assets and goodwill, business combinations, income taxes and stock-based compensation expense. Actual results may differ from these estimates and assumptions, and they may be adjusted as more information becomes available. Any adjustment may be material.

See Note 2 to the consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2014 for a summary of our significant accounting policies.

Recent Accounting Pronouncements

In May 2014, the FASB issued ASU 2014-09, "Revenue from Contracts with Customers", which will supersede most existing U.S. GAAP revenue recognition guidance. This new standard requires an entity to recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods or services. In addition, ASU 2014-09 contains expanded disclosure requirements relating to the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. ASU 2014-09 is effective for fiscal periods beginning after December 15, 2016 and permits the use of either the full retrospective or cumulative effect transition method. On July 9, 2015, the FASB postponed the effective date of the new revenue standard by one year; however, early adoption is permitted as of the original effective date. We have not yet selected a transition method and are evaluating the impact that this new standard will have on our consolidated financial statements.

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UNIVERSAL ELECTRONICS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2015

(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)                  | September 30,<br>2015 | December 31,<br>2014 |
|---------------------------------|-----------------------|----------------------|
| United States                   | \$4,722               | \$43,546             |
| Asia                            | 50,153                | 50,799               |
| Europe                          | 5,912                 | 12,912               |
| South America                   | 3,521                 | 5,264                |
| Total cash and cash equivalents | \$64,308              | \$112,521            |
| Restricted Cash                 |                       |                      |

In connection with the court order issued on September 4, 2015, we placed \$4.6 million of cash into a collateralized surety bond. This bond has certain restrictions for liquidation and has therefore been classified as restricted cash.

Refer to Note 10 for further information about this ongoing litigation.

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

Accounts receivable, net were as follows:

| (In thousands)                  | September 30,<br>2015 | December 31,<br>2014 |
|---------------------------------|-----------------------|----------------------|
| Trade receivables, gross        | \$109,657             | \$91,605             |
| Allowance for doubtful accounts | (728)                 | (616)                |
| Allowance for sales returns     | (447)                 | (617)                |
| Net trade receivables           | 108,482               | 90,372               |
| Other                           | 3,572                 | 7,617                |
| Accounts receivable, net        | \$112,054             | \$97,989             |

## Allowance for Doubtful Accounts

Changes in the allowance for doubtful accounts were as follows:

| (In thousands)                  | Nine Months Ended September 30, |       |
|---------------------------------|---------------------------------|-------|
|                                 | 2015                            | 2014  |
| Balance at beginning of period  | \$616                           | \$478 |
| Additions to costs and expenses | 189                             | 16    |
| (Write-offs)/FX effects         | (77)                            | (17)  |
| Balance at end of period        | \$728                           | \$477 |

## Sales Returns

The allowance for sales returns at September 30, 2015 and December 31, 2014 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 September 30, 2015 and December 31, 2014, respectively. The value of these returned goods was included in our inventory balance at September 30, 2015 and December 31, 2014.

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UNIVERSAL ELECTRONICS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2015

(Unaudited)

## Significant Customers

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

|                     | Three Months Ended September 30, |                | 2014               |                    |
|---------------------|----------------------------------|----------------|--------------------|--------------------|
|                     | 2015                             |                | 2014               |                    |
|                     | \$ (thousands)                   | % of Net Sales | \$ (thousands)     | % of Net Sales     |
| Comcast Corporation | \$42,675                         | 26.6 %         | \$— <sup>(1)</sup> | — % <sup>(1)</sup> |
| DIRECTV             | 21,957                           | 13.7           | 18,201             | 12.3               |

<sup>(1)</sup> Net sales to this customer did not total more than 10% of our total net sales in the prior period.

|                     | Nine Months Ended September 30, |                | 2014               |                    |
|---------------------|---------------------------------|----------------|--------------------|--------------------|
|                     | 2015                            |                | 2014               |                    |
|                     | \$ (thousands)                  | % of Net Sales | \$ (thousands)     | % of Net Sales     |
| Comcast Corporation | \$88,633                        | 20.1 %         | \$— <sup>(1)</sup> | — % <sup>(1)</sup> |
| DIRECTV             | 57,447                          | 13.0           | 44,733             | 10.6               |

<sup>(1)</sup> Net sales to this customer did not total more than 10% of our total net sales in the prior period.

Trade receivables associated with Comcast Corporation accounted for \$22.2 million, or 19.8%, of our accounts receivable, net at September 30, 2015. We had no other customer with trade receivables greater than 10% of our accounts receivable, net at September 30, 2015 or December 31, 2014.

## Note 4 — Inventories, Net and Significant Supplier

Inventories, net were as follows:

| (In thousands)                            | September 30,<br>2015 | December 31,<br>2014 |
|-------------------------------------------|-----------------------|----------------------|
| Raw materials                             | \$29,472              | \$24,763             |
| Components                                | 14,483                | 16,170               |
| Work in process                           | 4,667                 | 2,622                |
| Finished goods                            | 66,952                | 56,458               |
| Reserve for excess and obsolete inventory | (2,576)               | (2,539)              |
| Inventories, net                          | \$112,998             | \$97,474             |

## Reserve for Excess and Obsolete Inventory

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

| (In thousands)                                         | Nine Months Ended September 30, |         |
|--------------------------------------------------------|---------------------------------|---------|
|                                                        | 2015                            | 2014    |
| Balance at beginning of period                         | \$2,539                         | \$2,714 |
| Additions charged to costs and expenses <sup>(1)</sup> | 2,012                           | 2,141   |
| Sell through <sup>(2)</sup>                            | (774)                           | (728)   |
| Write-offs/FX effects                                  | (1,201)                         | (1,862) |
| Balance at end of period                               | \$2,576                         | \$2,265 |

The additions charged to costs and expenses do not include inventory directly written-off that was scrapped during production totaling \$0.2 million and \$0.2 million for the nine months ended September 30, 2015 and 2014, respectively. These amounts are production waste and are not included in management's reserve for excess and obsolete inventory.

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



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UNIVERSAL ELECTRONICS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2015

(Unaudited)

**Significant Supplier**

We purchase integrated circuits, components and finished goods from multiple sources. Maxim Integrated Products International Limited provided \$24.3 million, or 11.1%, of total inventory purchases during the nine months ended September 30, 2014.

**Related Party Supplier**

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

|                        | Three Months Ended September 30, |            | 2014        |            |   |
|------------------------|----------------------------------|------------|-------------|------------|---|
|                        | 2015                             |            | 2014        |            |   |
|                        | \$                               | % of Total | \$          | % of Total |   |
|                        | (thousands)                      | Inventory  | (thousands) | Inventory  |   |
|                        |                                  | Purchases  |             | Purchases  |   |
| Related party supplier | \$2,115                          | 2.3        | % \$2,372   | 3.0        | % |
|                        | Nine Months Ended September 30,  |            | 2014        |            |   |
|                        | 2015                             |            | 2014        |            |   |
|                        | \$                               | % of Total | \$          | % of Total |   |
|                        | (thousands)                      | Inventory  | (thousands) | Inventory  |   |
|                        |                                  | Purchases  |             | Purchases  |   |
| Related party supplier | \$6,566                          | 2.6        | % \$6,602   | 3.0        | % |

Total accounts payable to this supplier were as follows:

|                        | September 30, 2015 |                       | December 31, 2014 |                       |   |
|------------------------|--------------------|-----------------------|-------------------|-----------------------|---|
|                        | \$ (thousands)     | % of Accounts Payable | \$ (thousands)    | % of Accounts Payable |   |
| Related party supplier | \$2,142            | 2.4                   | % \$2,378         | 3.4                   | % |

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

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

Changes in the carrying amount of goodwill were as follows:

(In thousands)

|                                                    |          |   |
|----------------------------------------------------|----------|---|
| Balance at December 31, 2014                       | \$30,739 |   |
| Goodwill acquired during the period <sup>(1)</sup> | 12,781   |   |
| FX effects                                         | (139)    | ) |
| Balance at September 30, 2015                      | \$43,381 |   |

<sup>(1)</sup> During the third quarter of 2015, we recognized \$12.8 million of goodwill related to the Ecolink Intelligent Technology, Inc. acquisition. Please refer to Note 18 for further information about this acquisition.



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UNIVERSAL ELECTRONICS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2015

(Unaudited)

## Intangible Assets, Net

The components of intangible assets, net were as follows:

| (In thousands)                               | September 30, 2015   |                                            |            | December 31, 2014    |                                            |            |
|----------------------------------------------|----------------------|--------------------------------------------|------------|----------------------|--------------------------------------------|------------|
|                                              | Gross <sup>(1)</sup> | Accumulated<br>Amortization <sup>(1)</sup> | Net        | Gross <sup>(1)</sup> | Accumulated<br>Amortization <sup>(1)</sup> | Net        |
| Distribution rights                          | \$320                | \$(91)                                     | ) \$229    | \$347                | \$(76)                                     | ) \$271    |
| Patents                                      | 11,090               | (4,641)                                    | ) 6,449    | 10,107               | (4,736)                                    | ) 5,371    |
| Trademarks and trade names <sup>(2)</sup>    | 2,402                | (989)                                      | ) 1,413    | 2,001                | (834)                                      | ) 1,167    |
| Developed and core technology <sup>(2)</sup> | 12,588               | (1,682)                                    | ) 10,906   | 3,506                | (1,373)                                    | ) 2,133    |
| Capitalized software development costs       | 181                  | (89)                                       | ) 92       | 276                  | (85)                                       | ) 191      |
| Customer relationships <sup>(2)</sup>        | 27,718               | (12,855)                                   | ) 14,863   | 26,406               | (10,925)                                   | ) 15,481   |
| Total intangible assets, net                 | \$54,299             | \$(20,347)                                 | ) \$33,952 | \$42,643             | \$(18,029)                                 | ) \$24,614 |

(1) This table excludes the gross value of fully amortized intangible assets totaling \$8.8 million and \$7.9 million at September 30, 2015 and December 31, 2014, respectively.

During the third quarter of 2015, we purchased a trade name valued at \$0.4 million, which is being amortized ratably over seven years; developed technology valued at \$9.1 million, which is being amortized over a weighted

(2) average period of approximately five years; and customer relationships valued at \$1.3 million, which are being amortized ratably over five years. Refer to Note 18 for further information regarding our purchase of these intangible assets.

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

| (In thousands)                      | Three Months Ended<br>September 30, |         | Nine Months Ended<br>September 30, |         |
|-------------------------------------|-------------------------------------|---------|------------------------------------|---------|
|                                     | 2015                                | 2014    | 2015                               | 2014    |
| Cost of sales                       | \$31                                | \$37    | \$100                              | \$111   |
| Selling, general and administrative | 1,187                               | 1,026   | 3,206                              | 3,009   |
| Total amortization expense          | \$1,218                             | \$1,063 | \$3,306                            | \$3,120 |

Estimated future annual amortization expense related to our intangible assets at September 30, 2015, is as follows:

| (In thousands)            |          |
|---------------------------|----------|
| 2015 (remaining 3 months) | \$1,530  |
| 2016                      | 6,094    |
| 2017                      | 6,022    |
| 2018                      | 5,995    |
| 2019                      | 5,988    |
| Thereafter                | 8,323    |
| Total                     | \$33,952 |

Note 6 — Line of Credit



On October 9, 2014, we extended the term of our Amended and Restated Credit Agreement ("Amended Credit Agreement") with U.S. Bank National Association ("U.S. Bank") to November 1, 2017. The Amended Credit Agreement provided for a \$55.0 million line of credit ("Credit Line") that may be used for working capital and other general corporate purposes including acquisitions, share repurchases and capital expenditures. On September 3, 2015, we entered into the Second Amendment to the Amended Credit Agreement in which the Credit Line was increased to \$65.0 million. Amounts available for borrowing under the Credit Line are reduced by the balance of any outstanding letters of credit, of which there were \$13 thousand at September 30, 2015.

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

Under the Amended Credit Agreement, we may elect to pay interest on the Credit Line based on LIBOR plus an applicable margin (varying from 1.25% to 1.75%) or base rate (based on the prime rate of U.S. Bank or as otherwise specified in the Amended Credit Agreement) plus an applicable margin (varying from 0.00% to 0.50%). The applicable margins are calculated quarterly and vary based on our cash flow leverage ratio as set forth in the Amended Credit Agreement. There are no commitment fees or unused line fees under the Amended Credit Agreement.

The Amended Credit Agreement includes financial covenants requiring a minimum fixed charge coverage ratio and a maximum cash flow leverage ratio. In addition, the Amended Credit Agreement also contains other customary affirmative and negative covenants and events of default. As of September 30, 2015, we were in compliance with the covenants and conditions of the Amended Credit Agreement.

At September 30, 2015, we had \$47.0 million outstanding under the Credit Line. Our total interest expense on borrowings was \$112 thousand and \$129 thousand during the three and nine months ended September 30, 2015, respectively. We had no interest expense or borrowings during the three and nine months ended September 30, 2014.

**Note 7 — Income Taxes**

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

We recorded income tax expense of \$2.2 million and \$2.3 million for the three months ended September 30, 2015 and 2014, respectively. Our effective tax rate was 25.8% and 17.6% during the three months ended September 30, 2015 and 2014, respectively. Our effective tax rate for the three months ended September 30, 2014 was lower than normal as a result of tax refunds received in China relating to certain tax incentive programs.

We recorded income tax expense of \$5.6 million and \$6.5 million for the nine months ended September 30, 2015 and 2014, respectively. Our effective tax rate was 22.1% and 21.5% during the nine months ended September 30, 2015 and 2014, respectively. The increase in our effective tax rate was due primarily to a higher percentage of income being earned in higher tax rate jurisdictions.

At September 30, 2015, we had gross unrecognized tax benefits of \$3.5 million, including interest and penalties, of which \$3.1 million would affect the annual effective tax rate if these tax benefits are realized. Further, we are unaware of any positions for which it is reasonably possible that the total amount of unrecognized tax benefits will significantly increase within the next twelve months. However, based on federal, state and foreign statute expirations in various jurisdictions, we anticipate a decrease in unrecognized tax benefits of approximately \$0.3 million within the next twelve months. We have classified uncertain tax positions as non-current income tax liabilities unless expected to be paid within one year.

We have elected to classify interest and penalties as a component of tax expense. Accrued interest and penalties of \$0.1 million and \$0.2 million at September 30, 2015 and December 31, 2014, respectively, are included in our unrecognized tax benefits.

We file income tax returns in the U.S. federal jurisdiction, and in various state and foreign jurisdictions. On September 30, 2015, the open statutes of limitations in our significant tax jurisdictions were as follows: federal 2011 through 2014, state 2010 through 2014, and foreign 2008 through 2014.

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## Note 8 — Accrued Compensation

The components of accrued compensation were as follows:

| (In thousands)                          | September 30,<br>2015 | December 31,<br>2014 |
|-----------------------------------------|-----------------------|----------------------|
| Accrued social insurance <sup>(1)</sup> | \$19,397              | \$19,941             |
| Accrued salary/wages                    | 6,280                 | 6,114                |
| Accrued vacation/holiday                | 2,281                 | 2,222                |
| Accrued bonus <sup>(2)</sup>            | 2,764                 | 8,492                |
| Accrued commission                      | 717                   | 1,797                |
| Accrued medical insurance claims        | 144                   | 236                  |
| Other accrued compensation              | 1,199                 | 1,854                |
| Total accrued compensation              | \$32,782              | \$40,656             |

Effective January 1, 2008, the Chinese Labor Contract Law was enacted in the PRC. This law mandated that PRC employers remit the applicable social insurance payments to their local government. Social insurance is comprised of various components such as pension, medical insurance, job injury insurance, unemployment insurance, and a housing assistance fund, and is administered in a manner similar to social security in the United States. This amount represents our estimate of the amounts due to the PRC government for social insurance on September 30, 2015 and December 31, 2014.

Accrued bonus includes an accrual for an extra month of salary ("13<sup>th</sup> month salary") to be paid to employees in certain geographies where it is the customary business practice. This 13<sup>th</sup> month salary is paid to these employees if they remain employed with us through December 31st. The total accrued for the 13<sup>th</sup> month salary was \$0.6 million and \$0.6 million at September 30, 2015 and December 31, 2014, respectively.

## Note 9 — Other Accrued Expenses

The components of other accrued expenses were as follows:

| (In thousands)                                                 | September 30,<br>2015 | December 31,<br>2014 |
|----------------------------------------------------------------|-----------------------|----------------------|
| Advertising and marketing                                      | \$185                 | \$174                |
| Deferred revenue                                               | 1,672                 | 648                  |
| Duties                                                         | 1,148                 | 947                  |
| Freight and handling fees                                      | 1,852                 | 1,522                |
| Product development                                            | 456                   | 751                  |
| Product warranty claim costs                                   | 36                    | 353                  |
| Professional fees                                              | 1,570                 | 1,493                |
| Property, plant, and equipment                                 | 1,511                 | 141                  |
| Sales taxes and VAT                                            | 2,367                 | 2,057                |
| Third-party commissions                                        | 794                   | 553                  |
| Tooling <sup>(1)</sup>                                         | 948                   | 1,089                |
| Unrealized loss on foreign currency exchange futures contracts | 692                   | 113                  |
| URC court order (Notes 2 and 10)                               | 4,625                 | —                    |
| Utilities                                                      | 305                   | 275                  |
| Other                                                          | 3,219                 | 3,242                |
| Total other accrued expenses                                   | \$21,380              | \$13,358             |

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

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## Related Party Vendor

We have obtained certain engineering support services for our India subsidiary from JAP Techno Solutions ("JAP"). The owner of JAP is the spouse of the managing director of our India operations. Total fees paid to JAP for the three months ended September 30, 2015 and 2014 were \$25 thousand and \$11 thousand, respectively. Total fees paid to JAP for the nine months ended September 30, 2015 and 2014 were \$77 thousand and \$11 thousand, respectively.

## Note 10 — Commitments and Contingencies

## Product Warranties

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

| (In thousands)                                     | Nine Months Ended September 30, |       |
|----------------------------------------------------|---------------------------------|-------|
|                                                    | 2015                            | 2014  |
| Balance at beginning of period                     | \$353                           | \$41  |
| Accruals for warranties issued during the period   | 12                              | 933   |
| Settlements (in cash or in kind) during the period | (329)                           | (41)  |
| Balance at end of period                           | \$36                            | \$933 |
| Litigation                                         |                                 |       |

On March 2, 2012, we filed a lawsuit against Universal Remote Control, Inc. ("URC") in the United States District Court, Central District of California (Universal Electronics Inc. v. Universal Remote Control, Inc., SACV12-0039 AG (JPRx)) alleging that URC was infringing, directly and indirectly, four of our patents related to remote control technology. After prolonged discovery proceedings during 2013 and the first part of 2014 and then trial in May 2014, the jury returned a verdict that URC did not infringe our patents, and found for URC on patent validity and several equitable defenses in the lawsuit. Although the jury's verdict on the equitable defenses was advisory in nature, on January 27, 2015, final judgment was entered by the Court accepting the jury's verdict pertaining to invalidity, non-infringement, marking, and the equitable defense of laches and ordered us to pay URC's costs of litigation, exclusive of attorney's fees. On March 10, 2015, after full briefing and a hearing, the Court granted URC's motion for a portion of its attorneys' fees and expenses. URC sought an award of attorneys' fees, expenses and costs in excess of \$6.0 million. On September 4, 2015, the Court issued its order awarding URC \$4.6 million in fees, expenses and costs. We are vigorously appealing this order and all other orders adverse to us. URC is likewise appealing all orders adverse to it. On October 13, 2015, the Federal Circuit Court of Appeals issued its order, which among other things consolidated all appeals in this matter and ordered URC to file its opening brief no later than November 13, 2015. As a result of the lower court's order, we have accrued \$4.6 million within selling, general and administrative expenses for the three and nine months ended September 30, 2015. Additionally, as described in Note 2, we placed \$4.6 million into a surety bond as collateral for this court order.

On June 28, 2013, we filed a second lawsuit against URC, also in the United States District Court, Central District of California (Universal Electronics Inc. v. Universal Remote Control, Inc., SACV13-00987 JAK (SHx)). In mid-November 2013, we filed a motion to add affiliated URC suppliers, Ohsung Electronics Co, Ltd., a South Korean entity, and Ohsung Electronics USA, Inc., a California entity, (collectively "Ohsung"), to the lawsuit. In late June and early July of 2014, URC and Ohsung requested inter partes review ("IPR") with the US Patent and Trademark Office ("Patent Office" or "USPTO") for each of the ten patents pending in the second URC lawsuit. During December 2014 and January 2015, the Patent Office issued its decisions on URC's petitions and accepted for review all claims at issue with respect to five of the patents, certain claims at issue with respect to two of the patents and denied in full the request to review the other three patents at issue. We are presently defending those patents in front of the USPTO. During the Patent Office's review, this second lawsuit has been stayed by the Court with the parties agreeing that the

stay continue while the Patent Office decides the IPRs. The Patent Office's decisions are expected in late January 2016.

On or about June 10, 2015, FM Marketing GmbH ("FMH") and Ruwido Austria GmbH ("Ruwido"), filed a Summons in Summary Proceedings in Belgium court against one of our subsidiaries, Universal Electronics BV ("UEBV") and one of its customers, Telenet N.V. ("Telenet"), claiming that one of the products UEBV supplies Telenet violates two design patents and one utility patent owned by FMH and/or Ruwido. By this summons, FMH and Ruwido are seeking to enjoin Telenet and UEBV from continued distribution and use of the products at issue. After fully briefing and a hearing, on September 29, 2015, the Court issued its ruling in our and

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Telenet's favor, rejecting FMH and Ruwido's request entirely. On October 22, 2015, Ruwido filed its notice of appeal in this ruling. UEBV and Telenet intend to vigorously defend against Ruwido's appeal.

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

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

**Note 11 — Treasury Stock**

From time to time, our Board of Directors authorizes management to repurchase shares of our issued and outstanding common stock on the open market. Repurchases may be made to manage dilution created by shares issued under our stock incentive plans or whenever we deem a repurchase is a good use of our cash and the price to be paid is at or below a threshold approved by our Board. As of September 30, 2015, we had no shares available for repurchase on the open market under the Board's authorizations. On October 28, 2015, our Board approved a new repurchase plan authorizing the repurchase of 500,000 shares on the open market.

Repurchased shares of our common stock were as follows:

| (In thousands, except share data) | Nine Months Ended September 30, |          |
|-----------------------------------|---------------------------------|----------|
|                                   | 2015                            | 2014     |
| Shares repurchased                | 1,593,420                       | 367,949  |
| Cost of shares repurchased        | \$78,708                        | \$15,184 |

Repurchased shares are recorded as shares held in treasury at cost. We hold these shares for future use as management and the Board of Directors deem appropriate, which has included compensating our outside directors. During the nine months ended September 30, 2014, we issued 15,000 shares from treasury to outside directors for services performed (see Notes 13 and 16).

**Note 12 — Business Segment and Foreign Operations****Reportable Segment**

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

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## Foreign Operations

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

|                            | Three Months Ended September 30, |           | Nine Months Ended September 30, |           |
|----------------------------|----------------------------------|-----------|---------------------------------|-----------|
| (In thousands)             | 2015                             | 2014      | 2015                            | 2014      |
| United States              | \$83,059                         | \$51,247  | \$200,167                       | \$149,805 |
| Asia (excluding PRC)       | 25,763                           | 35,526    | 87,428                          | 99,158    |
| People's Republic of China | 19,804                           | 27,364    | 57,008                          | 77,121    |
| Europe                     | 15,055                           | 15,926    | 46,189                          | 50,441    |
| Latin America              | 8,848                            | 10,378    | 29,766                          | 30,016    |
| Other                      | 7,938                            | 7,339     | 20,165                          | 17,399    |
| Total net sales            | \$160,467                        | \$147,780 | \$440,723                       | \$423,940 |

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

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

| (In thousands)                   | September 30, 2015 | December 31, 2014 |
|----------------------------------|--------------------|-------------------|
| United States                    | \$6,785            | \$5,716           |
| People's Republic of China       | 82,893             | 70,619            |
| All other countries              | 4,898              | 5,271             |
| Total long-lived tangible assets | \$94,576           | \$81,606          |

## Note 13 — Stock-Based Compensation

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

|                                               | Three Months Ended September 30, |         | Nine Months Ended September 30, |         |
|-----------------------------------------------|----------------------------------|---------|---------------------------------|---------|
| (In thousands)                                | 2015                             | 2014    | 2015                            | 2014    |
| Cost of sales                                 | \$10                             | \$4     | \$29                            | \$12    |
| Research and development expenses             | 94                               | 60      | 305                             | 261     |
| Selling, general and administrative expenses: |                                  |         |                                 |         |
| Employees                                     | 1,459                            | 1,143   | 4,465                           | 3,754   |
| Outside directors                             | 377                              | 373     | 1,124                           | 804     |
| Total stock-based compensation expense        | \$1,940                          | \$1,580 | \$5,923                         | \$4,831 |
| Income tax benefit                            | \$550                            | \$473   | \$1,684                         | \$1,417 |



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## Stock Options

Stock option activity was as follows:

|                                                                  | Number of<br>Options<br>(in 000's) | Weighted-Average<br>Exercise Price | Weighted-Average<br>Remaining<br>Contractual Terms<br>(in years) | Aggregate<br>Intrinsic Value<br>(in 000's) |
|------------------------------------------------------------------|------------------------------------|------------------------------------|------------------------------------------------------------------|--------------------------------------------|
| Outstanding at December 31, 2014                                 | 650                                | \$ 25.56                           |                                                                  |                                            |
| Granted                                                          | 74                                 | 65.54                              |                                                                  |                                            |
| Exercised                                                        | (69)                               | ) 23.95                            |                                                                  | \$2,122                                    |
| Forfeited/canceled/expired                                       | (8)                                | ) 20.64                            |                                                                  |                                            |
| Outstanding on September 30, 2015 <sup>(1)</sup>                 | 647                                | \$ 30.35                           | 5.07                                                             | \$9,286                                    |
| Vested and expected to vest on September 30, 2015 <sup>(1)</sup> | 647                                | \$ 30.35                           | 5.07                                                             | \$9,282                                    |
| Exercisable on September 30, 2015 <sup>(1)</sup>                 | 471                                | \$ 24.96                           | 4.65                                                             | \$8,034                                    |

The aggregate intrinsic value represents the total pre-tax value (the difference between our closing stock price on the last trading day of the third quarter of 2015 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 September 30, 2015. This amount will change based on the fair market value of our stock.

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

|                                                      | Three Months Ended September<br>30,<br>2015 |   | 2014 |   | Nine Months Ended September<br>30,<br>2015 |   | 2014    |   |
|------------------------------------------------------|---------------------------------------------|---|------|---|--------------------------------------------|---|---------|---|
| Weighted average fair value of grants <sup>(1)</sup> | \$—                                         |   | \$—  |   | \$24.77                                    |   | \$13.64 |   |
| Risk-free interest rate                              | —                                           | % | —    | % | 1.38                                       | % | 1.29    | % |
| Expected volatility                                  | —                                           | % | —    | % | 43.50                                      | % | 44.84   | % |
| Expected life in years                               | 0.00                                        |   | 0.00 |   | 4.56                                       |   | 4.56    |   |

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

As of September 30, 2015, we expect to recognize \$2.5 million of total unrecognized pre-tax stock-based compensation expense related to non-vested stock options over a remaining weighted-average life of 1.9 years.

## Restricted Stock

Non-vested restricted stock award activity was as follows:

|                                  | Shares Granted<br>(in 000's) | Weighted-Average<br>Grant Date Fair<br>Value |
|----------------------------------|------------------------------|----------------------------------------------|
| Non-vested at December 31, 2014  | 266                          | \$39.28                                      |
| Granted                          | 60                           | 57.60                                        |
| Vested                           | (107)                        | ) 27.97                                      |
| Forfeited                        | (1)                          | ) 63.19                                      |
| Non-vested at September 30, 2015 | 218                          | \$49.80                                      |

As of September 30, 2015, we expect to recognize \$8.4 million of total unrecognized pre-tax stock-based compensation expense related to non-vested restricted stock awards over a weighted-average life of 1.8 years.

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## Note 14 — Other Income (Expense), Net

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

|                                                                       | Three Months Ended<br>September 30, |           | Nine Months Ended<br>September 30, |             |
|-----------------------------------------------------------------------|-------------------------------------|-----------|------------------------------------|-------------|
| (In thousands)                                                        | 2015                                | 2014      | 2015                               | 2014        |
| Net gain (loss) on foreign currency exchange contracts <sup>(1)</sup> | \$(80)                              | ) \$353   | \$787                              | \$(912)     |
| Net gain (loss) on foreign currency exchange transactions             | (553)                               | ) (1,028) | ) (1,229)                          | ) (406)     |
| Other income (expense)                                                | 75                                  | 20        | 170                                | (20)        |
| Other income (expense), net                                           | \$(558)                             | ) \$(655) | ) \$(272)                          | ) \$(1,338) |

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

## Note 15 — Earnings Per Share

Earnings per share was calculated as follows:

|                                                                     | Three Months Ended<br>September 30, |          | Nine Months Ended<br>September 30, |          |
|---------------------------------------------------------------------|-------------------------------------|----------|------------------------------------|----------|
| (In thousands, except per-share amounts)                            | 2015                                | 2014     | 2015                               | 2014     |
| <b>BASIC</b>                                                        |                                     |          |                                    |          |
| Net income attributable to Universal Electronics Inc.               | \$6,271                             | \$10,871 | \$19,835                           | \$23,632 |
| Weighted-average common shares outstanding                          | 14,966                              | 15,723   | 15,535                             | 15,764   |
| Basic earnings per share attributable to Universal Electronics Inc. | \$0.42                              | \$0.69   | \$1.28                             | \$1.50   |

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|                                                                       |         |          |          |          |
|-----------------------------------------------------------------------|---------|----------|----------|----------|
| Net income attributable to Universal Electronics Inc.                 | \$6,271 | \$10,871 | \$19,835 | \$23,632 |
| Weighted-average common shares outstanding for basic                  | 14,966  | 15,723   | 15,535   | 15,764   |
| Dilutive effect of stock options and restricted stock                 | 264     | 380      | 299      | 371      |
| Weighted-average common shares outstanding on a diluted basis         | 15,230  | 16,103   | 15,834   | 16,135   |
| Diluted earnings per share attributable to Universal Electronics Inc. | \$0.41  | \$0.68   | \$1.25   | \$1.46   |

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

|                         | Three Months Ended<br>September 30, |      | Nine Months Ended September 30, |      |
|-------------------------|-------------------------------------|------|---------------------------------|------|
| (In thousands)          | 2015                                | 2014 | 2015                            | 2014 |
| Stock options           | 74                                  | —    | 62                              | 69   |
| Restricted stock awards | 23                                  | —    | 13                              | 9    |

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## Note 16 — Stockholders' Equity and Noncontrolling Interest

A reconciliation of common stock outstanding, treasury stock and the total carrying amount of Universal Electronics Inc. stockholders' equity, stockholders' equity attributable to noncontrolling interest and total stockholders' equity for the year ended December 31, 2014 and the nine months ended September 30, 2015 is as follows:

| (In thousands)                                                                       | Shares       |                | Stockholders' Equity                            |                         | Total     |
|--------------------------------------------------------------------------------------|--------------|----------------|-------------------------------------------------|-------------------------|-----------|
|                                                                                      | Common Stock | Treasury Stock | Universal Electronics Inc. Stockholders' Equity | Noncontrolling Interest |           |
| Balance at December 31, 2013                                                         | 22,344       | (6,639 )       | \$291,270                                       | \$ —                    | \$291,270 |
| Net income                                                                           |              |                | 32,534                                          |                         | 32,534    |
| Currency translation adjustment                                                      |              |                | (7,428 )                                        |                         | (7,428 )  |
| Shares issued for employee benefit plan and compensation                             | 160          |                | 847                                             |                         | 847       |
| Purchase of treasury shares                                                          |              | (384 )         | (16,168 )                                       |                         | (16,168 ) |
| Stock options exercised                                                              | 391          |                | 8,122                                           |                         | 8,122     |
| Shares issued to Directors                                                           | 15           | 15             | —                                               |                         | —         |
| Stock-based compensation expense                                                     |              |                | 6,444                                           |                         | 6,444     |
| Balance at December 31, 2014                                                         | 22,910       | (7,008 )       | 315,621                                         | —                       | 315,621   |
| Net income                                                                           |              |                | 19,835                                          | 3                       | 19,838    |
| Currency translation adjustment                                                      |              |                | (7,396 )                                        |                         | (7,396 )  |
| Shares issued for employee benefit plan and compensation                             | 99           |                | 734                                             |                         | 734       |
| Purchase of treasury shares                                                          |              | (1,594 )       | (78,708 )                                       |                         | (78,708 ) |
| Stock options exercised                                                              | 69           |                | 1,648                                           |                         | 1,648     |
| Shares issued to Directors                                                           | 22           |                | —                                               |                         | —         |
| Stock-based compensation expense                                                     |              |                | 5,923                                           |                         | 5,923     |
| Tax benefit from exercise of non-qualified stock options and vested restricted stock |              |                | 1,023                                           |                         | 1,023     |
| Business combination (Note 18)                                                       |              |                |                                                 | 378                     | 378       |
| Balance at September 30, 2015                                                        | 23,100       | (8,602 )       | \$258,680                                       | \$ 381                  | \$259,061 |

## Note 17 — Derivatives

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

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

| (In thousands)                              | September 30, 2015                     |           |           | Total   | December 31, 2014                      |           |           | Total |
|---------------------------------------------|----------------------------------------|-----------|-----------|---------|----------------------------------------|-----------|-----------|-------|
|                                             | Fair Value Measurement Using (Level 1) | (Level 2) | (Level 3) |         | Fair Value Measurement Using (Level 1) | (Level 2) | (Level 3) |       |
| Foreign currency exchange futures contracts | \$—                                    | \$(51 )   | \$—       | \$(51 ) | \$—                                    | \$810     | \$—       | \$810 |

We held foreign currency exchange contracts which resulted in a net pre-tax loss of \$0.1 million for the three months ended September 30, 2015 and a net pre-tax gain of \$0.4 million for the three months ended September 30, 2014, respectively. For the nine months ended September 30, 2015 and 2014, we had a net pre-tax gain of \$0.8 million and a net pre-tax loss of \$0.9 million, respectively (see Note 14).

Details of futures 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) <sup>(1)</sup> | Settlement Date  |
|--------------------|---------------------------|-----------------------|------------------------------|--------------|-------------------------------------------------------------------------------------|------------------|
| September 30, 2015 | USD/Euro                  | USD                   | \$7.0                        | 1.1228       | \$39                                                                                | October 2, 2015  |
| September 30, 2015 | USD/Euro                  | USD                   | \$4.0                        | 1.1283       | \$41                                                                                | October 23, 2015 |
| September 30, 2015 | USD/Euro                  | Euro                  | \$7.0                        | 1.1282       | \$(73 )                                                                             | October 2, 2015  |
| September 30, 2015 | USD/Chinese Yuan Renminbi | Chinese Yuan Renminbi | \$22.5                       | 6.2565       | \$(619 )                                                                            | January 15, 2016 |
| September 30, 2015 | USD/Brazilian Real        | USD                   | \$3.0                        | 3.2572       | \$561                                                                               | October 16, 2015 |
| December 31, 2014  | USD/Euro                  | USD                   | \$5.0                        | 1.2450       | \$140                                                                               | January 23, 2015 |
| December 31, 2014  | USD/Chinese Yuan Renminbi | Chinese Yuan Renminbi | \$20.0                       | 6.2757       | \$174                                                                               | January 16, 2015 |
| December 31, 2014  | USD/Brazilian Real        | USD                   | \$5.0                        | 2.3401       | \$609                                                                               | January 16, 2015 |
| December 31, 2014  | USD/Brazilian Real        | Brazilian Real        | \$2.5                        | 2.5442       | \$(113 )                                                                            | January 16, 2015 |

(1)

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

Note 18 — Business Combination

On August 4, 2015, we entered into an Asset Purchase Agreement (the "APA") to acquire substantially all of the net assets of Ecolink Intelligent Technology, Inc. ("Ecolink"), a leading developer of smart home technology that designs, develops and manufactures a wide range of intelligent wireless security and home automation products. This transaction closed on August 31, 2015. The initial purchase price of \$24.4 million was comprised of \$13.2 million in cash, which is subject to adjustment based on the final adjusted initial purchase price, and \$11.2 million of contingent consideration. Additionally, we incurred \$0.2 million in acquisition costs, consisting primarily of legal and accounting expenses, which are included within selling, general and administrative expenses for the three and nine months ended September 30, 2015. The acquisition of these assets will allow us to extend our product offerings to include home security and automation products currently sold and marketed by Ecolink.

Included in the net assets acquired from Ecolink was a 50% ownership interest in Encore Controls LLC ("Encore"), a developer of smart home technology that designs and sells intelligent wireless fire safety products for use in home security systems.

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Management has determined that we are the primary beneficiary of Encore due to our ability to direct the activities that most significantly impact the economic performance of Encore, and thus we have consolidated the financial statements of Encore commencing on the acquisition date. The aggregate fair value of Encore's net assets on the acquisition date was \$0.7 million, of which \$0.4 million was attributable to the noncontrolling interest. The fair value attributable to the noncontrolling interest was based on the noncontrolling interest's ownership percentage in the fair values of the assets and liabilities of Encore. The carrying amount of Encore's assets and liabilities consolidated at September 30, 2015 did not materially change from the opening balances at the acquisition date. The operations of Encore are financed through cash flows from operations, and we do not intend to provide support to Encore beyond our respective ownership obligation. Furthermore, the creditors of Encore do not have any recourse to our general credit.

Our consolidated income statement for the three and nine months ended September 30, 2015 includes net sales of \$0.3 million and a net loss of \$0.2 million attributable to Ecolink for the period commencing on August 31, 2015.

**Contingent Consideration**

The initial purchase price is subject to adjustment for differences between the initial estimated working capital balances and the final adjusted balances. In accordance with the terms of the APA, any adjustment to the initial purchase price must be completed within 120 days of the acquisition date. We expect this calculation to be completed in the fourth quarter of 2015.

We are required to make additional earnout payments upon the achievement of certain operating income levels attributable to Ecolink over each of the next 5 years. The amount of contingent consideration is calculated at the end of each calendar year and is based upon certain percentages of operating income target levels as defined in the APA. Ecolink's operating income will be calculated using certain revenues, costs and expenses directly attributable to Ecolink 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 15.5% to reflect the risk in achieving the projected operating income levels as well as the time value of money. The fair value measurement of the earnout contingent consideration was based primarily on significant inputs not observable in an active market and thus represents a Level 3 measurement as defined under U.S. GAAP. The fair value of earnout consideration is presented as long-term contingent consideration in our consolidated balance sheet at September 30, 2015.

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## Preliminary Purchase Price Allocation

Using the acquisition method of accounting, the acquisition date fair value of the consideration transferred was allocated to the net tangible and intangible assets acquired and liabilities assumed based on their estimated fair values on the acquisition date. The excess of the purchase price over the estimated fair value of net assets acquired is recorded as goodwill. The goodwill is expected to be deductible for income tax purposes. Management's preliminary purchase price allocation as of September 30, 2015 was the following:

| (in thousands)                            | Estimated Lives | Preliminary Fair Value |   |
|-------------------------------------------|-----------------|------------------------|---|
| Cash and cash equivalents                 |                 | \$685                  |   |
| Accounts receivable                       |                 | 375                    |   |
| Inventories                               |                 | 1,412                  |   |
| Prepaid expenses and other current assets |                 | 253                    |   |
| Property, plant and equipment             | 1-4 years       | 16                     |   |
| Non-interest bearing liabilities          |                 | (1,557)                | ) |
| Net tangible assets acquired              |                 | 1,184                  |   |
| Trade name                                | 7 years         | 400                    |   |
| Developed technology                      | 4-14 years      | 9,080                  |   |
| Customer relationships                    | 5 years         | 1,300                  |   |
| Goodwill                                  |                 | 12,781                 |   |
| Total purchase price                      |                 | 24,745                 |   |
| Noncontrolling interest                   |                 | (378)                  | ) |
| Net purchase price                        |                 | 24,367                 |   |
| Less: Contingent consideration            |                 | (11,200)               | ) |
| Cash paid                                 |                 | \$13,167               |   |

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

The fair value assigned to Ecolink's developed technology was determined utilizing a multi-period excess earnings approach. Under the multi-period excess earnings approach, the fair value of the intangible asset is estimated to be the present value of future earnings attributable to the asset and utilizes revenue and cost projections, including an assumed contributory asset charge.

The fair value assigned to Ecolink's customer relationships intangible asset was determined utilizing the with and without method. Under the with and without method, the fair value of the intangible asset is estimated based on the difference in projected earnings utilizing the existing Ecolink customer base versus projected earnings based on starting with no customers and reacquiring the customer base. Revenue and earnings projections were significant inputs into estimating the value of Ecolink's customer relationships.

The trade name, developed technology and customer relationships 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 Ecolink as if this transaction had occurred on January 1, 2014. 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, 2014, and should not be taken as a projection of the future consolidated results of our operations.

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| (In thousands, except per-share amounts)                              | Three Months Ended<br>September 30, |           | Nine Months Ended<br>September 30, |           |
|-----------------------------------------------------------------------|-------------------------------------|-----------|------------------------------------|-----------|
|                                                                       | 2015                                | 2014      | 2015                               | 2014      |
| Net sales                                                             | \$161,392                           | \$149,310 | \$444,762                          | \$430,262 |
| Net income                                                            | \$6,203                             | \$10,689  | \$19,505                           | \$23,219  |
| Net income attributable to Universal Electronics Inc.                 | \$6,197                             | \$10,643  | \$19,440                           | \$22,795  |
| Basic earnings per share attributable to Universal Electronics Inc.   | \$0.41                              | \$0.68    | \$1.25                             | \$1.45    |
| Diluted earnings per share attributable to Universal Electronics Inc. | \$0.41                              | \$0.66    | \$1.23                             | \$1.41    |

For purposes of determining pro forma net income attributable to Universal Electronics Inc., adjustments were made to all periods presented in the table above. The pro forma net income and net income attributable to Universal Electronics Inc. assumes that amortization of acquired intangible assets and of fair value adjustments related to inventories began at January 1, 2014 rather than on September 1, 2015. The result is a net increase in amortization expense of \$0.3 million and \$0.5 million for the three months ended September 30, 2015 and 2014, respectively, and \$1.3 million and \$1.8 million for the nine months ended September 30, 2015 and 2014, respectively. Additionally, acquisition costs totaling \$0.2 million are excluded from pro forma net income attributable to Universal Electronics Inc. All adjustments have been made net of their related tax effects.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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

Overview

We develop and manufacture a broad line of pre-programmed and universal remote control products, audio-video ("AV") accessories, software and intelligent wireless automation components dedicated to redefining the home entertainment and automation experience. Our customers operate primarily in the consumer electronics market and include subscription broadcasters, original equipment manufacturers ("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 infrared ("IR") device control code database is embedded, and license our IR 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 909,000 individual device functions and approximately 7,300 unique consumer electronic brands. Our proprietary software automatically detects, identifies and enables the appropriate control commands for any given home entertainment, automation and air conditioning device in the home. 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. We believe that our universal remote control library contains device codes that are capable of controlling virtually all IR controlled set-top boxes, televisions, audio components, DVD players, Blu-Ray players and CD players, as well as most other remote controlled home entertainment devices and home automation control modules worldwide.

We have developed a comprehensive patent portfolio of 357 pending and issued patents related to remote controls and home automation.

We operate as one business segment. We have twenty-four international subsidiaries located in Argentina, Brazil, British Virgin Islands (3), Cayman Islands, France, Germany, Hong Kong (4), India, Italy, Japan, Mexico, the Netherlands, People's Republic of China (4), Singapore, Spain, and the United Kingdom.

To recap our results for the three months ended September 30, 2015:

• Net sales increased 8.6% to \$160.5 million for the three months ended September 30, 2015 from \$147.8 million for the three months ended September 30, 2014.

• Our gross margin percentage decreased from 30.5% for the three months ended September 30, 2014 to 26.7% for the three months ended September 30, 2015.

• Operating expenses, as a percent of sales, decreased from 21.2% for the three months ended September 30, 2014 to 21.1% for the three months ended September 30, 2015.

Our operating income decreased 34.5% to \$9.0 million for the three months ended September 30, 2015 from \$13.8 million for the three months ended September 30, 2014, and our operating margin percentage decreased from 9.3% for the three months ended September 30, 2014 to 5.6% for the three months ended September 30, 2015.

• Our effective tax rate increased to 25.8% for the three months ended September 30, 2015, compared to 17.6% for the three months ended September 30, 2014.

Our strategic business objectives for 2015 include the following:

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

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

accounting principles, policies and estimates affect our consolidated financial statements.

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### 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 and stock-based compensation expense. Actual results may differ from these judgments and estimates, and they may be adjusted as more information becomes available. Any adjustment may be significant and may have a material impact on our consolidated financial position or results of operations.

An accounting policy is deemed to be critical if it requires an accounting estimate to be made based on assumptions about matters that are highly uncertain at the time the estimate is made, if different estimates reasonably may have been used, or if changes in the estimate that are reasonably likely to occur may materially impact the financial statements. The critical accounting policy below supplements 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, 2014.

#### Business Combinations

We allocate the purchase price of acquired companies to the tangible and intangible assets and the liabilities assumed based on their estimated fair values on the acquisition date. The excess of the purchase price over the fair value of net assets acquired is recorded as goodwill. We engage independent third-party appraisal firms to assist us in determining the fair values of assets acquired and liabilities assumed. Such valuations require management to make significant fair value estimates and assumptions, especially with respect to intangible assets and contingent consideration.

Management estimates the fair value of certain intangible assets and contingent consideration by utilizing the following (but not limited to):

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

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

#### 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 results of operations expressed as a percentage of net sales for the periods indicated.

|                                                       | Three Months Ended September 30, |         | Nine Months Ended September 30, |         |   |
|-------------------------------------------------------|----------------------------------|---------|---------------------------------|---------|---|
|                                                       | 2015                             | 2014    | 2015                            | 2014    |   |
| Net sales                                             | 100.0                            | % 100.0 | % 100.0                         | % 100.0 | % |
| Cost of sales                                         | 73.3                             | 69.5    | 72.7                            | 70.5    |   |
| Gross profit                                          | 26.7                             | 30.5    | 27.3                            | 29.5    |   |
| Research and development expenses                     | 2.6                              | 2.8     | 2.9                             | 3.0     |   |
| Selling, general and administrative expenses          | 18.5                             | 18.4    | 18.6                            | 19.1    |   |
| Operating income                                      | 5.6                              | 9.3     | 5.8                             | 7.4     |   |
| Interest income (expense), net                        | (0.0)                            | ) 0.0   | 0.0                             | (0.0)   | ) |
| Other income (expense), net                           | (0.3)                            | ) (0.4) | (0.0)                           | ) (0.3) | ) |
| Income before provision for income taxes              | 5.3                              | 8.9     | 5.8                             | 7.1     |   |
| Provision for income taxes                            | 1.4                              | 1.5     | 1.3                             | 1.5     |   |
| Net income                                            | 3.9                              | 7.4     | 4.5                             | 5.6     |   |
| Net income attributable to noncontrolling interest    | 0.0                              | —       | 0.0                             | —       |   |
| Net income attributable to Universal Electronics Inc. | 3.9                              | % 7.4   | % 4.5                           | % 5.6   | % |

Three Months Ended September 30, 2015 versus Three Months Ended September 30, 2014

Net sales. Net sales for the three months ended September 30, 2015 were \$160.5 million, an increase of 8.6% compared to \$147.8 million for the three months ended September 30, 2014. Net sales by our Business and Consumer lines were as follows:

|                 | Three Months Ended September 30, 2015 |            | Three Months Ended September 30, 2014 |            |   |
|-----------------|---------------------------------------|------------|---------------------------------------|------------|---|
|                 | \$ (millions)                         | % of total | \$ (millions)                         | % of total |   |
| Business        | \$148.6                               | 92.6       | % \$135.2                             | 91.5       | % |
| Consumer        | 11.9                                  | 7.4        | 12.6                                  | 8.5        |   |
| Total net sales | \$160.5                               | 100.0      | % \$147.8                             | 100.0      | % |

Net sales in our Business lines (subscription broadcasting, OEM, and computing companies) were 92.6% of net sales for the three months ended September 30, 2015 compared to 91.5% for the three months ended September 30, 2014.

Net sales in our Business lines for the three months ended September 30, 2015 increased by 9.9% to \$148.6 million from \$135.2 million driven primarily by strong demand and increased market share with North American subscription broadcasters, partially offset by a decrease in net sales to consumer electronics companies in Asia.

Net sales in our Consumer lines (One For All® retail and private label) were 7.4% of net sales for the three months ended September 30, 2015 compared to 8.5% for the three months ended September 30, 2014. Net sales in our Consumer lines for the three months ended September 30, 2015 decreased by 5.6% to \$11.9 million from \$12.6 million in the three months ended September 30, 2014. This decrease was driven primarily by the weakening of the Euro and the British Pound compared to the U.S. Dollar, which negatively impacted sales in the current year period by \$1.3 million.

Gross profit. Gross profit for the three months ended September 30, 2015 was \$42.8 million compared to \$45.1 million for the three months ended September 30, 2014. Gross profit as a percent of sales decreased to 26.7% for the three months ended September 30, 2015 compared to 30.5% for the three months ended September 30, 2014. The gross margin percentage was unfavorably impacted by an increase in sales to certain large customers that yield a lower gross margin rate than our company average, a decrease in chip and royalty revenue associated with the TV and mobile device markets, and labor inflation in China where our three manufacturing facilities are located.

Research and development ("R&D") expenses. R&D expenses were \$4.1 million for the three months ended September 30, 2015 and \$4.2 million for the three months ended September 30, 2014 as we continue to develop new product offerings for new and existing categories.



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Selling, general and administrative ("SG&A") expenses. SG&A expenses increased 9.3% to \$29.6 million for the three months ended September 30, 2015 from \$27.1 million for the three months ended September 30, 2014. This increase was attributable primarily to an unfavorable court order in a patent litigation lawsuit of \$4.6 million in the third quarter of 2015. Payroll costs also increased as a result of additional headcount to support product development efforts and annual merit increases. These increases were partially offset by a decrease in incentive compensation costs and the weakening of the Euro, Brazilian Real and Chinese Yuan Renminbi.

Interest income (expense), net. Net interest expense was \$16 thousand for the three months ended September 30, 2015 compared to net interest income of \$66 thousand for the three months ended September 30, 2014.

Other income (expense), net. Net other expense was \$0.6 million for the three months ended September 30, 2015 compared to net other expense of \$0.7 million for the three months ended September 30, 2014. These foreign currency exchange losses were driven primarily by fluctuations in exchange rates related to the Euro, Chinese Yuan Renminbi and Brazilian Real.

Provision for income taxes. Income tax expense was \$2.2 million for the three months ended September 30, 2015 compared to \$2.3 million for the three months ended September 30, 2014. Our effective tax rate was 25.8% for the three months ended September 30, 2015 compared to 17.6% for the three months ended September 30, 2014. Our effective tax rate for the three months ended September 30, 2014 was lower than normal as a result of tax refunds received in China relating to certain tax incentive programs.

Nine Months Ended September 30, 2015 versus Nine Months Ended September 30, 2014

Net sales. Net sales for the nine months ended September 30, 2015 were \$440.7 million, an increase of 4.0% compared to \$423.9 million for the nine months ended September 30, 2014. Net sales by our Business and Consumer lines were as follows:

|                 | Nine Months Ended September 30, |            |               |            |   |
|-----------------|---------------------------------|------------|---------------|------------|---|
|                 | 2015                            |            | 2014          |            |   |
|                 | \$ (millions)                   | % of total | \$ (millions) | % of total | % |
| Business        | \$405.6                         | 92.0       | % \$386.4     | 91.2       | % |
| Consumer        | 35.1                            | 8.0        | 37.5          | 8.8        |   |
| Total net sales | \$440.7                         | 100.0      | % \$423.9     | 100.0      | % |

Net sales in our Business lines (subscription broadcasting, OEM, and computing companies) were 92.0% of net sales for the nine months ended September 30, 2015 compared to 91.2% for the nine months ended September 30, 2014.

Net sales in our Business lines for the nine months ended September 30, 2015 increased by 5.0% to \$405.6 million from \$386.4 million driven primarily by strong demand and increased market share with North American subscription broadcasters, partially offset by a decrease in net sales to consumer electronics companies in Asia.

Net sales in our Consumer lines (One For All® retail and private label) were 8.0% of net sales for the nine months ended September 30, 2015 compared to 8.8% for the nine months ended September 30, 2014. Net sales in our Consumer lines for the nine months ended September 30, 2015 decreased by 6.4% to \$35.1 million from \$37.5 million in the nine months ended September 30, 2014. This decrease was driven primarily by the weakening of the Euro and the British Pound compared to the U.S. Dollar, which negatively impacted sales in the current year period by \$4.0 million. This unfavorable currency impact was partially offset by increased sales in the European market.

Gross profit. Gross profit for the nine months ended September 30, 2015 was \$120.5 million compared to \$125.2 million for the nine months ended September 30, 2014. Gross profit as a percent of sales decreased to 27.3% for the nine months ended September 30, 2015 compared to 29.5% for the nine months ended September 30, 2014. The gross margin percentage was unfavorably impacted by an increase in sales to certain large customers that yield a lower gross margin rate than our company average, a decrease in chip and royalty revenue associated with the TV and mobile device markets, and labor inflation in China where our three manufacturing facilities are located.

Research and development expenses. R&D expenses were \$12.7 million for the nine months ended September 30, 2015 compared to \$12.6 million for the nine months ended September 30, 2014 as we continue to develop new product offerings for new and existing categories.





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Selling, general and administrative expenses. SG&A expenses increased 1.4% to \$82.3 million for the nine months ended September 30, 2015 from \$81.2 million for the nine months ended September 30, 2014. This increase was attributable primarily to an unfavorable court order in a patent litigation lawsuit of \$4.6 million in the third quarter of 2015. Payroll costs also increased as a result of additional headcount to support product development efforts and annual merit increases. SG&A expenses also increased due to increased delivery expenses as a result of the additional sales to North American subscription broadcasting customers in the current year period and the rerouting of certain shipments in the first quarter of 2015 due to the temporary port congestion in Los Angeles, California. These increases were partially offset by the weakening of the Euro, Brazilian Real and Chinese Yuan Renminbi and a decrease in incentive compensation costs.

Interest income (expense), net. Net interest income was \$0.2 million for the nine months ended September 30, 2015 compared to net interest expense of \$21 thousand for the nine months ended September 30, 2014.

Other income (expense), net. Net other expense was \$0.3 million for the nine months ended September 30, 2015 compared to net other expense of \$1.3 million for the nine months ended September 30, 2014. This change was driven primarily by a decrease in foreign currency losses and was mostly associated with fluctuations in foreign currency exchange rates related to the Euro, Chinese Yuan Renminbi and British Pound.

Provision for income taxes. Income tax expense was \$5.6 million for the nine months ended September 30, 2015 compared to \$6.5 million for the nine months ended September 30, 2014. Our effective tax rate was 22.1% for the nine months ended September 30, 2015 compared to 21.5% for the nine months ended September 30, 2014. The increase in our effective tax rate was due primarily to a higher percentage of income being earned in higher tax rate jurisdictions.

## Liquidity and Capital Resources

## Sources and Uses of Cash

| (In thousands)                                   | Nine Months<br>Ended September<br>30, 2015 | Increase<br>(Decrease) | Nine Months<br>Ended September<br>30, 2014 |
|--------------------------------------------------|--------------------------------------------|------------------------|--------------------------------------------|
| Cash provided by operating activities            | \$22,530                                   | \$(20,817)             | ) \$43,347                                 |
| Cash used for investing activities               | (40,735)                                   | ) (26,881)             | ) (13,854)                                 |
| Cash provided by (used for) financing activities | (28,989)                                   | ) (22,329)             | ) (6,660)                                  |
| Effect of exchange rate changes on cash          | (1,019)                                    | ) (976)                | ) (43)                                     |
|                                                  | September 30,<br>2015                      | Increase<br>(Decrease) | December 31,<br>2014                       |
| Cash and cash equivalents                        | \$64,308                                   | \$(48,213)             | ) \$112,521                                |
| Working capital                                  | 102,935                                    | (80,665)               | ) 183,600                                  |

Net cash provided by operating activities was \$22.5 million during the nine months ended September 30, 2015 compared to \$43.3 million during the nine months ended September 30, 2014, primarily due to the net impact of changes in working capital needs associated with inventories, accounts receivable and accounts payable. During the nine months ended September 30, 2015, we deliberately increased our inventory levels in order to meet strong demand for our higher end products in the subscription broadcast channel. In addition, we made a strategic purchase of resin to take advantage of attractive pricing. With respect to accounts receivable, we experienced a greater growth in outstanding accounts receivable in the current year period as a result of increased sales levels. Days sales outstanding decreased from 65 days at September 30, 2014 to 63 days at September 30, 2015. Our days sales outstanding typically fluctuates between 62 and 69 days. Increased cash inflows from accounts payable were largely attributable to the increase in inventories.

Net cash used for investing activities during the nine months ended September 30, 2015 was \$40.7 million compared to \$13.9 million during the nine months ended September 30, 2014. Part of the increase was driven by our acquisition of the net assets of Ecolink Intelligent Technology, Inc. ("Ecolink") for \$12.5 million, net of cash acquired. In addition, cash outflows to purchase property, plant and equipment were \$26.4 million during the nine months ended September 30, 2015 compared to \$12.5 million for the nine months ended September 30, 2014. This increase was

driven primarily by additional machinery and equipment purchases which are required to meet the increased demand for more advanced remote controls. In addition, we are increasing the amount of automation in our factories in an effort to mitigate the rising cost of labor in China. As a result, for the full year 2015 we expect property, plant and equipment purchases to total between \$28 million to \$31 million.

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Net cash used for financing activities was \$29.0 million during the nine months ended September 30, 2015 compared to \$6.7 million during the nine months ended September 30, 2014. The increase in cash used for financing activities was driven primarily by an increased level of stock repurchases and a decrease in proceeds from stock options exercised in the current year period. Offsetting these increases in cash outflows were net borrowings on our line of credit of \$47.0 million in the current year period.

During the nine months ended September 30, 2015, we repurchased 1,593,420 shares of our common stock at a cost of \$78.7 million compared to our repurchase of 367,949 shares at a cost of \$15.2 million during the nine months ended September 30, 2014. We hold these shares as treasury stock and they are available for reissue. Presently, we have no plans to distribute these shares, although we may change these plans if necessary to fulfill our on-going business objectives.

From time to time, our Board of Directors authorizes management to repurchase shares of our issued and outstanding common stock on the open market. Repurchases may be made to manage dilution created by shares issued under our stock incentive plans or whenever we deem a repurchase is a good use of our cash and the price to be paid is at or below a threshold approved by our Board. As of September 30, 2015, we had no shares available for repurchase on the open market under the Board's authorizations. On October 28, 2015, our Board approved a new repurchase plan authorizing the repurchase of 500,000 shares on the open market.

**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<br>1 year | 1 - 3<br>years | 4 - 5<br>years | After<br>5 years |
| Operating lease obligations             | \$12,828               | \$3,128             | \$4,557        | \$2,449        | \$2,694          |
| Capital lease obligations               | 38                     | 20                  | 18             | —              | —                |
| Purchase obligations <sup>(1)</sup>     | 5,370                  | 5,370               | —              | —              | —                |
| Contingent consideration <sup>(2)</sup> | 11,200                 | —                   | 4,462          | 4,726          | 2,012            |
| Total contractual obligations           | \$29,436               | \$8,518             | \$9,037        | \$7,175        | \$4,706          |

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

<sup>(2)</sup> Contingent consideration consists of contingent payments related to our purchase of the net assets of Ecolink Intelligent Technology, Inc.

**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 recent acquisition of the net assets of Ecolink. We anticipate that we will continue to utilize both cash flows from operations and our revolving line of credit to support ongoing business operations, capital expenditures and future discretionary share repurchases. Our working capital needs have typically been greatest during the third and fourth quarters when accounts receivable and inventories increase in connection with the fourth quarter holiday selling season. We believe our current cash balances, anticipated cash flow to be generated from operations and available borrowing resources will be sufficient to cover expected cash outlays during the next twelve months; however, because our cash is located in various jurisdictions throughout the world, we may at times need to increase borrowing from our revolving line of credit or take on additional debt until we are able to transfer cash among our various entities.

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

| (In thousands)                | September 30, 2015 | December 31, 2014 |
|-------------------------------|--------------------|-------------------|
| Cash and cash equivalents     | \$64,308           | \$112,521         |
| Available borrowing resources | \$17,987           | \$54,987          |

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

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or both. We utilize a variety of tax planning strategies in an effort to ensure that our worldwide cash is available in the locations in which it is needed.

On September 30, 2015, we had \$4.7 million, \$50.2 million, \$5.9 million and \$3.5 million of cash and cash equivalents in the United States, Asia, Europe, and South America, respectively. On December 31, 2014, we had \$43.5 million, \$50.8 million, \$12.9 million, and \$5.3 million of cash and cash equivalents in the United States, Asia, Europe and South America, respectively. We attempt to mitigate our exposure to liquidity, credit and other relevant risks by placing our cash and cash equivalents with financial institutions we believe are high quality.

On October 9, 2014, we extended the term of our Amended and Restated Credit Agreement ("Amended Credit Agreement") with U.S. Bank National Association ("U.S. Bank") to November 1, 2017. The Amended Credit Agreement provides for a \$55.0 million line of credit ("Credit Line") that may be used for working capital and other general corporate purposes including acquisitions, share repurchases and capital expenditures. On September 3, 2015, we entered into the Second Amendment to the Amended Credit Agreement in which the Credit Line was increased to \$65.0 million. Amounts available for borrowing under the Credit Line are reduced by the balance of any outstanding letters of credit, of which there were \$13 thousand at September 30, 2015.

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 People's Republic of China ("PRC").

Under the Amended Credit Agreement, we may elect to pay interest on the Credit Line based on LIBOR plus an applicable margin (varying from 1.25% to 1.75%) or base rate (based on the prime rate of U.S. Bank or as otherwise specified in the Amended Credit Agreement) plus an applicable margin (varying from 0.00% to 0.50%). The applicable margins are calculated quarterly and vary based on our cash flow leverage ratio as set forth in the Amended Credit Agreement. There are no commitment fees or unused line fees under the Amended Credit Agreement.

The Amended Credit Agreement includes financial covenants requiring a minimum fixed charge coverage ratio and a maximum cash flow leverage ratio. In addition, the Amended Credit Agreement also contains other customary affirmative and negative covenants and events of default. As of September 30, 2015, we were in compliance with the covenants and conditions of the Amended Credit Agreement.

At September 30, 2015, we had an outstanding balance of \$47.0 million on our Credit Line.

### 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 2014 Annual Report on Form 10-K, or in our other reports filed from time to time with the Securities and Exchange Commission), may affect our actual results and may contribute to or cause our actual consolidated results to differ materially from those expressed in any of our forward-looking statements. The factors included here are not exhaustive. Further, any forward-looking statement speaks only as of the date on which such statement is made, and we undertake no obligation to update any forward-looking statement to reflect events or circumstances after the date on which such statement is made or to reflect the occurrence of unanticipated events. New factors emerge from time to time, and it is not possible for management to predict all such factors, nor can we assess the impact of each such factor on the business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statement. Therefore, forward-looking statements should not be relied upon as a prediction of actual future results.

While we believe that the forward-looking statements made in this report are based on reasonable assumptions, the actual outcome of such statements is subject to a number of risks and uncertainties, including the significant percentage of our revenue attributable to a limited number of customers; the failure of our markets to continue growing and expanding in the manner we anticipated; the failure of our customers to grow and expand as we

anticipated; the effects of natural or other events beyond our control, including the effects political unrest, war or terrorist activities may have on us or the economy; the economic environment's effect on us or our customers; the growth of, acceptance of and the demand for our products and technologies in various markets and geographical regions, including cable, satellite, consumer electronics, retail, and digital media and interactive technology; our successful integration of the Ecolink 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

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particularly Asia; our inability to continue to maintain our operating costs at acceptable levels through our cost containment efforts; an unfavorable ruling in any or all of the litigation matters to which we are party; our inability to continue selling our products or licensing our technologies at higher or profitable margins; our inability to obtain orders or maintain our order volume with new and existing customers; our inability to develop new and innovative technologies and products that are accepted by our customers; the 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.

### 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 the Amended Credit Agreement that became effective on October 2, 2012, we may elect to pay interest on outstanding borrowings on our Credit Line based on LIBOR or a base rate (based on the prime rate of U.S. Bank) plus an applicable margin as defined in the Amended Credit Agreement. Accordingly, changes in interest rates would impact our results of operations in future periods. A 100 basis point increase in interest rates would have had an insignificant effect on reported net income for the nine months ended September 30, 2015.

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 September 30, 2015 we had wholly-owned subsidiaries in Argentina, Brazil, Cayman Islands, France, Germany, Hong Kong, India, Italy, Japan, 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.

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The sensitivity of earnings and cash flows to the variability in exchange rates is assessed by applying an approximate range of potential rate fluctuations to our assets, obligations and projected results of operations denominated in foreign currency with all other variables held constant. The analysis covers all of our foreign currency contracts offset by the underlying exposures. Based on our overall foreign currency rate exposure at September 30, 2015, 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 and Indian Rupee relative to the U.S. Dollar fluctuate 10% from September 30, 2015, net income in the fourth quarter of 2015 would fluctuate by approximately \$9.4 million.

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**ITEM 4. 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.

**PART II. OTHER INFORMATION**

**ITEM 1. LEGAL PROCEEDINGS**

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

**ITEM 1A. RISK FACTORS**

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

1A: Risk Factors" of the Company's 2014 Annual Report on Form 10-K incorporated herein by reference. These factors may cause our actual results to differ materially from those stated in forward-looking statements contained in this document and elsewhere.

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

During the three months ended September 30, 2015, we repurchased 944,712 shares of our issued and outstanding common stock for \$44.4 million under the ongoing and systematic programs approved by our Board of Directors. We make stock repurchases to manage the dilution created by shares issued under our stock incentive plans or when we deem a repurchase is a good use of our cash and the price to be paid is at or below a threshold approved by our Board from time to time. On September 30, 2015, we had no shares available for repurchase on the open market under the Board's authorizations. On October 28, 2015, our Board approved a new repurchase plan authorizing the repurchase of 500,000 shares on the open market.

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The following table sets forth, for the three months ended September 30, 2015, our total stock repurchases, average price paid per share and the maximum number of shares that may yet be purchased on the open market under our plans or programs:

| Period                                 | Total Number of Shares Purchased <sup>(1)</sup> | Weighted Average Price Paid per Share <sup>(2)</sup> | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs | Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs <sup>(3)</sup> |
|----------------------------------------|-------------------------------------------------|------------------------------------------------------|----------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------|
| July 1, 2015 - July 31, 2015           | 229,072                                         | \$ 49.73                                             | 229,072                                                                          | 700,000                                                                                       |
| August 1, 2015 - August 31, 2015       | 400,307                                         | 46.61                                                | 385,767                                                                          | 314,233                                                                                       |
| September 1, 2015 - September 30, 2015 | 315,333                                         | 45.54                                                | 314,233                                                                          | —                                                                                             |
| Total                                  | 944,712                                         | \$ 47.01                                             | 929,072                                                                          | —                                                                                             |

Of the repurchases in August and September, 14,540 and 1,100 shares, respectively, represent common shares of <sup>(1)</sup> the Company that were owned and tendered by employees to satisfy tax withholding obligations in connection with the vesting of restricted shares.

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

On October 28, 2015, our Board authorized a new repurchase plan authorizing the repurchase of 500,000 shares on <sup>(3)</sup> the open market. The Company may purchase shares from time to time in open market purchases or privately negotiated transactions. The Company may make all or part of the purchases pursuant to accelerated share repurchases or Rule 10b5-1 plans.

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ITEM 6. EXHIBITS

|         |                                                                                                                                                                                                                                                                                                                     |
|---------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 10.1    | Second Amendment to Amended and Restated Credit Agreement dated September 3, 2015 between Universal Electronics Inc. and U.S. Bank National Association (filed herewith)                                                                                                                                            |
| 31.1    | Rule 13a-14(a) Certifications of Paul D. Arling, Chief Executive Officer (principal executive officer) of Universal Electronics Inc.                                                                                                                                                                                |
| 31.2    | Rule 13a-14(a) Certifications of Bryan M. Hackworth, Chief Financial Officer (principal financial officer and principal accounting officer) of Universal Electronics Inc.                                                                                                                                           |
| 32      | Section 1350 Certifications of Paul D. Arling, Chief Executive Officer (principal executive officer) of Universal Electronics Inc., and Bryan M. Hackworth, Chief Financial Officer (principal financial officer and principal accounting officer) of Universal Electronics Inc. pursuant to 18 U.S.C. Section 1350 |
| 101.INS | XBRL Instance Document                                                                                                                                                                                                                                                                                              |
| 101.SCH | XBRL Taxonomy Extension Schema Document                                                                                                                                                                                                                                                                             |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document                                                                                                                                                                                                                                                               |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase Document                                                                                                                                                                                                                                                                |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase Document                                                                                                                                                                                                                                                                     |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document                                                                                                                                                                                                                                                              |

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SIGNATURE

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: November 6, 2015

UNIVERSAL ELECTRONICS INC.

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

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EXHIBIT INDEX

| Exhibit No. | Description                                                                                                                                                                                                                                                                                                         |
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| 101.DEF     | XBRL Taxonomy Extension Definition Linkbase Document                                                                                                                                                                                                                                                                |
| 101.LAB     | XBRL Taxonomy Extension Label Linkbase Document                                                                                                                                                                                                                                                                     |
| 101.PRE     | XBRL Taxonomy Extension Presentation Linkbase Document                                                                                                                                                                                                                                                              |

