FOSCHI PIER LUIGI
Form 4
December 29, 2011

# FORM 4

Check this box if no longer subject to Section 16. Form 4 or Form 5 obligations may continue. *See* Instruction 1(b).

## UNITED STATES SECURITIES AND EXCHANGE COMMISSION
**Washington, D.C. 20549**

## STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

OMB APPROVAL

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|---|---|
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(Print or Type Responses)

1. Name and Address of Reporting Person *
FOSCHI PIER LUIGI

(Last) (First) (Middle)

CARNIVAL CORPORATION, 3655 NW 87TH AVE

(Street)

MIAMI, FL 33178

(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
CARNIVAL PLC [CUK]

3. Date of Earliest Transaction (Month/Day/Year)
12/28/2011

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

__X__ Director _____ 10% Owner
__X__ Officer (give title below) _____ Other (specify below)
Chairman & CEO-Costa Crociere

6. Individual or Joint/Group Filing(Check Applicable Line)
_X_ Form filed by One Reporting Person
___ Form filed by More than One Reporting Person

**Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned**

| 1.Title of Security (Instr. 3) | 2. Transaction Date (Month/Day/Year) | 2A. Deemed Execution Date, if any (Month/Day/Year) | 3. Transaction Code (Instr. 8) | | 4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5) | | | 5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4) | 6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4) | 7. Nature of Indirect Beneficial Ownership (Instr. 4) |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | Code | V | Amount | (A) or (D) | Price | | | |
| Ordinary Shares | 12/28/2011 | | A | | 1,814 (1) | A | $ 33.078 (2) | 132,694 | D | |
| Ordinary Shares | 12/28/2011 | | S | | 24,579 | D | $ 33.078 (2) | 108,115 | D | |

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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SEC 1474 (9-02)

**Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned**
**(*e.g.*, puts, calls, warrants, options, convertible securities)**

| 1. Title of Derivative Security (Instr. 3) | 2. Conversion or Exercise Price of Derivative Security | 3. Transaction Date (Month/Day/Year) | 3A. Deemed Execution Date, if any (Month/Day/Year) | 4. Transaction Code (Instr. 8) | | 5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5) | | 6. Date Exercisable and Expiration Date (Month/Day/Year) | | 7. Title and Amount of Underlying Securities (Instr. 3 and 4) | | 8. Price of Derivative Security (Instr. 5) | 9. Nu Deriv Secur Bene Own Follo Repo Trans (Instr |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | | Date Exercisable | Expiration Date | Title | Amount or Number of Shares | | |
| | | | | Code | V | (A) | (D) | | | | | | |

# Reporting Owners

| Reporting Owner Name / Address | Relationships | | | |
|---|---|---|---|---|
| | Director | 10% Owner | Officer | Other |
| FOSCHI PIER LUIGI<br>CARNIVAL CORPORATION<br>3655 NW 87TH AVE<br>MIAMI, FL 33178 | X | | Chairman & CEO-Costa Crociere | |

# Signatures

| | |
|---|---|
| /s/ Pier Luigi Foschi | 12/29/2011 |
| **Signature of Reporting Person | Date |

# Explanation of Responses:

* If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

**(1)** Represents settlement of dividend equivalents accummulated during the restricted period of restricted stock or restricted stock unit award originally granted in 2008, which has now been released.

**(2)** These shares were sold upon the vesting of restricted stock units granted under the Company's 2005 Employee Share Plan. The plan administrator aggregated all shares to be sold by plan participants and sold the shares over a three-day period ending on December 28, 2011. The price reported in Column 4 is a weighted average price. Shares were sold in multiple transactions at prices between GBP21.52 and GBP20.90. The transaction was conducted in British Pounds. The sale price of GBP21.15 was converted into US$ at the December 28, 2011 conversion rate of GBP1 = USD1.564. The reporting person undertakes to provide to the Company, any security holder of the Company, or the staff of the Securities and Exchange Commission, upon request, full information regarding the number of shares sold at each separate price within the range.

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.
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373

1,092

747

Total stock-based compensation expense
$
2,477

$
2,024

$
4,970

$
3,983

Income tax benefit
$
736

$
574

$
1,469

$
1,134

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Explanation of Responses:

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(Unaudited)

Stock Options

Stock option activity was as follows:

| | Number of Options (in 000's) | Weighted-Average Exercise Price | Weighted-Average Remaining Contractual Term (in years) | Aggregate Intrinsic Value (in 000's) |
|---|---|---|---|---|
| Outstanding at December 31, 2015 | 648 | $ 30.50 | | |
| Granted | 244 | 49.67 | | |
| Exercised | (104 ) | 24.44 | | $ 3,619 |
| Forfeited/canceled/expired | — | — | | |
| Outstanding at June 30, 2016 (1) | 788 | $ 37.22 | 5.13 | $ 27,606 |
| Vested and expected to vest at June 30, 2016 (1) | 788 | $ 37.22 | 5.13 | $ 27,597 |
| Exercisable at June 30, 2016 (1) | 462 | $ 28.13 | 4.34 | $ 20,376 |

(1) The aggregate intrinsic value represents the total pre-tax value (the difference between our closing stock price on the last trading day of the second quarter of 2016 and the exercise price, multiplied by the number of in-the-money options) that would have been received by the option holders had they all exercised their options on June 30, 2016. This amount will change based on the fair market value of our stock.

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

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| Weighted average fair value of grants | $— | $ — | $ 17.96 | $ 24.77 |
| Risk-free interest rate | —% | —% | 1.36 % | 1.38 % |
| Expected volatility | —% | —% | 41.38 % | 43.50 % |
| Expected life in years | 0.00 | 0.00 | 4.55 | 4.56 |

As of June 30, 2016, we expect to recognize $5.2 million of total unrecognized pre-tax stock-based compensation expense related to non-vested stock options over a remaining weighted-average life of 2.3 years.

Restricted Stock

Non-vested restricted stock award activity was as follows:

| | Shares (in 000's) | Weighted-Average Grant Date Fair Value |
|---|---|---|
| Non-vested at December 31, 2015 | 225 | $ 51.31 |
| Granted | 38 | 51.78 |
| Vested | (43 ) | 46.73 |
| Forfeited | (2 ) | 56.69 |
| Non-vested at June 30, 2016 | 218 | $ 52.25 |

As of June 30, 2016, we expect to recognize $8.9 million of total unrecognized pre-tax stock-based compensation expense related to non-vested restricted stock awards over a weighted-average life of 2.0 years.

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Note 14 — Performance-Based Common Stock Warrants
On March 9, 2016, we issued common stock purchase warrants to Comcast Corporation ("Comcast") to purchase up to 725,000 shares of our common stock at a price of $54.55 per share. The right to exercise the warrants under this agreement is subject to vesting over three successive two-year periods (with the first two-year period commencing on January 1, 2016) based on the level of purchases of goods and services from us by Comcast and its affiliates, as defined in the warrant agreement. The table below presents the purchase levels and number of warrants that will vest in each period based upon achieving these purchase levels.

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

If total aggregate purchases by Comcast and its affiliates are below $260 million in any of the two-year periods above, no warrants will vest related to that two-year period. If total aggregate purchases of goods and services by Comcast and its affiliates exceed $340 million during either the first or second two-year period, the amount of any such excess will count toward aggregate purchases in the following two-year period. To fully vest in the rights to purchase all of the underlying shares, Comcast and its affiliates must purchase an aggregate of $1.02 billion in goods and services from us during the six-year vesting period.
Any and all warrants that vest will expire on January 1, 2023. The warrants provide for certain adjustments that may be made to the exercise price and the number of shares issuable upon exercise due to customary anti-dilution provisions. Additionally, in connection with the common stock purchase warrants, we have also entered into a registration rights agreement with Comcast under which Comcast may from time to time request that we register the shares of common stock underlying vested warrants with the SEC.
Because the warrants contain performance criteria under which Comcast must achieve specified aggregate purchase levels for the warrants to vest, as detailed above, the measurement date for the warrants is the date on which the warrants vest. The estimated fair value of warrants is being recorded as a reduction to net sales ratably as the warrants vest based on the projected number of warrants that will vest, the proportion of purchases by Comcast and its affiliates within the period relative to the aggregate purchase levels required for the warrants to vest and the then-current fair value of the related unvested warrants. To the extent that our projections change in the future as to the number of warrants that will vest, a cumulative catch-up adjustment will be recorded in the period in which our estimates change. At June 30, 2016, none of the warrants had vested.
The fair value of the warrants is determined using the Black-Scholes option pricing model. The assumptions we utilized and the resulting fair value of the warrants were the following:

| | June 30, 2016 |
|---|---|
| Fair value | $35.88 |
| Price of Universal Electronics Inc. common stock | $71.16 |
| Risk-free interest rate | 1.22% |

| | |
|---|---|
| Expected volatility | 41.17% |
| Expected life in years | 6.50 |

For the three and six months ended June 30, 2016, we recorded $1.2 million and $2.1 million, respectively, as a reduction to net sales in connection with the common stock warrants. The aggregate unrecognized estimated fair value of unvested warrants at June 30, 2016 was $24.0 million.

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Note 15 — Other Income (Expense), Net
Other income (expense), net consisted of the following:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| (In thousands) | 2016 | 2015 | 2016 | 2015 |
| Net gain (loss) on foreign currency exchange contracts [1] | $(477) | $(167) | $(676 ) | $867 |
| Net gain (loss) on foreign currency exchange transactions | 1,105 | 178 | 2,016 | (676 ) |
| Other income (expense) | 43 | 45 | 51 | 95 |
| Other income (expense), net | $671 | $56 | $1,391 | $286 |

[1] This represents the gains (losses) incurred on foreign currency hedging derivatives (see Note 18 for further details).

Note 16 — Earnings Per Share
Earnings per share was calculated as follows:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| (In thousands, except per-share amounts) | 2016 | 2015 | 2016 | 2015 |
| BASIC | | | | |
| Net income attributable to Universal Electronics Inc. | $6,590 | $8,375 | $9,311 | $13,564 |
| Weighted-average common shares outstanding | 14,440 | 15,732 | 14,406 | 15,819 |
| Basic earnings per share attributable to Universal Electronics Inc. | $0.46 | $0.53 | $0.65 | $0.86 |
| | | | | |
| DILUTED | | | | |
| Net income attributable to Universal Electronics Inc. | $6,590 | $8,375 | $9,311 | $13,564 |
| Weighted-average common shares outstanding for basic | 14,440 | 15,732 | 14,406 | 15,819 |
| Dilutive effect of stock options and restricted stock | 295 | 297 | 280 | 317 |
| Weighted-average common shares outstanding on a diluted basis | 14,735 | 16,029 | 14,686 | 16,136 |
| Diluted earnings per share attributable to Universal Electronics Inc. | $0.45 | $0.52 | $0.63 | $0.84 |

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 June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| (In thousands) | 2016 | 2015 | 2016 | 2015 |
| Stock options | 78 | 74 | 167 | 57 |
| Restricted stock awards | 1 | 1 | 10 | 9 |

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Note 17 — 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 six months ended June 30, 2016 is as follows:

| | Shares | | Stockholders' Equity | | |
|---|---|---|---|---|---|
| (In thousands) | Common Stock | Treasury Stock | Universal Electronics Inc. Stockholders' Equity | Noncontrolling Interest | Total |
| Balance at December 31, 2015 | 23,176 | (8,825) | $257,609 | $ 299 | $257,908 |
| Net income | | | 9,311 | 30 | 9,341 |
| Currency translation adjustment | | | (1,318) | | (1,318) |
| Shares issued for employee benefit plan and compensation | 36 | | 551 | | 551 |
| Purchase of treasury shares | | (36) | (1,944) | | (1,944) |
| Stock options exercised | 104 | | 2,536 | | 2,536 |
| Shares issued to Directors | 15 | | — | | — |
| Employee and director stock-based compensation | | | 4,970 | | 4,970 |
| Tax benefit from exercise of non-qualified stock options and vested restricted stock | | | 992 | | 992 |
| Performance-based warrant stock-based compensation | | | 2,058 | | 2,058 |
| Deconsolidation of Encore Controls LLC (Note 19) | | | | (329) | (329) |
| Balance at June 30, 2016 | 23,331 | (8,861) | $274,765 | $ — | $274,765 |

Note 18 — 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.
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:

| | June 30, 2016 | | | | December 31, 2015 | | | |
|---|---|---|---|---|---|---|---|---|
| | Fair Value Measurement Using | | | Total | Fair Value Measurement Using | | | Total |
| (In thousands) | (Level 1) | (Level 2) | (Level 3) | Balance | (Level 1) | (Level 2) | (Level 3) | Balance |
| Foreign currency exchange contracts | $ — | $ 158 | $ — | $ 158 | $ — | $ (1,146) | $ — | $ (1,146) |

We held foreign currency exchange contracts which resulted in a net pre-tax loss of $0.5 million and $0.2 million for the three months ended June 30, 2016 and 2015, respectively. For the six months ended June 30, 2016 and 2015, we had a net pre-tax loss of $0.7 million and a net pre-tax gain of $0.9 million, respectively (see Note 15).

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Details of foreign currency exchange contracts held were as follows:

| Date Held | Type | Position Held | Notional Value (in millions) | Forward Rate | Unrealized Gain/(Loss) Recorded at Balance Sheet Date (in thousands)(1) | Settlement Date |
|---|---|---|---|---|---|---|
| June 30, 2016 | USD/Euro | USD | $ 13.0 | 1.1262 | $ 202 | July 22, 2016 |
| June 30, 2016 | USD/Chinese Yuan Renminbi | Chinese Yuan Renminbi | $ 20.0 | 6.7391 | $ 186 | July 15, 2016 |
| June 30, 2016 | USD/Brazilian Real | USD | $ 2.0 | 3.5907 | $ (230) | July 15, 2016 |
| December 31, 2015 | USD/Euro | USD | $ 7.0 | 1.0864 | $ (7) | January 22, 2016 |
| December 31, 2015 | USD/Chinese Yuan Renminbi | Chinese Yuan Renminbi | $ 22.5 | 6.2565 | $ (1,100) | January 15, 2016 |
| December 31, 2015 | USD/Brazilian Real | Brazilian Real | $ 1.0 | 3.7461 | $ (57) | January 15, 2016 |
| December 31, 2015 | USD/Brazilian Real | USD | $ 3.0 | 3.9503 | $ 18 | January 15, 2016 |

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

Note 19 — 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 purchase price of $24.1 million was comprised of $12.9 million in cash, and $11.2 million of contingent consideration. Additionally, we incurred $0.2 million in acquisition costs, consisting primarily of legal and accounting expenses, which were recorded within selling, general and administrative expenses for the year ended December 31, 2015. The acquisition of these assets will allow us to extend our product offerings to include home security and automation products previously marketed by Ecolink and to sell these products to our existing customers.

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.

At the time of acquisition, management determined that we were the primary beneficiary of Encore due to our ability to direct the activities that most significantly impacted the economic performance of Encore, and thus we 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.

On April 21, 2016, we sold our ownership interest in Encore to Encore's noncontrolling interest holder in exchange for full rights and ownership of Encore's patents and developed technology as well as the noncontrolling interest's portion of certain of Encore's tangible net assets. Additionally, as a condition of the sale of our ownership interest in Encore, we agreed to grant a royalty-free license to Encore for the use of Encore's developed technology and patents in connection with selling specific products to specific customers. As a result of this transaction, we no longer have any involvement with Encore other than the granting of this limited license. Upon deconsolidation, we recorded a gain of $65 thousand, based on the difference between the fair value of the net assets received and our ownership interest in Encore. This gain is presented in our consolidated income statement within other income (expense), net for the three and six months ended June 30, 2016.

Our consolidated income statement for the three months ended June 30, 2016 includes net sales of $1.9 million and a net loss of $52 thousand attributable to Ecolink. Our consolidated income statement for the six months ended June 30, 2016 includes net sales of $2.8 million and a net loss of $0.6 million attributable to Ecolink.

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Contingent Consideration

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 has no upper limit and is calculated at the end of each calendar year 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. At December 31, 2015 the fair value of the earnout contingent consideration was $11.8 million. The fair value of the earnout contingent consideration decreased $0.7 million and $0.8 million during the three and six months ended June 30, 2016, respectively, primarily to reflect adjustments to the timing of earnout payments and the related accretion driven by the time value of money. These adjustments were recorded within selling, general and administrative expenses. The fair value of the earnout contingent consideration at June 30, 2016 was $11.0 million. The fair value of earnout contingent consideration is presented as long term contingent consideration in our consolidated balance sheet.

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 fair value of net assets acquired is recorded as goodwill. The goodwill is expected to be deductible for income tax purposes. Management's purchase price allocation was the following:

| (in thousands) | Estimated Lives | Fair Value |
|---|---|---|
| Cash and cash equivalents | | $685 |
| Accounts receivable | | 374 |
| 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 | | 1,183 |
| Trade name | 7 years | 400 |
| Developed technology | 4-14 years | 9,080 |
| Customer relationships | 5 years | 1,300 |
| Goodwill | | 12,564 |
| Total purchase price | | 24,527 |
| Noncontrolling interest in Encore | | (378) |
| Net purchase price | | 24,149 |
| Less: Contingent consideration | | (11,200) |
| Cash paid | | $12,949 |

Management's determination of the fair value of intangible assets acquired was based primarily on significant inputs not observable in an active market and thus represent Level 3 fair value measurements as defined under U.S. GAAP.

The fair value assigned to 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.

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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.

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| (In thousands, except per-share amounts) | 2016 | 2015 | 2016 | 2015 |
| Net sales | $170,986 | $149,160 | $321,644 | $283,371 |
| Net income | $6,621 | $8,271 | $9,410 | $13,303 |
| Net income attributable to Universal Electronics Inc. | $6,613 | $8,236 | $9,371 | $13,243 |
| Basic earnings per share attributable to Universal Electronics Inc. | $0.46 | $0.52 | $0.65 | $0.84 |
| Diluted earnings per share attributable to Universal Electronics Inc. | $0.45 | $0.51 | $0.64 | $0.82 |

For purposes of determining pro forma net income attributable to Universal Electronics Inc., adjustments were made to each period presented in the table above. Pro forma net income and pro forma net income attributable to Universal Electronics Inc. assume 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 decrease in amortization expense of $38 thousand and $0.1 million for the three and six months ended June 30, 2016, respectively, and a net increase in amortization expense of $0.5 million and $1.0 million for the three and six months ended June 30, 2015, respectively. Additionally, acquisition costs totaling $0.2 million are excluded from pro forma net income and pro forma net income attributable to Universal Electronics Inc. All adjustments have been made net of their related tax effects.

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

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

Overview

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

Since our beginning in 1986, we have compiled an extensive device control code database that covers over 959,000 individual device functions and approximately 7,700 unique consumer electronic brands. QuickSet®, our proprietary software, can automatically detect, identify and enable the appropriate control commands for home entertainment, automation and appliances like air conditioners. Our library is regularly updated with new control functions captured directly from devices, remote controls and manufacturer specifications to ensure the accuracy and integrity of our database and control engine. Our universal remote control library contains device codes that are capable of controlling virtually all set-top boxes, televisions, audio components, DVD players, Blu-Ray players, and CD players, as well as most other remote controlled home entertainment devices and home automation control modules worldwide.

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

We have developed a comprehensive patent portfolio of 380 pending and issued patents related to remote controls and home automation.

We operate as one business segment. We have twenty-two international subsidiaries located in Argentina, Brazil, British Virgin Islands, Cayman Islands, France, Germany, Hong Kong (3), India, Italy, Japan, Mexico, the Netherlands, People's Republic of China (5), Singapore, Spain, and the United Kingdom.

To recap our results for the three months ended June 30, 2016:

- Net sales increased 15.9% to $171.0 million for the three months ended June 30, 2016 from $147.6 million for the three months ended June 30, 2015.
- Our gross margin percentage decreased from 27.3% for the three months ended June 30, 2015 to 25.4% for the three months ended June 30, 2016.
- Operating expenses, as a percent of net sales, increased from 20.3% for the three months ended June 30, 2015 to 20.7% for the three months ended June 30, 2016.
- Our operating income decreased from $10.4 million for the three months ended June 30, 2015 to $8.0 million for the three months ended June 30, 2016, and our operating margin percentage decreased from 7.0% for the three months ended June 30, 2015 to 4.7% for the three months ended June 30, 2016.
- Our effective tax rate increased to 21.3% for the three months ended June 30, 2016, compared to 20.7% for the three months ended June 30, 2015.

Our strategic business objectives for 2016 include the following:

- continue to develop and market the advanced remote control products and technologies our customer base is adopting;
- continue to broaden our home control and automation product offerings;
- further penetrate international subscription broadcasting markets;
- acquire new customers in historically strong regions;
- increase our share with existing customers; and
- continue to seek acquisitions or strategic partners that complement and strengthen our existing business.

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

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to period, and the primary factors that accounted for those changes, as well as how certain accounting principles, policies and estimates affect our consolidated financial statements.

Critical Accounting Policies and Estimates

The preparation of financial statements in conformity with accounting principles accepted in the United States of America requires us to make estimates and judgments that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. On an on-going basis, we evaluate our estimates and judgments, including those related to revenue recognition, allowances for sales returns and doubtful accounts, inventory valuation, our review for impairment of long-lived assets, intangible assets and goodwill, business combinations, income taxes, stock-based compensation expense and performance-based common stock warrants. Actual results may differ from these judgments and estimates, and they may be adjusted as more information becomes available. Any adjustment may be significant and may have a material impact on our consolidated financial position or results of operations.

An accounting policy is deemed to be critical if it requires an accounting estimate to be made based on assumptions about matters that are highly uncertain at the time the estimate is made, if different estimates reasonably may have been used, or if changes in the estimate that are reasonably likely to occur may materially impact the financial statements. 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, 2015.

Performance-Based Common Stock Warrants

The measurement date for performance-based common stock warrants is the date on which the warrants vest. We recognize the fair value of performance-based common stock warrants as a reduction to net sales ratably as the warrants vest based on the projected number of warrants that will vest, the proportion of the performance criteria achieved by the customer within the period relative to the total performance required (aggregate purchase levels) for the warrants to vest and the then-current fair value of the related unvested warrants. To the extent that our projections change in the future as to the number of warrants that will vest, a cumulative catch-up adjustment will be recorded in the period in which our estimates change.

The fair value of performance-based common stock warrants is determined utilizing the Black-Scholes option pricing model. The assumptions utilized in the Black-Scholes model include the price of our common stock, the risk-free interest rate, expected volatility, and expected life in years. The price of our common stock is equal to the average of the high and low trade prices of our common stock on the measurement date. The risk-free interest rate over the expected life is equal to the prevailing U.S. Treasury note rate over the same period. Expected volatility is determined utilizing historical volatility over a period of time equal to the expected life of the warrant. Expected life is equal to the remaining contractual term of the warrant. The dividend yield is assumed to be zero since we have not historically declared dividends and do not have any plans to declare dividends in the future.

Recent Accounting Pronouncements

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

Results of Operations

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

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| Net sales | 100.0 % | 100.0 % | 100.0 % | 100.0 % |
| Cost of sales | 74.6 | 72.7 | 74.8 | 72.3 |
| Gross profit | 25.4 | 27.3 | 25.2 | 27.7 |
| Research and development expenses | 3.0 | 2.8 | 3.2 | 3.0 |
| Selling, general and administrative expenses | 17.7 | 17.5 | 18.6 | 18.8 |
| Operating income | 4.7 | 7.0 | 3.4 | 5.9 |
| Interest income (expense), net | (0.2 ) | 0.1 | (0.1 ) | 0.1 |
| Other income (expense), net | 0.4 | 0.1 | 0.4 | 0.1 |
| Income before provision for income taxes | 4.9 | 7.2 | 3.7 | 6.1 |
| Provision for income taxes | 1.0 | 1.5 | 0.8 | 1.3 |
| Net income | 3.9 | 5.7 | 2.9 | 4.8 |
| Net income (loss) attributable to noncontrolling interest | 0.0 | — | 0.0 | — |
| Net income attributable to Universal Electronics Inc. | 3.9 % | 5.7 % | 2.9 % | 4.8 % |

Three Months Ended June 30, 2016 versus Three Months Ended June 30, 2015

Net sales. Net sales for the three months ended June 30, 2016 were $171.0 million, an increase of 15.9% compared to $147.6 million for the three months ended June 30, 2015. Net sales by our Business and Consumer lines were as follows:

| | Three Months Ended June 30, | | | |
|---|---|---|---|---|
| | 2016 | | 2015 | |
| | $ (millions) | % of total | $ (millions) | % of total |
| Business | $158.5 | 92.7 % | $135.5 | 91.8 % |
| Consumer | 12.5 | 7.3 | 12.1 | 8.2 |
| Total net sales | $171.0 | 100.0 % | $147.6 | 100.0 % |

Net sales in our Business lines (subscription broadcasting, OEM, and computing companies) were 92.7% of net sales for the three months ended June 30, 2016 compared to 91.8% for the three months ended June 30, 2015. Net sales in our Business lines for the three months ended June 30, 2016 increased by 17.0% to $158.5 million from $135.5 million driven primarily by strong demand and increased market share with North American subscription broadcasters as more customers transition from lower end platforms to higher end platforms. Partially offsetting this increase was 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 7.3% of net sales for the three months ended June 30, 2016 compared to 8.2% for the three months ended June 30, 2015. Net sales in our Consumer lines for the three months ended June 30, 2016 increased by 3.3% to $12.5 million from $12.1 million in the three months ended June 30, 2015. This increase was driven mainly by stronger demand for our accessory products in Europe, partially offset by decreased sales in Latin America.

Gross profit. Gross profit for the three months ended June 30, 2016 was $43.5 million compared to $40.3 million for the three months ended June 30, 2015. Gross profit as a percent of sales decreased to 25.4% for the three months ended June 30, 2016 compared to 27.3% for the three months ended June 30, 2015. 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, the weakening of the Euro and British Pound relative to the U.S. Dollar, and a decrease in royalty revenue associated with the TV and mobile device markets. The impact of these unfavorable items was partially offset by the weakening of the Chinese Yuan Renminbi relative to the U.S. Dollar.

Research and development ("R&D") expenses. R&D expenses increased 25.8% to $5.2 million for the three months ended June 30, 2016 from $4.1 million for the three months ended June 30, 2015 as we continue to develop new product offerings in existing categories as well as new categories such as the home security channel.

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Selling, general and administrative ("SG&A") expenses. SG&A expenses increased 17.7% to $30.3 million for the three months ended June 30, 2016 from $25.8 million for the three months ended June 30, 2015. This increase was driven in part by increased legal fees and the recording of a $2.0 million legal settlement related to a patent litigation lawsuit. In addition, payroll costs increased as a result of additional headcount required to support product development efforts and additional headcount related to our August 2015 acquisition of Ecolink Intelligent Technology, Inc.

Interest income (expense), net. Net interest expense was $0.3 million for the three months ended June 30, 2016 compared to net interest income of $0.1 million for the three months ended June 30, 2015 as a result of borrowings on our line of credit over the last 12 months.

Other income (expense), net. Net other income was $0.7 million for the three months ended June 30, 2016 compared to net other income of $0.1 million for the three months ended June 30, 2015. This change was driven primarily by foreign currency gains associated with fluctuations in the Chinese Yuan Renminbi exchange rate versus the U.S. dollar.

Provision for income taxes. Income tax expense was $1.8 million for the three months ended June 30, 2016 compared to $2.2 million for the three months ended June 30, 2015. Our effective tax rate was 21.3% for the three months ended June 30, 2016 compared to 20.7% for the three months ended June 30, 2015.

Six Months Ended June 30, 2016 versus Six Months Ended June 30, 2015

Net sales. Net sales for the six months ended June 30, 2016 were $321.6 million, an increase of 14.8% compared to $280.3 million for the six months ended June 30, 2015. Net sales by our Business and Consumer lines were as follows:

| | Six Months Ended June 30, | | | | | |
|---|---|---|---|---|---|---|
| | 2016 | | | 2015 | | |
| | $ (millions) | % of total | | $ (millions) | % of total | |
| Business | $299.1 | 93.0 | % | $257.0 | 91.7 | % |
| Consumer | 22.5 | 7.0 | | 23.3 | 8.3 | |
| Total net sales | $321.6 | 100.0 | % | $280.3 | 100.0 | % |

Net sales in our Business lines (subscription broadcasting, OEM, and computing companies) were 93.0% of net sales for the six months ended June 30, 2016 compared to 91.7% for the six months ended June 30, 2015. Net sales in our Business lines for the six months ended June 30, 2016 increased by 16.4% to $299.1 million from $257.0 million driven primarily by strong demand and increased market share with North American subscription broadcasters as more customers transition from lower end platforms to higher end platforms. Partially offsetting this increase was 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 7.0% of net sales for the six months ended June 30, 2016 compared to 8.3% for the six months ended June 30, 2015. Net sales in our Consumer lines for the six months ended June 30, 2016 decreased by 3.4% to $22.5 million from $23.3 million in the six months ended June 30, 2015. This decrease was mainly due to decreased sales in the Latin American market.

Gross profit. Gross profit for the six months ended June 30, 2016 was $81.1 million compared to $77.7 million for the six months ended June 30, 2015. Gross profit as a percent of sales decreased to 25.2% for the six months ended June 30, 2016 compared to 27.7% for the six months ended June 30, 2015. 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 and a decrease in royalty revenue associated with the TV and mobile device markets. The impact of these unfavorable items was partially offset by the weakening of the Chinese Yuan Renminbi relative to the U.S. Dollar.

Research and development expenses. R&D expenses increased 21.2% to $10.3 million for six months ended June 30, 2016 from $8.5 million for the six months ended June 30, 2015 as we continue to develop new product offerings in existing categories as well as new categories such as the home security channel.

Selling, general and administrative expenses. SG&A expenses increased 13.5% to $59.8 million for the six months ended June 30, 2016 from $52.7 million for the six months ended June 30, 2015. This increase was driven primarily by the recording of a $2.0 million legal settlement related to a patent litigation lawsuit, increased payroll costs and severance costs associated with a factory transition. Payroll costs increased as a result of additional headcount required to support product development efforts as well as additional headcount related to our August 2015 acquisition of Ecolink Intelligent Technology, Inc. Severance costs were incurred related to the transitioning of certain manufacturing activities from our higher cost factory located in southern China to our lower cost factories located in other regions within China. We expect this transition to continue over the next 12-18 months. These increases were partially offset by the weakening of the Chinese Yuan Renminbi and Brazilian Real versus the U.S. Dollar.

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Interest income (expense), net. Net interest expense was $0.5 million for the six months ended June 30, 2016 compared to net interest income of $0.2 million for the six months ended June 30, 2015 as a result of borrowings on our line of credit over the last 12 months.

Other income (expense), net. Net other income was $1.4 million for the six months ended June 30, 2016 compared to net other income of $0.3 million for the six months ended June 30, 2015. This change was driven primarily by foreign currency gains associated with fluctuations in the Chinese Yuan Renminbi exchange rate versus the U.S. dollar, partially offset by foreign currency losses in the current year period associated with fluctuations in the foreign currency exchange rate related to the Euro versus the U.S. dollar.

Provision for income taxes. Income tax expense was $2.5 million for the six months ended June 30, 2016 compared to $3.4 million for the six months ended June 30, 2015. Our effective tax rate was 21.3% for the six months ended June 30, 2016 compared to 20.2% for the six months ended June 30, 2015. Our effective tax rate was lower in the prior year primarily due to the recording of a $0.5 million tax refund related to tax incentives in China for the years 2012 through 2014. This impact was partially offset by the exclusion of the estimated benefit of the federal R&D tax credit in our prior year estimated tax rate as a result of the federal tax credit for 2015 not having been passed as of June 30, 2015.

Liquidity and Capital Resources

Sources and Uses of Cash

| (In thousands) | Six Months Ended June 30, 2016 | Increase (Decrease) | Six Months Ended June 30, 2015 |
|---|---|---|---|
| Cash provided by (used for) operating activities | $23,251 | $ 17,309 | $5,942 |
| Cash used for investing activities | (18,934 ) | (2,027 ) | (16,907) |
| Cash provided by (used for) financing activities | (5,374 ) | 14,562 | (19,936) |
| Effect of exchange rate changes on cash | (2,464 ) | (3,006 ) | 542 |

| | June 30, 2016 | Increase (Decrease) | December 31, 2015 |
|---|---|---|---|
| Cash and cash equivalents | $49,445 | $ (3,521 ) | $ 52,966 |
| Working capital | 110,623 | 10,423 | 100,200 |

Net cash provided by operating activities was $23.3 million during the six months ended June 30, 2016 compared to $5.9 million of cash provided by operating activities during the six months ended June 30, 2015. The increase in net cash provided by operating activities was primarily due to working capital needs associated with inventories. Our inventory turns improved to 4.3 turns at June 30, 2016, compared to 4.1 turns at June 30, 2015, primarily as a result of more tightly managed inventory levels in the current year. Additionally, we made a strategic purchase of resin in the prior year period to take advantage of attractive pricing as we typically do when we see the opportunity to obtain favorable pricing on commonly used raw materials and components.

Net cash used for investing activities during the six months ended June 30, 2016 was $18.9 million compared to $16.9 million during the six months ended June 30, 2015 with both periods consisting of investments in property, plant and equipment as well as internally developed patents. We have increased our investment in machinery and equipment over the past two years in order to meet the increased demand for our 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. Based on our current projections, we anticipate that property, plant and equipment purchases in 2016 will total between $27 and $29 million as we continue to invest in manufacturing automation as well as implement a new ERP system in Asia and North America.

Net cash used for financing activities was $5.4 million during the six months ended June 30, 2016 compared to net cash used for financing activities of $19.9 million during the six months ended June 30, 2015. The decrease in cash used for financing activities was driven primarily by a decrease of $32.4 million in treasury stock purchases. This decrease was partly offset by borrowing activity on our line of credit. During the current year period, we made net payments of $7.0 million on our line of credit, compared to net borrowings on our line of credit of $12.0 million in the prior year period.

During the six months ended June 30, 2016, we repurchased 36,329 shares of our common stock at a cost of $1.9 million compared to our repurchase of 648,708 shares at a cost of $34.3 million during the six months ended June 30, 2015. 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.

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From time to time, our Board of Directors authorizes management to repurchase shares of our issued and outstanding common stock on the open market. Repurchases may be made to manage dilution created by shares issued under our stock incentive plans or whenever we deem a repurchase is a good use of our cash and the price to be paid is at or below a threshold approved by our Board. As of June 30, 2016, we had 375,000 shares available for repurchase on the open market under the Board's authorizations.

Contractual Obligations

The following table summarizes our contractual obligations and the effect these obligations are expected to have on our liquidity and cash flow in future periods.

| | Payments Due by Period | | | | |
|---|---|---|---|---|---|
| (In thousands) | Total | Less than 1 year | 1 - 3 years | 4 - 5 years | After 5 years |
| Operating lease obligations | $13,988 | $ 3,886 | $5,837 | $2,497 | $1,768 |
| Capital lease obligations | 23 | 20 | 3 | — | — |
| Purchase obligations[1] | 5,671 | 5,671 | — | — | — |
| Contingent consideration [2] | 11,000 | — | 6,045 | 4,955 | — |
| Total contractual obligations | $30,682 | $ 9,577 | $11,885 | $7,452 | $1,768 |

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

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

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

| (In thousands) | June 30, 2016 | December 31, 2015 |
|---|---|---|
| Cash and cash equivalents | $49,445 | $ 52,966 |
| Available borrowing resources | $42,000 | $ 34,987 |

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

On June 30, 2016, we had $6.5 million, $22.4 million, $4.5 million, $11.7 million and $4.3 million of cash and cash equivalents in the United States, the People's Republic of China ("PRC"), Asia (excluding the PRC), Europe, and South America, respectively. On December 31, 2015, we had $8.5 million, $28.7 million, $5.3 million, $8.1 million, and $2.4 million of cash and cash equivalents in the United States, the PRC, Asia (excluding the PRC), Europe and South America, respectively. We attempt to mitigate our exposure to liquidity, credit and other relevant risks by placing our cash and cash equivalents with financial institutions we believe are high quality.

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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. On November 10, 2015, we entered into the Third Amendment to the Amended Credit Agreement in which the Credit Line was increased to $85.0 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 June 30, 2016.

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

Under the Amended Credit Agreement, we may elect to pay interest on the Credit Line based on LIBOR plus an applicable margin (varying from 1.25% to 1.75%) or base rate (based on the prime rate of U.S. Bank or as otherwise specified in the Amended Credit Agreement) plus an applicable margin (varying from 0.00% to 0.50%). The applicable margins are calculated quarterly and vary based on our cash flow leverage ratio as set forth in the Amended Credit Agreement. The interest rate in effect at June 30, 2016 was 1.71%. There are no commitment fees or unused line fees under the Amended Credit Agreement.

The Amended Credit Agreement includes financial covenants requiring a minimum fixed charge coverage ratio and a maximum cash flow leverage ratio. In addition, the Amended Credit Agreement also contains other customary affirmative and negative covenants and events of default. As of June 30, 2016, we were in compliance with the covenants and conditions of the Amended Credit Agreement.

At June 30, 2016, we had an outstanding balance of $43.0 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 2015 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 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

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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 an approximately $0.3 million annual impact on net income based on our outstanding line of credit balance at June 30, 2016.

We cannot make any assurances that we will not need to borrow additional amounts in the future or that funds will be extended to us under comparable terms or at all. If funding is not available to us at a time when we need to borrow, we would have to use our cash reserves, including potentially repatriating cash from foreign jurisdictions, which may have a material adverse effect on our operating results, financial position and cash flows.

Foreign Currency Exchange Rate Risk

At June 30, 2016 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.

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 includes all of our foreign currency contracts offset by the underlying exposures. Based on our overall foreign currency rate exposure at June 30, 2016, 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 June 30, 2016, net income in the third quarter of 2016 would fluctuate by approximately $10.3 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 2015 Annual Report on Form 10-K incorporated herein by reference. These factors may cause our actual results to differ materially from those stated in forward-looking statements contained in this document and elsewhere.

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

During the three months ended June 30, 2016, we repurchased 3,395 shares of our issued and outstanding common stock for $0.2 million. We make stock repurchases under ongoing and systematic programs approved by our Board of Directors to manage the dilution created by shares issued under our stock incentive plans or when we deem a repurchase is a good use of our cash and the price to be paid is at or below a threshold approved by our Board from time to time. On June 30, 2016, we had 375,000 shares available for repurchase on the open market under the Board's authorizations. Shares may also be tendered by employees to satisfy tax withholding obligations in connection with the vesting of restricted stock.

The following table sets forth, for the three months ended June 30, 2016, our total stock repurchases, average price paid per share and the maximum number of shares that may yet be purchased on the open market under our plans or programs:

| Period | Total Number of Shares Purchased (1) | Weighted Average Price Paid per Share (2) | 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 (3) |
|---|---|---|---|---|
| April 1, 2016 - April 30, 2016 | 187 | $ 66.94 | — | 375,000 |
| May 1, 2016 - May 31, 2016 | 2,604 | 63.38 | — | 375,000 |

| | | | | |
|---|---|---|---|---|
| June 1, 2016 - June 30, 2016 | 604 | 70.68 | — | 375,000 |
| Total | 3,395 | $ 64.87 | — | 375,000 |

(1) Of the repurchases in April, May and June, 187, 2,604 and 604 shares, respectively, represent common shares of the Company that were owned and tendered by employees to satisfy tax withholding obligations in connection with the vesting of restricted shares.

(2) 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.

(3) 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

| | |
|---|---|
| 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: | August 8, 2016 | 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 No. | Description |
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