

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-Q

(MARK ONE)

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

FOR THE QUARTERLY PERIOD ENDED MARCH 31, 1999

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

FOR THE TRANSITION PERIOD FROM \_\_\_\_\_ TO \_\_\_\_\_.

COMMISSION FILE NUMBER: 0-21044

UNIVERSAL ELECTRONICS INC.  
(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

DELAWARE  
(STATE OR OTHER JURISDICTION  
OF INCORPORATION OR ORGANIZATION)

33-0204817  
(I.R.S. EMPLOYER  
IDENTIFICATION NO.)

6101 GATEWAY DRIVE  
CYPRESS, CALIFORNIA  
(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES)

90630  
(ZIP CODE)

REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE: (714) 820-1000

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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 the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date - 6,517,002 shares of Common Stock, par value \$.01 per share, of the Registrant were outstanding at March 31, 1999.

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## ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

UNIVERSAL ELECTRONICS INC.  
CONSOLIDATED BALANCE SHEETS  
(In thousands)

	March 31, 1999	December 31, 1998
	----- (Unaudited)	----- (Audited)
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 2,282	\$ 1,489
Accounts receivable	20,539	23,639
Inventories	12,602	14,834
Prepaid expenses and other current assets	2,104	1,835
Deferred income taxes	1,269	1,269
	-----	-----
Total current assets	38,796	43,066
Equipment, furniture and fixtures, net	4,262	4,440
Goodwill and other intangible assets, net	5,931	6,158
Other assets	1,434	1,548
Deferred income taxes	5,153	5,465
	-----	-----
Total assets	\$ 55,576	\$ 60,677
	=====	=====
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Revolving credit facility	\$ --	\$ 4,786
Accounts payable	6,623	7,757
Accrued income taxes	252	331
Accrued compensation	895	1,090
Other accrued expenses	2,093	2,180
	-----	-----
Total current liabilities	9,863	16,144
	-----	-----
Stockholders' equity:		
Preferred stock, \$.01 par value, 624,512 shares authorized; none issued or outstanding	--	--
Common stock, \$.01 par value, 20,000,000 shares authorized; 7,346,607 and 7,226,607 shares issued at March 31, 1999 and December 31, 1998, respectively	73	72
Paid-in capital	58,733	57,972
Currency translation adjustment	(153)	(122)
Accumulated deficit	(6,204)	(6,653)
Common stock in treasury, 829,605 shares at March 31, 1999 and December 31, 1998	(6,736)	(6,736)
	-----	-----
Total stockholders' equity	45,713	44,533
	-----	-----
Total liabilities and stockholders' equity	\$ 55,576	\$ 60,677
	=====	=====

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

UNIVERSAL ELECTRONICS INC.  
CONSOLIDATED STATEMENTS OF OPERATIONS  
(In thousands, except per share amounts)  
(Unaudited)

	Three Months Ended March 31,	
	1999	1998
Net sales		
On-going business	\$ 20,941	\$ 18,576
Discontinued North American retail business	--	4,356
	-----	-----
	20,941	22,932
Cost of sales		
On-going business	12,659	11,326
Discontinued North American retail business	--	4,356
	-----	-----
	12,659	15,682
Gross profit	8,282	7,250
Selling, general and administrative expenses	7,451	6,603
	-----	-----
Operating income	831	647
Interest expense	32	138
Other expense (income)	38	(41)
	-----	-----
Income before income taxes	761	550
Provision for income taxes	(312)	(207)
	-----	-----
Net income	\$ 449	\$ 343
	=====	=====
Net income per share:		
Basic	\$ .07	\$ .05
	=====	=====
Diluted	\$ .07	\$ .05
	=====	=====
Weighted average common stock outstanding:		
Basic	6,498	6,338
	=====	=====
Diluted	6,701	6,650
	=====	=====

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

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

	Three Months Ended March 31,	
	1999	1998
Cash provided by operating activities:		
Net income	\$ 449	\$ 343
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	898	402
Provision for doubtful accounts	200	95
Deferred income taxes	312	124
Other	--	37
Changes in operating assets and liabilities:		
Accounts receivable	2,900	5,517
Inventory	2,232	(224)
Prepaid expenses and other assets	(204)	76
Accounts payable and accrued expenses	(615)	(1,850)
Accrued income taxes	(79)	(18)
Net cash provided by operating activities	6,093	4,502
Cash used for investing activities:		
Acquisition of fixed assets	(352)	(506)
Payments for businesses acquired	(800)	(1,700)
Other	(94)	(16)
Net cash used for investing activities	(1,246)	(2,222)
Cash used for financing activities:		
Short-term bank borrowing	10,810	14,819
Short-term bank payments	(15,596)	(18,031)
Proceeds from stock options exercised	763	327
Net cash used for financing activities	(4,023)	(2,885)
Effect of exchange rate changes on cash	(31)	(21)
Net increase (decrease) in cash and cash equivalents	793	(626)
Cash and cash equivalents at beginning of period	1,489	1,097
Cash and cash equivalents at end of period	\$ 2,282	\$ 471

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

UNIVERSAL ELECTRONICS INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### Adjustments

The accompanying consolidated financial statements include the accounts of the Company and all subsidiaries after elimination of all material intercompany accounts and transactions. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission. These financial statements should be read in conjunction with the consolidated financial statements and related notes contained in the Company's 1998 Form 10-K. The financial information presented in the accompanying statements reflects all adjustments that are, in the opinion of management, necessary for a fair presentation of the periods indicated. All such adjustments are of a normal recurring nature.

### Inventories

Inventories consist of the following (in thousands):

	March 31, 1999 -----	December 31, 1998 -----
Components	\$ 4,670	\$ 5,993
Finished goods	7,932	8,841
	-----	-----
Total inventories	\$12,602 =====	\$14,834 =====

### Net Income Per Share

Basic net income per share is computed by dividing net income by the weighted average number of common shares outstanding. Diluted net income per share is computed by dividing net income by the weighted average number of common shares and dilutive potential common shares which includes the dilutive effect of stock options. Dilutive potential common shares for all periods presented are computed utilizing the treasury stock method.

### Reclassifications

Certain prior year amounts have been reclassified to conform with the presentation utilized in the three months ended March 31, 1999.

## Business Segments and Foreign Operations

The Company operates in a single industry segment and is engaged in the development, manufacturing and marketing of universal remote controls and related products principally for home video and audio entertainment equipment.

The Company's operations by geographic area in thousands are presented below:

	Three Months Ended March 31,	
	1999	1998
Net Sales		
United States	\$ 15,797	\$ 19,744
United Kingdom	1,172	801
Germany	1,331	1,431
All Other	2,641	956
Total Net Sales	\$ 20,941	\$ 22,932
	March 31, 1999	December 31, 1998
Identifiable Assets		
United States	\$ 8,008	\$ 8,345
All Other Countries	3,618	3,801
Total Identifiable Assets	\$ 11,626	\$ 12,146

Specific identification was the basis used for attributing revenues from external customers to individual countries.

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

### RESULTS OF OPERATIONS

#### First Quarter 1999 versus 1998

Net sales for the 1999 first quarter were \$20.9 million compared to \$22.9 million for the same quarter last year. Net sales in the Company's technology businesses (subscription broadcasting, OEM and private label) were approximately 72.9% of net sales for the first quarter of 1999 compared to 63.0% for the first quarter of 1998. Net sales from the continuing retail businesses (One For All(R) international, Eversafe and direct import) accounted for approximately 27.1% of total first quarter 1999 net sales compared to 18.0% for the corresponding period in 1998. Net sales for the first quarter of 1999 from the discontinued North American retail business (One For All US and Canada) were 0.0% of overall net sales compared to 19.0% for the same period in 1998.

Net sales in the Company's technology businesses for the first quarter of 1999 increased by approximately 5.8% from \$14.4 million for the same period last year to \$15.3 million in 1999. The increase in technology sales is attributable to stronger sales to cable and satellite providers.

The Company's net sales for the 1999 first quarter from its continuing retail businesses were \$5.7 million, an increase of 36.9% over the net sales of \$4.1 million in 1998 for the same quarter last year. One For All international revenues (the largest component of the continuing retail business group) increased 47.2% for the first quarter of 1999 from \$3.5 million for the 1998 first quarter to \$5.1 million in 1999. The change can be attributed to the continued growth in universal remote control business in Europe.

Net sales for the first quarter of 1999 in the Company's discontinued North American retail product line decreased from \$4.4 million to zero. This reduction occurred because the Company completed its

restructuring in the third quarter of 1998 and sold all of the remaining inventory of its discontinued North American retail product line at that time.

The Company's overall gross profit margin for the first quarter of 1999 was 39.6% compared to a gross margin of 31.6% for the same period last year. In the Company's continuing businesses, the gross margin increased to 39.6% for the first quarter of 1999 compared to 39.0% in the 1998 first quarter. This increase can be attributed to improved margins in the Company's subscription broadcasting business due primarily to reduced product costs.

As a percentage of net sales excluding the North American retail business, selling, general and administrative expenses remained flat at 35.6% in the first quarter of 1999 and the first quarter of 1998. In dollars, the Company's selling, general and administrative expenses increased 12.8% during the first quarter of 1999 to \$7.5 million from \$6.6 million in 1998. The increase was attributable to increased amortization expense from the effect of a full quarter of amortization expense in 1999 compared to a partial quarter of amortization in the first quarter of 1998 relating to businesses acquired or noncompete agreements entered into by the Company during or after the first quarter of 1998. Additionally, increased employee relocation costs, and employee bonus and commission accruals contributed to this increase in the first quarter of 1999.

Interest expense decreased by \$106,000 for the first quarter of 1999 to \$32,000 from \$138,000 for the first quarter of 1998 due to reduced borrowing under the Company's revolving credit agreement and lower average borrowing costs. Other expense increased to \$38,000 in 1999 from other income of \$41,000 in the first quarter of 1998 as a result of higher net currency exchange losses from the Company's international operations.

The Company recorded income tax expense of \$312,000 for the first quarter of 1999 compared to approximately \$207,000 for the same quarter of 1998. The increase was due to improved results in 1999 and a slightly higher tax rate in 1999 due to the effect of the completion of the Company's relocation of its headquarters from Ohio to California during 1998.

#### LIQUIDITY AND CAPITAL RESOURCES

The Company's principal sources of funds are its operations and bank credit facilities. Cash provided by operating activities was \$6.1 million for the three months ended March 31, 1999 compared to \$4.5 million for the same period in 1998. The improvement in 1999 cash flow from operating activities is principally due to decreases in accounts receivable and inventory.

On October 23, 1998, the Company paid off its outstanding credit line with The Provident Bank and entered into a new \$15 million revolving credit agreement with Bank of America National Trust and Savings Association ("B of A"). Under the revolving credit agreement with B of A, the Company can choose from several interest rate options at its discretion. The interest rate option selected by the Company as of December 31, 1998 was the Fixed Rate option as defined in the agreement (7.375% at December 31, 1998), which is intended to approximate B of A's cost of funds, plus two percent. The revolving credit facility, which expires October 23, 2001, is secured by a first priority security interest in the Company's cash and cash equivalents, accounts receivable, inventory, equipment, and general intangibles of the Company. The Company pays a commitment fee of a maximum rate of 3/16 of 1% per year on the unused portion of the credit line. Under the terms of this revolving credit agreement, the Company's ability to pay cash dividends on its common stock is restricted and the Company is subject to certain financial covenants and other restrictions which are standard for these types of agreements. However, the Company has authority under this credit facility to acquire up to 1,000,000 shares of its common stock in market purchases and, since the date of this agreement, the Company has acquired approximately 54,500 shares of stock, at a cost of approximately \$564,500, which it holds as treasury shares and are available for reissue by the Company. Amounts available for borrowing under this credit facility are reduced by the outstanding balance of the Company's import letters of credit. As of March 31, 1999, the Company had no balance outstanding on the credit line. The credit facility can be used for business acquisitions, payments to acquire fixed assets, treasury stock purchases and other working capital needs. The Company had no outstanding import letters of credit.



as of March 31, 1999. The Company's borrowing under this revolving credit facility and outstanding import letters of credit fluctuates due to, among other things, seasonality of the business, the timing of supplier shipments, customer orders and payments, and vendor payments.

Capital expenditures in the three months ended March 31, 1999 and 1998 were approximately \$352,000 and \$506,000, respectively. These expenditures related primarily to acquiring product tooling and relocating the Company's headquarters from Twinsburg, Ohio to Cypress, California during 1998.

During the first quarter of 1998, the Company acquired a remote control distributor in the United Kingdom for \$3.0 million, of which \$1.7 million was paid in cash in the first quarter of 1998 and \$800,000 was paid in cash in the first quarter of 1999. The remaining \$500,000 is scheduled to be paid in the third quarter of 1999.

It is the Company's policy to carefully monitor the state of its business, cash requirements and capital structure. The Company believes that funds generated from operations and available from its borrowing capacity will be sufficient to fund current business operations as well as anticipated growth at least through the end of 1999, however, there can be no assurances that this will occur.

#### YEAR 2000 READINESS DISCLOSURES

In connection with the Year 2000 Information and Readiness Disclosure Act which was signed by President Clinton on October 19, 1998 and its eventual passage into law on December 3, 1998, the Company makes these Year 2000 readiness disclosures in connection with addressing the universal problem commonly referred to as "Year 2000 Compliance," which relates to the ability of computer programs and systems to properly recognize and process date sensitive information before and after January 1, 2000. Many existing computer systems and software programs currently in use are coded to accept only two digit entries in the date code field. These systems and programs were designed and developed without considering the impact of the upcoming change in the century. If not corrected, many computer applications could fail or create erroneous results by or at the Year 2000.

The Company has continually evaluated the potential impact of the Year 2000 issue on its information technology systems and on its non-information technology systems and products. In this connection, the Company has fully tested and has recently upgraded the software it uses for all of its internal information technology systems to a new version that is Year 2000 compliant. At the same time, the Company also replaced its main computer hardware with Year 2000 compliant equipment. These program and information technology system changes and the acquisition of new Year 2000 compliant computer equipment were also made to increase functionality. Expenditures associated with completing these changes totaled approximately \$150,000 through March 1999. The Company now believes that its internal information technology systems are Year 2000 compliant.

In addition, the Company has performed a full internal evaluation of its non-information technology systems and products. Based upon that evaluation and certain ongoing tests that the Company performs from time to time, it believes that its non-information technology systems and products are Year 2000 compliant. Because of these ongoing evaluations, the Company sells its products with Year 2000 compliance warranties. Although the Company strongly believes that its products are Year 2000 compliant and provides Year 2000 compliance warranties with its products, there can be no assurance that the Company has identified all possible Year 2000 product issues and that any such issues would not have an adverse financial impact on the Company.

The Company also requests its customers and suppliers to make similar Year 2000 compliance representations regarding their information technology and non-information technology. As a result of this request, the Company is not aware that any of its suppliers and customers are not addressing the Year 2000 issue and, where appropriate, taking corrective action in connection with any Year 2000 problems they may have discovered. Moreover, the Company will increase the amount of monitoring it performs with respect to its customers and suppliers to help ensure that their performance is not delayed or withheld.

Although the Company believes that it has taken and will continue to take appropriate precautions against disruptions of its information technology and non-information technology systems and products due to the

Year 2000 issue, there can be no assurance that the Company will identify all Year 2000 problems in advance of their occurrence, or that the Company will be able to successfully remedy any problems that are discovered. Furthermore, there can be no assurance that the Company's suppliers and customers will not be adversely affected by the Year 2000 issue. Although the Company believes that its information technology and non-information technology systems and products are Year 2000 compliant, the Company believes that the reasonable worst case scenario may involve the failure of its customers to pay for the Company's product in a timely manner or the failure of its suppliers to deliver products timely. However, the Company believes that due to its state of readiness with respect to the Year 2000 issue, that any such delays should not have a material adverse effect on the Company's business, financial and operating results, as its systems should serve as adequate backup to help ensure that its customers and suppliers perform their obligations to the Company in a timely and adequate fashion. The Company cautions, however, that until it enters the year 2000, the actual impact of the Year 2000 issue will not be known and that such actual results may differ materially from those anticipated by the Company resulting in a material adverse effect on the Company's business, financial and operating results. The Company will, however, continue to monitor its customers and suppliers, and take timely steps to correct any system or product failures or interruptions that the Company or any its suppliers or customers develop or that have been discovered.

#### RISK FACTORS

##### Forward Looking Statements

The Company cautions that the following important factors, among others (including but not limited to factors discussed above, in the "Management's Discussion and Analysis of Financial Condition and Results of Operations," as well as those discussed elsewhere in this Quarterly Report of the Form 10-Q, and as mentioned from time to time in the Company's other reports filed with the Securities and Exchange Commission), could affect the Company's actual results and could cause or contribute to the Company's actual consolidated results to differ materially from those expressed in any forward-looking statements of the Company made by or on behalf of the Company. 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 the Company undertakes no obligation to update any forward-looking statement or statements 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 of such factors, nor can it 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 statements. Therefore, forward-looking statements should not be relied upon as a prediction of actual future results.

While management believes 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 continued acceptance of the Company's technology and products, the impact of competitive pressures, including products and pricing, locating and finalizing acceptable acquisition targets and/or strategic partners, the availability of financing for acquisitions on terms acceptable to the Company, fluctuations in currency exchange rates, the consolidation of and new competition experienced by members in the cable industry, principally from satellite and other similar broadcast providers, general economic and stock market conditions and other risks which are otherwise set forth in this Quarterly Report on Form 10-Q and the Company's other filings with the Securities and Exchange Commission.

##### Dependence Upon Key Suppliers

Most of the components used in the Company's products are available from multiple sources; however, the Company has elected to purchase integrated circuit components used in the Company's products, principally its remote control products, and certain other components used in the Company's products, from one main source, which provides in excess of ten percent (10%) of the Company's microprocessors for use in its products. The Company has recently developed alternative sources of supply for these integrated circuit components. However, there can be no assurance that the Company will be able to continue to obtain these components on a timely basis. The Company generally maintains inventories of its integrated chips, which could be used in part to mitigate, but not eliminate, delays resulting from supply interruptions. An extended

interruption or termination in the supply of any of the components used in the Company's products, or a reduction in their quality or reliability, would have an adverse effect on the Company's business and results of operations.

#### Dependence on Foreign Manufacturing

Third-party manufacturers located in foreign countries manufacture substantially all of the Company's remote controls. The Company's arrangements with its foreign manufacturers are subject to the risks of doing business abroad, such as import duties, trade restrictions, work stoppages, political instability and other factors which could have a material adverse effect on the Company's business and results of operations. The Company believes that the loss of any one or more of its manufacturers would not have a long-term material adverse effect on the Company's business and results of operations because numerous other manufacturers are available to fulfill the Company's requirements, however, the loss of any of the Company's major manufacturers could adversely affect the Company's business until alternative manufacturing arrangements are secured.

#### Potential Fluctuations in Quarterly Results

The Company's quarterly financial results may vary significantly depending primarily upon factors such as the timing of significant orders, the timing of new product offerings by the Company and its competitors and product presentations. In addition, the Company's business historically has been seasonal, with the largest proportion of sales occurring in September, October and November of each calendar year. Factors such as quarterly variations in financial results could adversely affect the market price of the Common Stock and cause it to fluctuate substantially. In addition, the Company (i) may from time to time increase its operating expenses to fund greater levels of research and development, increase its sales and marketing activities, develop new distribution channels, improve its operational and financial systems and broaden its customer support capabilities and (ii) may incur significant operating expenses associated with any new acquisitions. To the extent that such expenses precede or are not subsequently followed by increased revenues, the Company's business, operating results and financial condition will be materially adversely affected.

Although the restructuring of the Company has been completed, the Company may continue to experience significant fluctuations in future quarterly operating results that may be caused by many factors, including demand for the Company's products, introduction or enhancement of products by the Company and its competitors, market acceptance of new products, price reductions by the Company or its competitors, mix of distribution channels through which products are sold, level of product returns, mix of products sold, component pricing, mix of international and North American revenues, and general economic conditions. In addition, as a strategic response to changes in the competitive environment, the Company may from time to time make certain pricing or marketing decisions or acquisitions that could have a material adverse effect on the Company's business, results of operations or financial condition. As a result, the Company believes that period-to-period comparisons of its results of operations are not necessarily meaningful and should not be relied upon as any indication of future performance. Due to all of the foregoing factors, it is likely that in some future quarters the Company's operating results will be below the expectations of public market analysts and investors. In such event, the price of the Company's common stock would likely be materially adversely affected.

#### Dependence on Consumer Preference

The Company is susceptible to fluctuations in its business based upon consumer demand for its products. The Company believes that its success depends in substantial part on its ability to anticipate, gauge and respond to such fluctuations in consumer demand. However, it is impossible to predict with complete accuracy the occurrence and effect of any such event that will cause such fluctuations in consumer demand for the Company's products. Moreover, the Company cautions that any increases in sales or growth in revenue that it achieves may be transitory and should by no means be construed to mean that such increases or growth will continue.

### Dependence Upon Timely Product Introduction

The Company's ability to remain competitive in the remote control products market will depend in part upon its ability to successfully identify new product opportunities and to develop and introduce new products and enhancements on a timely and cost effective basis. There can be no assurance that the Company will be successful in developing and marketing new products or in enhancing its existing products, or that such new or enhanced products will achieve consumer acceptance, and if acquired, will sustain that acceptance, that products developed by others will not render the Company's products non-competitive or obsolete or that the Company will be able to obtain or maintain the rights to use proprietary technologies developed by others which are incorporated in the Company's products. Any failure by the Company to anticipate or respond adequately to technological developments and customer requirements, or any significant delays in product development or introduction, could have a material adverse effect on the Company's financial condition and results of operations.

In addition, the introduction of new products which the Company may introduce in the future may require the expenditure of a significant amount of funds for research and development, tooling, manufacturing processes, inventory and marketing. In order to achieve high volume production of any new product, the Company may have to make substantial investments in inventory and expand its production capabilities.

### Dependence on Major Customers

The Company's performance is affected by the economic strength and weakness of its worldwide customers. The Company sells its remote control products and proprietary technologies to private label customers, original equipment manufacturers ("OEMs"), and companies involved in the subscription broadcast industry. The Company also supplies its products to its wholly-owned, non-U.S. subsidiaries and to independent foreign distributors, who in turn distribute the Company's products worldwide, with the United Kingdom, Europe, and Australia currently representing the Company's principal foreign markets. During 1998, the Company had two customers that acquired more than ten percent of the Company's products and the loss of either of these customers or any of the Company's other key customers either in the United States or abroad due to the financial weakness or bankruptcy of any such customer may have an adverse affect on the Company's financial condition or results of operations.

### Competition

The remote control industry is characterized by intense competition based primarily on product availability, price, speed of delivery, ability to tailor specific solutions to customer needs, quality and depth of product lines. The Company's competition is fragmented across its product lines, and accordingly, the Company does not compete with any one company across all product lines. The Company competes with a variety of entities, some of which have greater financial and other resources than the Company. The Company's ability to remain competitive in this industry depends in part on its ability to successfully identify new product opportunities and develop and introduce new products and enhancements on a timely and cost effective basis as well as its ability to identify and enter into strategic alliances with entities doing business within the industries the Company serves. There can be no assurances that the Company and its product offerings will be and/or remain competitive or that any strategic alliances, if any, which the Company enters into will achieve the type, extent and amount of success or business that the Company expects or hopes to achieve.

### Potential for Litigation

As is typical in the Company's industry and the nature and kind of business in which the Company is engaged, from time to time, various claims, charges and litigation are asserted or commenced by third parties against the Company or by the Company 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. While it is the opinion of management that the

Company's products do not infringe any third parties' patent or other intellectual property rights, the costs associated with defending or pursuing any such claims or litigation could be substantial and amounts awarded as final judgments, if any, in any such potential or pending litigation, could have a significant and material adverse effect on the Company's financial condition or results of operations.

#### General Economic Conditions

General economic conditions, both domestic and foreign, have an impact on the Company's business and financial results. From time to time the markets in which the Company sells its products experience weak economic conditions that may negatively affect the sales of the Company's products. To the extent that general economic conditions affect the demand for products sold by the Company, such conditions could have an adverse effect on the Company's business.

#### 1997 Restructuring Efforts

The Company believes that the discontinuation of its North American Retail business and its subsequent restructuring favorably impacted the Company's ongoing operations due to (i) reductions in the Company's annual overhead which were a result of closing the Company's Twinsburg, Ohio facility, (ii) eliminating employee and other costs associated with operating this business, and (iii) generating revenues from licensing certain of its technology and trademarks. There can be no assurance that any such cost savings or revenues will continue to occur and if they do, that they will be significant or maintained.

#### Effects on the Company Due to International Operations

By operating its business in countries outside of the United States, the Company is exposed to fluctuations in foreign currency exchange rates, exchange ratios, nationalization or expropriation of assets, import/export controls, political instability, variations in the protection of intellectual property rights, limitations on foreign investments and restrictions on the ability to convert currency. These risks are inherent in conducting operations in geographically distant locations, with customers speaking different languages and having different cultural approaches to the conduct of business, any one of which alone or collectively, may have an adverse affect on the Company's international operations, and consequently on the Company's business, operating results and financial condition.

#### OUTLOOK

The Company's focus in 1999 is to continue to seek ways to increase its customer base worldwide, particularly in the areas of subscription broadcasting, OEM, and its One For All international retail business. In addition, the Company will increase its focus on creating new applications for its proprietary and/or patented technologies in the consumer electronics OEM market, and computer/internet control markets.

The Company will also continue in 1999 to control its overall cost of doing business. Management believes that through product design changes and its purchasing efforts, improvements in the Company's gross margins and efficiencies in its selling, general and administrative expenses can be accomplished, although there can be no assurances that there will be any improvements to the Company's gross margin or that the Company will achieve any cost savings through these efforts and if obtained, that any such improvements or savings will be significant or maintained.

In addition, during 1999, management will continue to pursue its overall strategy of seeking out ways to operate all aspects of the Company more profitably. This strategy will include looking at acceptable acquisition targets and strategic partnership opportunities. The Company cautions, however, that no assurances can be made that any suitable acquisition targets or partnership opportunities will be identified and, if identified, that a transaction can be consummated. Moreover, if consummated, no assurances can be made that any such acquisition or partnership will profitably add to the Company's operations.

While management believes 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 continued acceptance of the Company's technology and products, the impact of competitive

pressures, including products and pricing, locating and finalizing acceptable acquisition targets and/or strategic partners, the availability of financing for acquisitions on terms acceptable to the Company, fluctuations in currency exchange rates, the consolidation of and new competition experienced by members in the cable industry, principally from satellite and other similar broadcast providers, general economic and stock market conditions and other risks which are otherwise set forth in this Quarterly Report on Form 10-Q and the Company's other filings with the Securities and Exchange Commission.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company is exposed to various market risks, including interest rate and foreign currency rate fluctuations. The Company has established policies, procedures and internal processes governing its management of market risks and the use of financial instruments to manage its exposure to such risks. The interest payable under the Company's revolving credit agreement with its bank is variable and generally based on either the bank's cost of funds or the IBOR rate, and therefore, affected by changes in market interest rates. At March 31, 1999 the Company had no balance outstanding on the credit line. The interest rate as of December 31, 1998 was 7.375%. The Company has wholly owned subsidiaries in the Netherlands, United Kingdom and Germany. Sales from these operations are typically denominated in local currencies including Dutch Guilders, British Pounds, and German Marks, thereby creating exposures to changes in exchange rates. Changes in the local currencies/U.S. Dollars exchange rate may positively or negatively affect the Company's sales, gross margins and retained earnings. The Company, from time to time, enters into foreign currency exchange agreements to manage its exposure arising from fluctuating exchange rates related to specific transactions, primarily foreign currency forward contracts for inventory purchases. The Company does not enter into any derivative transactions for speculative purposes. The sensitivity of earnings and cash flows to variability in exchange rates is assessed by applying an approximate range of potential rate fluctuations to the Company's assets, obligations and projected results of operations denominated in foreign currencies. Based on the Company's overall foreign currency rate exposure at March 31, 1999, movements in foreign currency rates would not materially affect the financial position of the Company.

PART II. OTHER INFORMATION

ITEM 5. OTHER INFORMATION

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

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(A) Exhibits	
11.1 Statements re: Computation of Per Share Earnings (filed herewith)	16
(B) Reports on Form 8-K	
There were no reports on Forms 8-K filed during the quarter ended March 31, 1999.	
(C) Exhibit 27 Financial Data Schedule	17

SIGNATURE

Pursuant to the requirements 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.

(Registrant) Universal Electronics Inc.

Date: May 14, 1999

/s/ PAUL ARLING

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Paul Arling  
President and Chief Operating Officer

UNIVERSAL ELECTRONICS INC.  
 COMPUTATION OF PER SHARE EARNINGS  
 (Unaudited)

	Three Months Ended March 31,	
	1999	1998
Common stock outstanding beginning of period	6,397,002	6,312,199
Weighted average common stock outstanding from exercise of stock options, treasury stock purchases and employee benefit plan	101,451	25,336
Weighted average common stock outstanding	6,498,453	6,337,535
Stock options	202,401	312,281
Weighted average common stock and common stock equivalents outstanding	6,700,854	6,649,816
Net income attributable to common stockholders	\$ 448,763	\$ 343,093
Net income per common stock and common stock equivalents:		
Basic	\$ 0.07	\$ 0.05
Diluted	\$ 0.07	\$ 0.05



3-MOS

DEC-31-1999

JAN-01-1999

MAR-31-1999

2,282

0

22,327

(1,788)

12,602

38,796

9,421

(5,159)

55,576

9,863

0

0

0

73

45,640

55,576

20,941

20,941

12,659

7,451

38

0

32

761

312

449

0

0

0

449

.07

.07