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

# FORM 10-Q

(MARK ONE)

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

FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2000

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

FOR THE TRANSITION PERIOD FROM _____________ TO ________________.

COMMISSION FILE NUMBER: 0-21044

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

| | |
|---|---|
| DELAWARE | 33-0204817 |
| (STATE OR OTHER JURISDICTION OF INCORPORATION OR ORGANIZATION) | (I.R.S. EMPLOYER IDENTIFICATION NO.) |
| 6101 GATEWAY DRIVE<br>CYPRESS, CALIFORNIA | 90630 |
| (ADDRESS OF PRINCIPAL EXECUTIVE OFFICES) | (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 [X]         No [ ]

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date - 13,735,273 shares of Common Stock, par value $.01 per share, of the Registrant were outstanding at March 31, 2000.

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UNIVERSAL ELECTRONICS INC.

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PART I FINANCIAL INFORMATION

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

UNIVERSAL ELECTRONICS INC.
CONSOLIDATED BALANCE SHEETS
(In thousands, except share-related data)
(Unaudited)

| | March 31, 2000 | December 31, 1999 |
|---|---|---|
| **ASSETS** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 17,559 | $ 13,286 |
| Accounts receivable, net | 20,569 | 27,933 |
| Inventories | 16,264 | 13,494 |
| Prepaid expenses and other current assets | 1,532 | 1,887 |
| Deferred income taxes | 3,906 | 3,906 |
| Total current assets | 59,830 | 60,506 |
| Equipment, furniture and fixtures, net | 3,416 | 3,697 |
| Goodwill and other intangible assets, net | 5,984 | 6,265 |
| Other assets | 1,318 | 1,662 |
| Deferred income taxes | 989 | 1,621 |
| Total assets | $ 71,537 | $ 73,751 |
| **LIABILITIES AND STOCKHOLDERS' EQUITY** | | |
| Current liabilities: | | |
| Accounts payable | $ 6,372 | $ 8,824 |
| Accrued income taxes | 741 | 794 |
| Accrued compensation | 1,238 | 1,928 |
| Other accrued expenses | 2,956 | 3,454 |
| Total current liabilities | 11,307 | 15,000 |
| Notes payable | 221 | 240 |
| Total liabilities | 11,528 | 15,240 |
| Commitments and contingencies | | |
| 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; 15,387,137 and 15,317,304 shares issued at March 31, 2000 and December 31, 1999, respectively | 154 | 153 |
| Paid-in capital | 64,753 | 64,299 |
| Currency translation adjustment | (243) | (237) |
| Retained earnings | 2,121 | 1,087 |
| Unamortized value of restricted stock grants | (70) | (83) |
| Common stock in treasury, 1,651,864 and 1,652,384 shares at March 31, 2000 and December 31, 1999 | (6,706) | (6,708) |
| Total stockholders' equity | 60,009 | 58,511 |
| Total liabilities and stockholders' equity | $ 71,537 | $ 73,751 |

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, 2000 | Three Months Ended March 31, 1999 |
|---|---|---|
| Net sales | $ 22,664 | $ 20,941 |
| Cost of sales | 12,986 | 12,659 |
| Gross profit | 9,678 | 8,282 |
| Selling, general and administrative expenses | 8,141 | 7,451 |
| Operating income | 1,537 | 831 |
| Interest expense (income) | (179) | 32 |
| Other expense (income) | (37) | 38 |
| Income before income taxes | 1,753 | 761 |
| Provision for income taxes | (719) | (312) |
| Net income | $ 1,034 | $ 449 |
| Net income per share: | | |
| Basic | $ 0.08 | $ 0.03 |
| Diluted | $ 0.07 | $ 0.03 |
| Weighted average common stock outstanding: | | |
| Basic | 13,695 | 12,997 |
| Diluted | 15,063 | 13,402 |

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, 2000 | Three Months Ended March 31, 1999 |
|---|---|---|
| Cash provided by operating activities: | | |
| Net income | $ 1,034 | $ 449 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 982 | 898 |
| Provision for doubtful accounts | 25 | 200 |
| Deferred income taxes | 632 | 312 |
| Other | 81 | -- |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | 7,339 | 2,900 |
| Inventory | (2,770) | 2,232 |
| Prepaid expenses and other assets | 648 | (204) |
| Accounts payable and accrued expenses | (3,640) | (615) |
| Accrued income taxes | (53) | (79) |
| Net cash provided by operating activities | 4,278 | 6,093 |
| Cash used for investing activities: | | |
| Acquisition of fixed assets | (351) | (352) |
| Payments for businesses acquired | -- | (800) |
| Other | (18) | (94) |
| Net cash used for investing activities | (369) | (1,246) |
| Cash used for financing activities: | | |
| Short-term bank borrowing | -- | 10,810 |
| Short-term bank payments | -- | (15,596) |
| Proceeds from stock options exercised | 388 | 763 |
| Other | (18) | |
| Net cash provided by (used for) financing activities | 370 | (4,023) |
| Effect of exchange rate changes on cash | (6) | (31) |
| Net increase in cash and cash equivalents | 4,273 | 793 |
| Cash and cash equivalents at beginning of period | 13,286 | 1,489 |
| Cash and cash equivalents at end of period | $ 17,559 | $ 2,282 |

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 1999 Form 10-K. In management's opinion, the financial information presented in the accompanying statements reflects all adjustments that are 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, 2000 | December 31, 1999 |
|---|---|---|
| Components | $ 7,121 | $ 5,710 |
| Finished goods | 9,143 | 7,784 |
| Total inventories | $ 16,264 | $ 13,494 |

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 outstanding 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.

Stock Split

On December 20, 1999, the Board of Directors declared a two-for-one split of the Company's common stock effective January 31, 2000, in the form of a stock dividend for stockholders of record at the close of business on January 10, 2000. All share and per-share amounts in the accompanying consolidated financial statements and notes to consolidated financial statements have been restated to give retroactive effect to the stock split.

New Accounting Pronouncements

In June 1998, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 133 "Accounting for Derivative Instruments and Hedging Activities". The statement is effective for fiscal years beginning after June 15, 2000. The Company is assessing the impact this statement will have on the consolidated financial statements and has not yet adopted the provisions of SFAS No. 133 as of March 31, 2000.

Reclassifications

Certain prior year amounts have been reclassified to conform to the presentation utilized in the three-month period ended March 31, 2000.

Business Segments and Foreign Operations

The Company operates in a single industry segment and is engaged in the development, manufacturing and marketing of pre-programmed wireless control devices and related products principally for home video and audio entertainment equipment and the subscription broadcast market.

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

| | Three Months Ended March 31, 2000 | Three Months Ended March 31, 1999 |
|---|---|---|
| Net Sales | | |
| United States | $ 14,328 | $ 14,340 |
| United Kingdom | 1,887 | 1,172 |
| Germany | 903 | 1,332 |
| All Other | 5,546 | 4,097 |
| Total Net Sales | $ 22,664 | $ 20,941 |

| | March 31, 2000 | December 31, 1999 |
|---|---|---|
| Identifiable Assets | | |
| United States | $ 6,810 | $ 7,619 |
| All Other Countries | 3,908 | 4,005 |
| Total Identifiable Assets | $ 10,718 | $ 11,624 |

Specific identification of customer location 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 2000 versus 1999

Net sales for the 2000 first quarter increased by $1.7 million, or 8.2%, to $22.7 million from $20.9 million for the same quarter last year. Net sales in the Company's technology lines (subscription broadcasting, OEM and private label) were approximately 78.2% of net sales for the first quarter of 2000 compared to 72.9% for the first quarter of 1999. Net sales from the retail lines (One For All(R) international, Eversafe and direct import) accounted for approximately 21.8% of total first quarter 2000 net sales compared to 27.1% for the corresponding period in 1999. The Company lost a significant customer in early 1999 when Primestar, a satellite customer, was acquired by DirectTV. Excluding sales to Primestar in the first quarter of 1999, the Company's net sales increased by 20%.

Net sales in the Company's technology lines for the first quarter of 2000 increased by approximately 16% from $15.3 million for the same period last year to $17.7 million in 2000. The increase in technology sales is primarily due to increased shipments in U.S. digital cable and OEM markets, and in European OEM and satellite markets.

The Company's net sales for the 2000 first quarter from its retail lines were $5.0 million, a decrease of 12.6% from net sales of $5.7 million for the same quarter last year. The decrease in retail sales was primarily due to lower sales of high end product in Europe and decreased shipments of the Eversafe product line as the Company has focused less on this remaining direct domestic retail line.

The Company's overall gross profit for the first quarter of 2000 was $9.7 million, or 42.7% of net sales, compared to $8.3 million or 39.5% of net sales, for the same period last year. The increase in gross margin was primarily attributable to the introduction of new products to new and existing customers, and the higher margins associated with those products.

Selling, general and administrative expenses increased 9.3% from the first quarter of 1999 to the first quarter of 2000. In dollars, the Company's selling, general and administrative expenses increased $0.7 million during the first quarter of 2000 to $8.1 million from $7.4 million in 1999. The increase was primarily attributable to increased payroll costs due to additional hiring of personnel associated with technology development, overall increases in payroll and bonus related costs, and increased professional fees associated with the Company's corporate development activity including evaluation of acquisition candidates.

In the first quarter of 2000, the Company recorded $179,000 of interest income compared to $32,000 of interest expense for the first quarter of 1999. This $211,000 difference was a result of the absence of borrowing under the Company's revolving credit agreement during the first quarter of 2000 and interest earned on accumulated cash balances in 2000.

The Company recorded income tax expense of $0.7 million for the first quarter of 2000 compared to $0.3 million for the same quarter of 1999. The increase was due to improved results in 2000. The Company's effective tax rate was 41% in the first quarter of 2000 and the first quarter of 1999.

### LIQUIDITY AND CAPITAL RESOURCES

The Company's principal sources of funds are its operations and bank credit facilities. Cash provided by operating activities for the three months ended March 31, 2000 was $4.3 million compared to $6.1 million for the same period in 1999. The decrease in cash flow from operating activities is principally due to an increase in inventory to replenish reduced levels of safety stock, and a reduction of accounts payable offset by a reduction in accounts receivable due to increased collections of higher than normal year end balances during the quarter ended March 31, 2000.

On October 23, 1998, the Company paid off its outstanding credit line with The Provident Bank and entered into a $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 in effect as of March 31, 2000 using the Fixed Rate option as defined in the agreement, which is intended to approximate B of A's cost of funds, plus an applicable margin, was 7.38%. The applicable margin varies with a range from 1.25% to 2.00% per annum depending on the Company's net income before interest, taxes, depreciation and amortization. At March 31, 2000, the applicable margin was 1.25 percent. The revolving credit facility, which expires on 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 that 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 109,000 shares of stock, at a cost of approximately $564,500, which it holds as treasury shares that 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, 2000, no amounts were outstanding under this credit facility. The Company had no outstanding import letters of credit as of March 31, 2000.

There were no open market purchases of the Company's common stock in 2000 or 1999 under a program announced in 1996. The Company holds shares purchased on the open market as treasury stock and they are available for reissue by the Company. Presently, except for using a small number of these treasury shares to compensate its outside board members, the Company has no plans to distribute these shares although the Company may change these plans if necessary to fulfill its on-going business objectives. In addition, during the first quarter of 2000, the Company received proceeds of approximately $388,000 from the exercise of stock options granted to the Company's current and former employees, as compared to approximately $763,000 during the first quarter of 1999.

Capital expenditures in the first quarter of 2000 and 1999 were approximately $351,000 and $352,000, respectively. These expenditures related primarily to the acquisition of product tooling.

During the first quarter of 1998, the Company acquired a remote control distributor in the United Kingdom for $3.0 million in cash, of which $1.7 million was paid in 1998 and the remaining $1.3 million was paid in 1999. $800,000 of the $1.3 million was paid during the first quarter of 1999.

Historically, the Company's 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. However, due to the discontinuation of the Company's North American Retail line and the increasing significance of the Company's other lines of business including subscription broadcasting and OEM, this seasonality has been lessened. At March 31, 2000, the Company had $48.5 million of working capital compared to $45.5 million at December 31, 1999. The increase in working capital is principally due to seasonal decreases in accounts payable balances and increases in accumulated cash and cash equivalents.

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 2000, however, there can be no assurances that this will occur.

## YEAR 2000 READINESS DISCLOSURES

As previously reported, over the past several years the Company developed and implemented a plan to address the anticipated impacts of the so-called Year 2000 problem on its information technology (IT) systems and non-IT systems. The Company also surveyed selected third parties to determine the status of their Year 2000 compliance programs. In addition, contingency plans were developed specifying what the Company would do if it or important third parties experienced disruptions to critical business activities as a result of the

Year 2000 problem.

The Company's Year 2000 plan was completed in all material respects prior to the anticipated Year 2000 failure dates. As of April 28, 2000, the Company has not experienced any materially important business disruptions or system failures as a result of Year 2000 issues, nor is it aware of any Year 2000 issues that have impacted its customers, suppliers or other significant third parties to an extent significant to the Company. However, Year 2000 compliance has many elements and potential consequences, some of which may not be foreseeable or may be realized in future periods. Consequently, there can be no assurance that unforeseen circumstances may not arise, or that the Company will not in the future identify equipment or systems which are not Year 2000 compliant.

As of March 31, 2000, the Company's total incremental costs of addressing Year 2000 issues were approximately $165,000. This amount has been expensed and was funded through operating cash flow.

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.

## RISK FACTORS

### Forward Looking Statements

The Company cautions that the following important factors, among others (including but not limited to factors discussed below, 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 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 wireless control products, and certain other components used in the Company's products, from two main sources, each of which provide in excess of ten percent (10%) of the Company's microprocessors for use in its products. The Company has 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, shortage or termination in the supply of any of the components used in the Company's products, or a reduction in their quality or reliability, or a significant increase in prices of components, 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 all of the Company's wireless control devices. 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 that 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 effect 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 and the loss or acquisition of any significant customers. In addition, historically the Company's business 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 effected.

The Company may 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, the loss or acquisition of any significant customers, market acceptance of new products, price reductions by the Company or its competitors, fluctuations in interest rates and in currency exchange rates in various applicable parts of the world, mix of distribution channels through which products are sold, level of product returns, mix of customers and products sold, component pricing, mix of international and domestic 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 effected.

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, growth in revenue or increases in its gross margins 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 wireless 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 wireless control products and proprietary technologies to private label customers, original equipment manufacturers ("OEMs"), and companies involved in the subscription broadcasting 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 Europe, Australia, New Zealand, Mexico and selected countries in Asia and Latin America currently representing the Company's principal foreign markets. In 1999, the Company lost a significant customer in its subscription broadcasting business due to that customer being acquired by a third party. During 1999, 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 or the inability of the Company to obtain orders or maintain its order volume with its major customers may have an adverse effect on the Company's financial condition or results of operations.

Competition

The wireless 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, such as decreasing the Company's working capital or causing the Company to borrow on its credit line.

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. While the Company will continue to work toward minimizing any adverse affects of conducting its business abroad, no assurance can be made that the Company will be successful in minimizing any such affects.

## OUTLOOK

The Company's focus in 2000 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 2000 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 2000, 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 exchange 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 is affected by changes in market interest rates. At March 31, 2000, the Company had no borrowings on its credit line. The interest rate in effect on the credit line using the bank's cost of funds rate as the base as of March 31, 2000 was 7.38%. The Company has wholly owned subsidiaries in the Netherlands, United Kingdom, Germany and Spain. Sales from these operations are typically denominated in local currencies including Euros, British Pounds, German Marks, and Spanish Pesetas thereby creating exposures to changes in exchange rates. Changes in the local currencies/U.S. Dollar exchange rates 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 had a number of forward exchange contracts outstanding at March 31, 2000 with an aggregate notional value of approximately $5.3 million. 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, 2000, the Company believes that movements in foreign currency rates should not materially affect the financial position of the Company, although no assurance can be made that any such foreign currency rate movements in the future will not have a material affect.

PART II. OTHER INFORMATION

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

| | | Page |
|---|---|---|
| (A) | Exhibits<br>11.1 Statements re: Computation of Per Share Earnings (filed herewith) | 17 |
| (B) | Reports on Form 8-K<br>There were no reports on Forms 8-K filed during the quarter ended March 31, 2000. | |
| (C) | Exhibit 27 Financial Data Schedule | 18 |

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 15, 2000

\s\ Paul Arling

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Paul Arling
President and Chief Operating Officer

Exhibit 11.1

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

Three Months Ended March 31,

| | 2000 | 1999 |
| --- | --- | --- |
| Common stock outstanding beginning of period | 13,665,000 | 12,794,000 |
| Weighted average common stock outstanding from exercise of stock options, treasury stock purchases and employee benefit plan | 30,000 | 203,000 |
| Weighted average common stock outstanding | 13,695,000 | 12,997,000 |
| Stock options | 1,368,000 | 405,000 |
| Weighted average common stock and common stock equivalents outstanding | 15,063,000 | 13,402,000 |
| Net income attributable to common stockholders | $ 1,034,000 | $ 449,000 |
| Net income per common stock and common stock equivalents: | | |
| Basic | $ 0.08 | $ 0.03 |
| Diluted | $ 0.07 | $ 0.03 |

3-MOS
DEC-31-1999
JAN-01-1999
MAR-31-1999
17,559
0
22,444
(1,875)
16,264
59,830
10,808
(7,392)
71,537
11,307
0
0
0
154
59,855
71,537
22,664
22,664
12,986
8,141
(37)
0
(179)
1,753
719
1,034
0
0
0
1,034
.08
.07