

Philip Morris International Inc.  
Form 424B2  
October 31, 2017  
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Filed Pursuant to Rule 424(b)(2)  
Registration No. 333-216046

**The information in this preliminary prospectus supplement and the accompanying prospectus is not complete and may be changed. This preliminary prospectus supplement relates to an effective registration statement under the Securities Act of 1933, as amended. This preliminary prospectus supplement and the accompanying prospectus are not an offer to sell these securities nor do they seek an offer to buy these securities in any jurisdiction where the offer or sale is not permitted.**

**Subject to Completion, dated October 31, 2017**

**Prospectus Supplement to Prospectus dated February 14, 2017**

## **Philip Morris International Inc.**

**\$ % Notes due 20**

**\$ % Notes due 20**

The notes due 20 will mature on , 20 and the notes due 20 will mature on , 20 . Interest on the notes due 20 is payable semiannually on and of each year, beginning , 2018. Interest on the notes due 20 is payable semiannually on and of each year, beginning , 2018. We may redeem any of the notes due 20 and the notes due 20 at the applicable redemption prices set forth in this prospectus supplement, plus accrued and unpaid interest thereon to, but excluding, the applicable redemption date. See Description of Notes Optional Redemption of this prospectus supplement. We may also redeem the notes of each series prior to maturity if specified events occur involving United States taxation. The notes will be our senior unsecured obligations and will rank equally in right of payment with all of our other senior unsecured indebtedness from time to time outstanding. The notes will be issued only in denominations of \$2,000 and integral multiples of \$1,000 in excess thereof.

Application will be made to have the notes listed on the New York Stock Exchange.

See **Risk Factors** on page S-5 of this prospectus supplement.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus supplement or the attached prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

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	Public Offering Price		Underwriting Discount		Proceeds to Us (before expenses)	
	Per Note	Total	Per Note	Total	Per Note	Total
% Notes due 20	%	\$	%	\$	%	\$
% Notes due 20	%	\$	%	\$	%	\$

The public offering prices set forth above do not include accrued interest. Interest on the notes of each series will accrue from November , 2017.

The underwriters expect to deliver the notes of each series to purchasers in book-entry form only through The Depository Trust Company, or DTC, Clearstream Banking, *société anonyme*, or Clearstream, or Euroclear Bank S.A./N.V., or Euroclear, on or about November , 2017.

*Joint Book-Running Managers*

**Barclays**      **Citigroup**      **Credit Suisse**      **Deutsche Bank Securities**      **ING**      **Santander**  
 Prospectus Supplement dated , 2017

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We have not, and the underwriters have not, authorized anyone to provide you with any information other than that contained or incorporated by reference in this prospectus supplement, any related free writing prospectus and the attached prospectus. We take no responsibility for, and can provide no assurance as to the reliability of, any other information that others may give you. If the information varies between this prospectus supplement and the attached prospectus, the information in this prospectus supplement supersedes the information in the attached prospectus. We are not making an offer of these securities in any jurisdiction where the offer or sale is not permitted. Neither the delivery of this prospectus supplement, any related free writing prospectus or the attached prospectus, nor any sale made hereunder and thereunder, shall under any circumstances create any implication that there has been no change in our affairs since the date of this prospectus supplement, any related free writing prospectus or the attached prospectus, regardless of the time of delivery of such document or any sale of securities offered hereby or thereby, or that the information contained or incorporated by reference herein or therein is correct as of any time subsequent to the date of such information.

**In connection with the issuance of the notes, Barclays Capital Inc., Citigroup Global Markets Inc., Credit Suisse Securities (USA) LLC, Deutsche Bank Securities Inc., ING Financial Markets LLC and Santander Investment Securities Inc. or their respective affiliates may over-allot or effect transactions that stabilize or maintain the market price of the notes at levels higher than that which might otherwise prevail. In any jurisdiction where there can only be one stabilizing agent, Barclays Capital Inc. or its affiliates shall effect such transactions. This stabilizing, if commenced, may be discontinued at any time and will be carried out in compliance with applicable laws, regulations and rules.**

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The distribution of this prospectus supplement and the attached prospectus and the offering or sale of the notes in some jurisdictions may be restricted by law. The notes are offered globally for sale in those jurisdictions in the United States, Europe, Asia and elsewhere where it is lawful to make such offers. Persons into whose possession this prospectus supplement and the attached prospectus come are required by us and the underwriters to inform themselves about, and to observe, any applicable restrictions. This prospectus supplement and the attached prospectus may not be used for or in connection with an offer or solicitation by any person in any jurisdiction in which that offer or solicitation is not authorized or to any person to whom it is unlawful to make that offer or solicitation. See *Offering Restrictions* in this prospectus supplement.

### *Notice to Prospective Investors in the European Economic Area*

This prospectus supplement and the attached prospectus have been prepared on the basis that any offer of notes in any Member State of the European Economic Area (the "EEA") that has implemented the Prospectus Directive (as defined under the heading *Offering Restrictions* in this prospectus supplement) (each, a "Relevant Member State") will be made pursuant to an exemption under the Prospectus Directive, as implemented in that Relevant Member State, from the requirement to produce a prospectus for offers of notes. Accordingly, any person making or intending to make any offer in that Relevant Member State of notes which are the subject of the offering contemplated by this prospectus supplement and the attached prospectus may only do so in circumstances in which no obligation arises for us or any of the underwriters to produce a prospectus pursuant to Article 3 of the Prospectus Directive in relation to such offer. Neither we nor the underwriters have authorized, nor do we or they authorize, the making of any offer of notes in circumstances in which an obligation arises for us or the underwriters to publish a prospectus for such offer.

### *Notice to Prospective Investors in the United Kingdom*

This prospectus supplement and attached prospectus are only being distributed to, and are only directed at, persons in the United Kingdom that are qualified investors within the meaning of Article 2(1)(e) of the Prospectus Directive and that are also (1) investment professionals falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "Order") or (2) high net worth entities, and other persons to whom it may lawfully be communicated, falling within Article 49(2)(a) to (d) of the Order (each such person being referred to as a "Relevant Person"). This prospectus supplement and attached prospectus and their contents are confidential and should not be distributed, published or reproduced (in whole or in part) or disclosed by recipients to any other persons in the United Kingdom. Any person in the United Kingdom that is not a Relevant Person should not act or rely on this prospectus supplement and/or attached prospectus or any of their contents.

This prospectus supplement and attached prospectus have not been approved for the purposes of Section 21 of the UK Financial Services and Markets Act 2000 ("FSMA") by a person authorized under FSMA. This prospectus supplement and the attached prospectus are being distributed and communicated to persons in the United Kingdom only in circumstances in which Section 21(1) of FSMA does not apply.

The notes are not being offered or sold to any person in the United Kingdom except in circumstances which will not result in an offer of securities to the public in the United Kingdom within the meaning of Part VI of FSMA.

### *Notice to Prospective Investors in Canada*

The notes may be sold only to purchasers purchasing, or deemed to be purchasing, as principal that are accredited investors, as defined in National Instrument 45-106 *Prospectus Exemptions* or subsection 73.3(1) of the Securities Act (Ontario), and are permitted clients, as defined in National Instrument 31-103 *Registration Requirements, Exemptions and Ongoing Registrant Obligations*. Any resale of the notes must be made in accordance with an exemption from, or in a transaction not subject to, the prospectus requirements of applicable securities laws.

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Securities legislation in certain provinces or territories of Canada may provide a purchaser with remedies for rescission or damages if this prospectus supplement (including any amendment thereto) contains a misrepresentation, provided that the remedies for rescission or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser's province or territory. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser's province or territory for particulars of these rights or consult with a legal advisor.

Pursuant to section 3A.3 of National Instrument 33-105 *Underwriting Conflicts* (NI 33-105), the underwriters are not required to comply with the disclosure requirements of NI 33-105 regarding underwriter conflicts of interest in connection with this offering.

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**ABOUT THIS PROSPECTUS SUPPLEMENT**

This prospectus supplement contains the terms of this offering of notes. This prospectus supplement, or the information incorporated by reference in this prospectus supplement, may add, update or change information in the attached prospectus. If information in this prospectus supplement or the information that is incorporated by reference in this prospectus supplement is inconsistent with the attached prospectus, this prospectus supplement, or the information incorporated by reference in this prospectus supplement, will apply and will supersede that information in the attached prospectus.

It is important for you to read and consider all information contained in this prospectus supplement, the attached prospectus and any related free writing prospectus in making your investment decision. You should also read and consider the information in the documents we have referred you to in **Documents Incorporated by Reference** in this prospectus supplement and **Where You Can Find More Information** in the attached prospectus, including our Annual Report on Form 10-K for the year ended December 31, 2016, the portions of our Definitive Proxy Statement on Schedule 14A filed with the SEC on March 23, 2017 that are incorporated by reference therein, our Quarterly Reports on Form 10-Q for the quarters ended March 31, 2017, June 30, 2017 and September 30, 2017, and our Current Reports on Form 8-K filed with the SEC on January 30, 2017, February 2, 2017 (the Item 8.01 Form 8-K only), February 7, 2017, February 21, 2017, May 4, 2017, August 17, 2017, August 29, 2017 and September 28, 2017.

Application will be made to have the notes listed on the New York Stock Exchange. We cannot guarantee that listing will be obtained.

Trademarks and servicemarks in this prospectus supplement and the attached prospectus appear in bold italic type and are the property of or licensed by our subsidiaries.

Philip Morris International Inc. is a Virginia holding company incorporated in 1987. Unless otherwise indicated, all references in this prospectus supplement to **PMI**, **us**, **our**, or **we** refer to Philip Morris International Inc. and its subsidiaries.

References herein to **\$**, **dollars** and **U.S. dollars** are to United States dollars, and all financial data included or incorporated by reference herein have been presented in accordance with accounting principles generally accepted in the United States of America.

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**FORWARD-LOOKING AND CAUTIONARY STATEMENTS**

We may from time to time make written or oral forward-looking statements, including in information included or incorporated by reference in this prospectus supplement and the attached prospectus. You can identify these forward-looking statements by use of words such as strategy, expects, continues, plans, anticipates, believes, will, estimates, intends, projects, goals, targets and other words of similar nature. You should identify them by the fact that they do not relate strictly to historical or current facts.

We cannot guarantee that any forward-looking statement will be realized, although we believe we have been prudent in our plans and assumptions. Achievement of future results is subject to risks, uncertainties and inaccurate assumptions. Should known or unknown risks or uncertainties materialize, or should underlying assumptions prove inaccurate, actual results could vary materially from those anticipated, estimated or projected. You should bear this in mind as you consider forward-looking statements and whether to invest in or remain invested in our securities. In connection with the safe harbor provisions of the Private Securities Litigation Reform Act of 1995, we have identified important factors in the documents incorporated by reference that, individually or in the aggregate, could cause actual results and outcomes to differ materially from those contained in any forward-looking statements made by us; any such statement is qualified by reference to these cautionary statements. We elaborate on these and other risks we face in the documents incorporated by reference. You should understand that it is not possible to predict or identify all risk factors. Consequently, you should not consider risks discussed in the documents incorporated by reference to be a complete discussion of all potential risks or uncertainties. We do not undertake to update any forward-looking statement that we may make from time to time except in the normal course of our public disclosure obligations.



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**SUMMARY OF THE OFFERING**

The following summary contains basic information about the notes and is not intended to be complete. It does not contain all the information that is important to you. For a more detailed description of the notes, please refer to the section entitled "Description of Notes" in this prospectus supplement and the section entitled "Description of Debt Securities" in the attached prospectus.

Issuer	Philip Morris International Inc.
Securities Offered	<p>\$ total principal amount of % notes due 20 , maturing , 20 .</p> <p>\$ total principal amount of % notes due 20 , maturing , 20 .</p>
Interest Rates	<p>The notes due 20 will bear interest from November , 2017 at the rate of % per annum.</p> <p>The notes due 20 will bear interest from November , 2017 at the rate of % per annum.</p>
Interest Payment Dates	<p>For the notes due 20 , and of each year, beginning on , 2018.</p> <p>For the notes due 20 , and of each year, beginning on , 2018.</p>
Ranking	The notes will be our senior unsecured obligations and will rank equally in right of payment with all of our existing and future senior unsecured indebtedness. Because we are a holding company, the notes will effectively rank junior to any indebtedness or other liabilities of our subsidiaries. The indenture does not limit the amount of debt or other liabilities we or our subsidiaries may issue.
Optional Redemption	<p>Prior to , 20 (the date that is month[s] prior to the scheduled maturity date for the notes due 20 ), we may, at our option, redeem the notes due 20 , in whole at any time or in part from time to time, at a price equal to the greater of the principal amount of the notes due 20 to be redeemed or a make-whole amount, plus in either case, accrued and unpaid interest, if any, thereon to, but excluding, the redemption date.</p> <p>On or after , 20 (the date that is month[s] prior to the scheduled maturity date for the notes due 20 ), we may, at our option, redeem the notes due 20 , in whole at any time or in part from time to time at a redemption price equal to 100% of the principal amount of the notes due 20 to be redeemed, plus accrued and unpaid interest, if any, thereon to, but excluding, the redemption date.</p>

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Prior to \_\_\_\_\_, 20\_\_\_\_ (the date that is \_\_\_\_\_ month[s] prior to the scheduled maturity date for the notes due 20\_\_\_\_), we may, at our option, redeem the notes due 20\_\_\_\_, in whole at any time or in part

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from time to time, at a price equal to the greater of the principal amount of the notes due 20 to be redeemed or a make-whole amount, plus in either case, accrued and unpaid interest, if any, thereon to, but excluding, the redemption date.

On or after , 20 (the date that is month[s] prior to the scheduled maturity date for the notes due 20 ), we may, at our option, redeem the notes due 20 , in whole at any time or in part from time to time at a redemption price equal to 100% of the principal amount of the notes due 20 to be redeemed, plus accrued and unpaid interest, if any, thereon to, but excluding, the redemption date.

See Description of Notes Optional Redemption.

Optional Tax Redemption

We may redeem all, but not part, of the notes of each series upon the occurrence of specified tax events described under the heading Description of Notes Redemption for Tax Reasons in this prospectus supplement.

Covenants

We will issue the notes of each series under an indenture containing covenants that restrict our ability, with significant exceptions, to:

incur debt secured by liens; and

engage in sale and leaseback transactions.

Use of Proceeds

We will receive net proceeds (before expenses) from this offering of approximately \$ . We intend to add the net proceeds to our general funds, which may be used:

for general corporate purposes;

to refinance debt;

to meet our working capital requirements; or

to repurchase our common stock.

If we do not use the net proceeds immediately, we may temporarily invest them in short-term, interest-bearing obligations.

Listing

Application will be made to list the notes of each series on the New York Stock Exchange.

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Clearance and Settlement	The notes of each series will be cleared through DTC, Clearstream and Euroclear.
Governing Law	The notes of each series will be governed by the laws of the State of New York.
Risk Factors	Investing in the notes involves risks. See <a href="#">Risk Factors</a> and the documents incorporated or deemed to be incorporated by reference herein for a discussion of the factors you should consider carefully before deciding to invest in the notes.
Trustee	HSBC Bank USA, National Association.

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**RISK FACTORS**

You should carefully consider all the information included and incorporated by reference in this prospectus supplement and the accompanying prospectus before deciding to invest in the notes. In particular, we urge you to consider carefully the factors set forth under "Forward-Looking and Cautionary Statements" in this prospectus supplement and "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2016, and our Quarterly Reports on Form 10-Q for the quarters ended March 31, 2017, June 30, 2017 and September 30, 2017, which we have incorporated by reference in this prospectus supplement.

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**THE COMPANY**

We are a Virginia holding company incorporated in 1987. Our subsidiaries and affiliates and their licensees are engaged in the manufacture and sale of cigarettes, other tobacco products and other nicotine-containing products in markets outside of the United States of America. Our products are sold in more than 180 markets, and in many of these markets they hold the number one or number two market share position. We have a wide range of premium, mid-price and low-price brands. Our portfolio comprises both international and local brands. In addition to the manufacture and sale of cigarettes and other tobacco products, we are engaged in the development and commercialization of reduced-risk products ( RRP<sub>s</sub> ). RRP<sub>s</sub> is the term we use to refer to products that present, are likely to present, or have the potential to present less risk of harm to smokers who switch to these products versus continued smoking. We have a range of RRP<sub>s</sub> in various stages of development, scientific assessment and commercialization. Because our RRP<sub>s</sub> do not burn tobacco, they produce significantly lower levels of harmful or potentially harmful constituents than found in cigarette smoke.

Our portfolio of international and local brands is led by *Marlboro*, the world's best-selling international cigarette, which accounted for approximately 35% of our total 2016 shipment volume. *Marlboro* is complemented in the premium-price category by *Parliament* and *Virginia S*. Our leading mid-price brands are *L&M*, *Lark*, *Merit*, *Muratti* and *Philip Morris*. Other leading international brands include *Bond Street*, *Chesterfield*, *Next* and *Red & White*.

We also own a number of important local cigarette brands, such as *Dji Sam Soe*, *Sampoerna* and *U Mild* in Indonesia; *Champion*, *Fortune* and *Jackpot* in the Philippines; *Apollo-Soyuz* and *Optima* in Russia; *Morven Gold* in Pakistan; *Boston* in Colombia; *Belmont*, *Canadian Classics* and *Number 7* in Canada; *f6* in Germany; *Delicados* in Mexico; *Assos* in Greece, and *Petra* in the Czech Republic and Slovakia. While there are a number of markets where local brands remain important, international brands are expanding their share in numerous markets. With international brands contributing approximately 77% of our shipment volume in 2016, we are well positioned to continue to benefit from this trend.

Our principal executive offices are located at Philip Morris International Inc., 120 Park Avenue, New York, New York 10017-5579, our telephone number is +1 (917) 663-2000 and our website is [www.pmi.com](http://www.pmi.com). The information contained in, or that can be accessed through, our website is not a part of this prospectus supplement or the attached prospectus.

**Table of Contents****USE OF PROCEEDS**

We will receive net proceeds (before expenses) from this offering of approximately \$ . We intend to add the net proceeds to our general funds, which may be used:

for general corporate purposes;

to refinance debt;

to meet our working capital requirements; or

to repurchase our common stock.

If we do not use the net proceeds immediately, we may temporarily invest them in short-term, interest-bearing obligations.

**RATIOS OF EARNINGS TO FIXED CHARGES**

The following table sets forth our historical ratios of earnings available for fixed charges to fixed charges for the periods indicated. This information should be read in conjunction with the consolidated financial statements and the accompanying notes incorporated by reference in this prospectus supplement.

	<b>Nine Months Ended</b>	<b>Years Ended December 31,</b>				
	<b>September 30, 2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>
Ratios of earnings to fixed charges	9.8	9.6	8.9	9.4	11.3	12.7

Earnings available for fixed charges represent earnings before income taxes and fixed charges excluding capitalized interest, net of amortization. Fixed charges represent interest expense, amortization of debt discount and expenses and capitalized interest, plus that portion of rental expense estimated to be the equivalent of interest.

**Table of Contents****SUMMARY OF SELECTED HISTORICAL FINANCIAL DATA**

The following table presents our summary of selected historical financial data which have been derived from and should be read along with, and are qualified in their entirety by reference to, our financial statements and the accompanying notes to those statements and the section

Management's Discussion and Analysis of Financial Condition and Results of Operations in our Annual Report on Form 10-K for the year ended December 31, 2016 and our Quarterly Reports on Form 10-Q for the quarters ended March 31, 2017, June 30, 2017 and September 30, 2017, which we have incorporated by reference in this prospectus supplement.

The summary of selected historical financial data is not necessarily indicative of our future performance.

	Year Ended December 31,		Nine Months Ended September 30,	
	2015	2016	2016	2017
(in millions except per share amounts)				
<b>Consolidated Statement of Earnings Data:</b>				
Net revenues	\$ 73,908	\$ 74,953	\$ 55,764	\$ 56,513
Cost of sales	9,365	9,391	6,892	7,431
Excise taxes on products	47,114	48,268	36,050	36,059
Gross profit	17,429	17,294	12,822	13,023
Marketing, administration and research costs	6,656	6,405	4,563	4,773
Asset impairment and exit costs	68			
Amortization of intangibles	82	74	56	65
Operating income	10,623	10,815	8,203	8,185
Interest expense, net	1,008	891	690	655
Earnings before income taxes	9,615	9,924	7,513	7,530
Provision for income taxes	2,688	2,768	2,110	2,042
Equity (income)/loss in unconsolidated subsidiaries, net	(105)	(94)	(72)	(57)
Net earnings	7,032	7,250	5,475	5,545
Net earnings attributable to noncontrolling interests	159	283	219	204
Net earnings attributable to PMI	\$ 6,873	\$ 6,967	\$ 5,256	\$ 5,341
<b>Earnings Per Share Data:</b>				
Basic earnings per share	\$ 4.42	\$ 4.48	\$ 3.38	\$ 3.43
Diluted earnings per share	\$ 4.42	\$ 4.48	\$ 3.38	\$ 3.43

	As of December 31,		As of
	2015	2016	September 30, 2017
(in millions)			
<b>Balance Sheet Data:</b>			
Cash and cash equivalents	\$ 3,417	\$ 4,239	\$ 7,667
Receivables	2,778	3,499	3,985
Inventories	8,473	9,017	8,283
Deferred income taxes	488		
Other current assets	648	853	924
Total current assets	15,804	17,608	20,859
Property, plant and equipment, at cost	11,767	12,360	13,972
Less accumulated depreciation	6,046	6,296	7,115



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	5,721	6,064	6,857
Goodwill	7,415	7,324	7,681
Other intangible assets, net	2,623	2,470	2,501
Investment in unconsolidated subsidiaries	890	1,011	1,080
Deferred income taxes	360	859	1,138
Other assets	1,143	1,515	1,835
Total assets	\$ 33,956	\$ 36,851	\$ 41,951
Short-term borrowings	825	643	2,905
Current portion of long-term debt	2,405	2,573	3,005
Accounts payable	1,289	1,666	1,973
Other current liabilities	10,867	11,585	10,631
Long-term debt	25,250	25,851	28,065
Deferred income taxes	1,543	1,897	1,037
Employment costs	2,566	2,800	2,868
Other liabilities	687	736	1,100
Stockholders' deficit	(11,476)	(10,900)	(9,633)
Total liabilities and stockholders' (deficit) equity	\$ 33,956	\$ 36,851	\$ 41,951

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**DESCRIPTION OF NOTES**

The following description of the particular terms of the notes, which we refer to as the notes, supplements the description of the general terms and provisions of the debt securities set forth under Description of Debt Securities beginning on page 2 in the attached prospectus. The attached prospectus contains a detailed summary of additional provisions of the notes and of the indenture, dated as of April 25, 2008, between Philip Morris International Inc. and HSBC Bank USA, National Association, as trustee, under which the notes will be issued. The following description supersedes the description of the debt securities in the attached prospectus, to the extent of any inconsistency. Terms used in this prospectus supplement that are otherwise not defined will have the meanings given to them in the attached prospectus.

**Certain Terms of the % Notes due 20**

The notes due 20 are a series of debt securities described in the attached prospectus, which will be senior debt securities, will be initially issued in the aggregate principal amount of \$ and will mature on , 20 .

The notes due 20 will bear interest at the rate of % per annum from November , 2017, payable semiannually in arrears on and of each year, commencing , 2018, to the persons in whose names the notes due 20 are registered at the close of business on the preceding or , each a record date, as the case may be.

Interest will be computed on the basis of a 360-day year consisting of twelve 30-day months.

**Certain Terms of the % Notes due 20**

The notes due 20 are a series of debt securities described in the attached prospectus, which will be senior debt securities, will be initially issued in the aggregate principal amount of \$ and will mature on , 20 .

The notes due 20 will bear interest at the rate of % per annum from November , 2017, payable semiannually in arrears on and of each year, commencing , 2018, to the persons in whose names the notes due 20 are registered at the close of business on the preceding or , each a record date, as the case may be.

Interest will be computed on the basis of a 360-day year consisting of twelve 30-day months.

**General**

In some circumstances, we may elect to discharge our obligations on the notes through full defeasance or covenant defeasance. See Description of Debt Securities Defeasance beginning on page 11 of the attached prospectus for more information about how we may do this.

We may, without the consent of the holders of either series of notes, issue additional notes having the same ranking and the same interest rate, maturity and other terms as the notes of such series, except for the public offering price and issue date. Any additional notes of a series having such similar terms, together with the applicable series of notes, will constitute a single series of notes under the indenture. No additional notes of a series may be issued if an event of default has occurred with respect to the applicable series of notes.

The notes will not be entitled to any sinking fund.

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**Optional Redemption**

Prior to \_\_\_\_\_, 20 (the date that is \_\_\_\_\_ month[s] prior to the scheduled maturity date for the notes due 20\_\_\_\_), we may, at our option, redeem the notes due 20\_\_\_\_, in whole at any time or in part from time to time (equal to \$2,000 or an integral multiple of \$1,000 in excess thereof). The redemption price will be equal to the greater of (i) 100% of the principal amount of the notes due 20\_\_\_\_ to be redeemed and (ii) the sum of the present values of each remaining scheduled payment of principal and interest that would be due if such notes matured on \_\_\_\_\_, 20 (exclusive of interest accrued to the date of redemption) discounted to the redemption date, on a semiannual basis (assuming a 360-day year consisting of twelve 30-day months), at a rate equal to the applicable Treasury Rate (as defined below) plus \_\_\_\_\_ basis points plus, in either case, accrued and unpaid interest, if any, thereon to, but excluding, the redemption date.

On or after \_\_\_\_\_, 20 (the date that is \_\_\_\_\_ month[s] prior to the scheduled maturity date for the notes due 20\_\_\_\_), we may, at our option, redeem the notes due 20\_\_\_\_, in whole at any time or in part from time to time (equal to \$2,000 or an integral multiple of \$1,000 in excess thereof) at a redemption price equal to 100% of the principal amount of the notes due 20\_\_\_\_ to be redeemed, plus accrued and unpaid interest, if any, thereon to, but excluding, the redemption date.

Prior to \_\_\_\_\_, 20 (the date that is \_\_\_\_\_ month[s] prior to the scheduled maturity date for the notes due 20\_\_\_\_), we may, at our option, redeem the notes due 20\_\_\_\_, in whole at any time or in part from time to time (equal to \$2,000 or an integral multiple of \$1,000 in excess thereof). The redemption price will be equal to the greater of (i) 100% of the principal amount of the notes due 20\_\_\_\_ to be redeemed and (ii) the sum of the present values of each remaining scheduled payment of principal and interest that would be due if such notes matured on \_\_\_\_\_, 20 (exclusive of interest accrued to the date of redemption) discounted to the redemption date, on a semiannual basis (assuming a 360-day year consisting of twelve 30-day months), at a rate equal to the applicable Treasury Rate (as defined below) plus \_\_\_\_\_ basis points plus, in either case, accrued and unpaid interest, if any, thereon to, but excluding, the redemption date.

On or after \_\_\_\_\_, 20 (the date that is \_\_\_\_\_ month[s] prior to the scheduled maturity date for the notes due 20\_\_\_\_), we may, at our option, redeem the notes due 20\_\_\_\_, in whole at any time or in part from time to time (equal to \$2,000 or an integral multiple of \$1,000 in excess thereof) at a redemption price equal to 100% of the principal amount of the notes due 20\_\_\_\_ to be redeemed, plus accrued and unpaid interest, if any, thereon to, but excluding, the redemption date.

Comparable Treasury Issue means the U.S. Treasury security or securities selected by an Independent Investment Banker as having an actual or interpolated maturity comparable to the remaining term of the notes due 20\_\_\_\_ or the notes due 20\_\_\_\_ to be redeemed, as applicable (assuming for this purpose that the notes due 20\_\_\_\_ matured on \_\_\_\_\_, 20 and the notes due 20\_\_\_\_ matured on \_\_\_\_\_, 20 ) that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of a comparable maturity to the remaining term of such notes.

Comparable Treasury Price means, with respect to any redemption date (1) the average of the Reference Treasury Dealer Quotations for such redemption date, after excluding the highest and lowest such Reference Treasury Dealer Quotation or (2) if the Independent Investment Banker obtains fewer than four such Reference Treasury Dealer Quotations, the average of all such quotations.

Independent Investment Banker means one of the Reference Treasury Dealers appointed by us.

Reference Treasury Dealer means each of Barclays Capital Inc., Citigroup Global Markets Inc., Credit Suisse Securities (USA) LLC and Deutsche Bank Securities Inc. or their affiliates, which are primary United States government securities dealers and one other leading primary U.S. government securities dealer in New York City reasonably designated by us; provided, however, that if any of the foregoing shall cease to be a primary U.S. government securities dealer in New York City (a Primary Treasury Dealer ), we will substitute therefor another Primary Treasury Dealer.

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**Reference Treasury Dealer Quotation** means, with respect to each Reference Treasury Dealer and any redemption date, the average, as determined by the Independent Investment Banker, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the Independent Investment Banker by such Reference Treasury Dealer at 2:00 pm New York time on the third business day preceding such redemption date.

**Treasury Rate** means, with respect to any redemption date, the rate per annum equal to the semiannual equivalent yield to maturity or interpolated maturity (on a day count basis) of the Comparable Treasury Issue, assuming a price for the Comparable Treasury Issue (such price expressed as a percentage of its principal amount) equal to the Comparable Treasury Price for such redemption date.

We will, or will cause the trustee or paying agent on our behalf to, mail notice of a redemption to holders of the applicable notes to be redeemed by first-class mail (or otherwise transmit in accordance with applicable procedures of DTC) at least 15 and not more than 45 days prior to the date fixed for redemption. Unless we default in the payment of the redemption price, on and after the redemption date, interest will cease to accrue on the applicable notes or any portion thereof called for redemption. On or before the applicable redemption date, we will deposit with the trustee, funds sufficient to pay the redemption price of, and (unless the redemption date shall be an interest payment date) accrued and unpaid interest on, such notes to be redeemed on that redemption date. If fewer than all of the notes of the series of notes due 20 or the series of notes due 20 are to be redeemed, the notes to be redeemed, as applicable, shall be selected by the trustee by lot, pro rata or by such method as the trustee shall deem fair and appropriate in each case in accordance with the applicable procedures of DTC. The trustee shall not be responsible for calculating the make-whole premium.

We may at any time, and from time to time, purchase notes of any series at any price or prices in the open market or otherwise.

## **Book-Entry Notes**

We have obtained the information in this section concerning DTC, Clearstream and Euroclear, and the book-entry system and procedures from sources that we believe to be reliable, but we take no responsibility for the accuracy of this information.

The notes will be offered and sold in principal amounts of \$2,000 and integral multiples of \$1,000 in excess thereof. We will issue the notes of each series in the form of one or more permanent global notes in fully registered, book-entry form, which we refer to as the global notes. Each such global note will be deposited with, or on behalf of, DTC or any successor thereto, as depositary, or Depositary, and registered in the name of Cede & Co. (as nominee of DTC). Unless and until it is exchanged in whole or in part for notes in definitive form, no global note may be transferred except as a whole by the Depositary to a nominee of such Depositary. Investors may elect to hold interests in the global notes through either the Depositary (in the United States) or through Clearstream or Euroclear, if they are participants in such systems, or indirectly through organizations that are participants in such systems. Clearstream and Euroclear will hold interests on behalf of their participants through customers securities accounts in Clearstream's and Euroclear's names on the books of their respective depositaries, which in turn will hold such interests in customers securities accounts in the depositaries' names on the books of DTC.

DTC advises that it is a limited-purpose trust company organized under the New York Banking Law, a banking organization within the meaning of New York Banking Law, a member of the Federal Reserve System, a clearing corporation within the meaning of the New York Uniform Commercial Code and a clearing agency registered pursuant to the provision of Section 17A of the Securities Exchange Act of 1934, as amended, or the Exchange Act. DTC holds securities that its participants, or DTC Participants, deposit with DTC. DTC also facilitates settlement of securities transactions among the DTC Participants, such as transfers and pledges in deposited securities through electronic computerized book-entry changes in accounts of the DTC Participants, thereby eliminating the need for physical movement of securities certificates.

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Direct DTC Participants, or DTC Direct Participants, include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation, which is owned by the users of its regulated subsidiaries. Access to DTC's book-entry system is also available to others, such as banks, securities brokers and dealers that clear through or maintain a custodial relationship with a DTC Direct Participant, either directly or indirectly (we refer to the latter as DTC Indirect Participants).

Purchases of the notes under DTC's book-entry system must be made by or through DTC Direct Participants, which will receive a credit for the notes on DTC's records. The ownership interest of each actual purchaser of the notes, which we refer to as the beneficial owner, is in turn to be recorded on the DTC Participants' records. Beneficial owners will not receive written confirmation from DTC of their purchase, but beneficial owners are expected to receive written confirmations providing details of the transactions, as well as periodic statements of their holdings from the DTC Direct or DTC Indirect Participant through which the beneficial owner entered into the transaction. Transfers of ownership interests in the global notes will be effected only through entries made on the books of DTC Participants acting on behalf of beneficial owners. Beneficial owners will not receive certificates representing their ownership interests in the global notes, except in the event that use of the book-entry system for the notes is discontinued.

Upon the issuance of a registered global note, DTC will credit, on its book-entry registration and transfer system, the DTC Participants' accounts with the respective principal or face amounts of the relevant series of notes beneficially owned by the DTC Participants. Any dealers, underwriters or agents participating in the distribution of the notes will designate the accounts to be credited. Ownership of beneficial interests in a registered global note will be shown on, and the transfer of ownership interests will be effected only through, records maintained by DTC, with respect to interests of DTC Participants, and on the records of DTC Participants, with respect to interests of persons holding through DTC Participants.

To facilitate subsequent transfers, all global notes deposited by DTC Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. or such other name as may be requested by an authorized representative of DTC. The deposit of the global notes with DTC and their registration in the name of Cede & Co. or such other nominee effect no change in beneficial ownership. DTC has no knowledge of the actual beneficial owners of the notes; DTC's records reflect only the identity of the DTC Direct Participants to whose accounts such notes are credited, which may or may not be the beneficial owners. The DTC Participants will remain responsible for keeping account of their holdings on behalf of their customers.

So long as DTC, or its nominee, is the registered owner of a registered global note, DTC or its nominee, as the case may be, will be considered the sole owner or holder of the relevant series of notes represented by the global note for all purposes under the indenture. Except as described below, owners of beneficial interests in a global note will not be entitled to have the book-entry notes represented by the notes registered in their names, will not receive or be entitled to receive physical delivery of notes in definitive form and will not be considered the owners or holders of the notes under the indenture. Accordingly, each person owning a beneficial interest in a global note must rely on the procedures of DTC for that global note and, if that person is not a DTC Participant, on the procedures of the DTC Participant through which the person owns its interest, to exercise any rights of a holder under the indenture. The laws of some jurisdictions may require that some purchasers of notes take physical delivery of these notes in definitive form. Such laws may impair the ability to own, transfer or pledge beneficial interests in a global note.

PMI will make payments due on the notes to Cede & Co. in immediately available funds. DTC's practice upon receipt of any payment of principal, premium, interest or other distribution of underlying securities or other property to holders on that global note, is to immediately credit the DTC Participants' accounts in amounts proportionate to their respective beneficial interests in that global note as shown on the records of the Depository. Payments by DTC Participants to owners of beneficial interests in a global note held through DTC Participants will be governed by standing customer instructions and customary practices, as is now the case with the

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securities held for the accounts of customers registered in street name, and will be the responsibility of those DTC Participants. Payment to Cede & Co. is the responsibility of PMI. Disbursement of such payments to direct participants is the responsibility of Cede & Co. Disbursement of such payments to the beneficial owners is the responsibility of DTC Direct and DTC Indirect Participants. None of PMI, the trustee or any other agent of ours or any agent of the trustee will have any responsibility or liability for any aspect of the records relating to payments made on account of beneficial ownership interests in the global notes or for maintaining, supervising or reviewing any records relating to those beneficial ownership interests.

Redemption notices shall be sent to DTC. If less than all of the notes within a series are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such series to be redeemed. DTC may discontinue providing its service as securities depository with respect to the notes at any time by giving reasonable notice to us or the trustee.

Clearstream advises that it is incorporated under the laws of Luxembourg as a professional depository. Clearstream holds securities for its participating organizations ( Clearstream Participants ) and facilitates the clearance and settlement of securities transactions between Clearstream Participants through electronic book-entry changes in accounts of Clearstream Participants, thereby eliminating the need for physical movement of certificates. Clearstream, Luxembourg provides to Clearstream Participants, among other things, services for safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Clearstream interfaces with domestic markets in several countries. As a professional depository, Clearstream is subject to regulation by the Luxembourg Commission for the Supervision of the Financial Sector (*Commission de Surveillance du Secteur Financier*). Clearstream Participants are recognized financial institutions around the world, including underwriters, securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations and may include the underwriters. Indirect access to Clearstream is also available to others, such as banks, brokers, dealers and trust companies, that clear through or maintain a custodial relationship with a Clearstream Participant, either directly or indirectly.

Distributions with respect to the global notes held beneficially through Clearstream will be credited to cash accounts of Clearstream Participants in accordance with its rules and procedures, to the extent received by the U.S. depository for Clearstream.

Euroclear advises that it was created in 1968 to hold securities for participants of Euroclear ( Euroclear Participants ) and to clear and settle transactions between Euroclear Participants through simultaneous electronic book-entry delivery against payment, thereby eliminating the need for physical movement of certificates and any risk from lack of simultaneous transfers of securities and cash. Euroclear includes various other services, including securities lending and borrowing and interfaces with domestic markets in several countries.

Euroclear is operated by Euroclear Bank S.A./N.V. (the Euroclear Operator ). All operations are conducted by the Euroclear Operator, and all Euroclear securities clearance accounts and Euroclear cash accounts are accounts with the Euroclear Operator. Euroclear Participants include banks (including central banks), securities brokers and dealers and other professional financial intermediaries and may include the underwriters. Indirect access to Euroclear is also available to other firms that clear through or maintain a custodial relationship with a Euroclear Participant, either directly or indirectly.

The Terms and Conditions Governing Use of Euroclear and the related Operating Procedures of the Euroclear System, or the Euroclear Terms and Conditions, and applicable Belgian law govern securities clearance accounts and cash accounts with the Euroclear Operator. Specifically, these terms and conditions govern transfers of securities and cash within Euroclear, withdrawals of securities and cash from Euroclear, and receipt of payments with respect to securities in Euroclear. All securities in Euroclear are held on a fungible basis without attribution of specific certificates to specific securities clearance accounts. The Euroclear Operator acts under the terms and conditions only on behalf of Euroclear Participants and has no record of or relationship with persons holding securities through Euroclear Participants.

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Distributions with respect to the global notes held beneficially through Euroclear will be credited to the cash accounts of Euroclear Participants in accordance with the Euroclear Terms and Conditions, to the extent received by the U.S. depository for Euroclear.

### **Global Clearance and Settlement Procedures**

Initial settlement for the notes will be made in immediately available funds. Secondary market trading between the participants in the Depository will occur in the ordinary way in accordance with the Depository's rules and will be settled in immediately available funds using DTC's Same-Day Funds Settlement System. Secondary market trading between Clearstream Participants and/or Euroclear Participants will occur in the ordinary way in accordance with the applicable rules and operating procedures of Clearstream and Euroclear and will be settled using the procedures applicable to conventional Eurobonds in immediately available funds.

Cross-market transfers between persons holding directly or indirectly through DTC on the one hand, and directly or indirectly through Clearstream or Euroclear Participants, on the other, will be effected in DTC in accordance with the DTC rules on behalf of the relevant European international clearing system by its U.S. depository; however, such cross-market transactions will require delivery of instructions to the relevant European international clearing system by the counterparty in such system in accordance with its rules and procedures and within its established deadlines (European time). The relevant European international clearing system will, if the transaction meets its settlement requirements, deliver instructions to its U.S. depository to take action to effect final settlement on its behalf by delivering interests in the notes to or receiving interests in the notes from DTC, and making or receiving payment in accordance with normal procedures for same-day funds settlement applicable to DTC. Clearstream Participants and Euroclear Participants may not deliver instructions directly to DTC.

Because of time-zone differences, credits of interests in the notes received in Clearstream or Euroclear as a result of a transaction with a Depository Participant will be made during subsequent securities settlement processing and will be credited the business day following the DTC settlement date. Such credits or any transactions involving interests in such notes settled during such processing will be reported to the relevant Euroclear or Clearstream Participants on such business day. Cash received in Clearstream or Euroclear as a result of sales of interests in the notes by or through a Clearstream Participant or a Euroclear Participant to a Depository Participant will be received with value on the DTC settlement date but will be available in the relevant Clearstream or Euroclear cash account only as of the business day following settlement in DTC.

DTC, Clearstream and Euroclear have agreed to the foregoing procedures in order to facilitate transfers of the notes among participants of DTC, Clearstream and Euroclear. However, they are under no obligation to perform or continue to perform those procedures, and they may discontinue those procedures at any time.

### **Notices**

Notices to holders of the notes will be sent by mail or email to the registered holders and will be published, whether the notes are in global or definitive form, and, so long as the notes of each series are listed on the New York Stock Exchange, in a daily newspaper of general circulation in the City of New York. It is expected that publication will be made in the City of New York in The Wall Street Journal. Any such notice shall be deemed to have been given on the date of such publication or, if published more than once, on the date of the first such publication.

### **Restrictive Covenants**

The indenture limits the amount of liens (subject to certain exceptions described in "Description of Debt Securities - Restrictive Covenants" in the attached prospectus) that we or our Subsidiaries may incur or otherwise create, in order to secure indebtedness for borrowed money, upon any Principal Facility or any shares

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of capital stock that any of our Subsidiaries owning any Principal Facility has issued to us or any of our Subsidiaries. If we or any of our Subsidiaries incur such liens, then we will secure the debt securities to the same extent and in the same proportion as the debt that is secured by such liens. Notwithstanding the foregoing, we and/or any of our Subsidiaries may create, assume or incur liens that would otherwise be subject to the restriction described in this paragraph, without securing debt securities issued under the indenture equally and ratably, if the aggregate value of all outstanding indebtedness secured by the liens plus the value of Sale and Leaseback Transactions does not at the time exceed 15% of Consolidated Net Tangible Assets. The indenture also restricts our ability to engage in Sale and Leaseback Transactions under certain circumstances. See Description of Debt Securities Restrictive Covenants Sale and Leaseback Transactions in the attached prospectus.

At September 30, 2017, our Consolidated Net Tangible Assets were \$11.5 billion.

## **Payment of Additional Amounts**

We will, subject to the exceptions and limitations set forth below, pay to the beneficial owner of any note who is a non-United States person (as defined below) such additional amounts as may be necessary to ensure that every net payment on such note, after deduction or withholding by us or any of our paying agents for or on account of any present or future tax, assessment or other governmental charge imposed upon or as a result of such payment by the United States or any political subdivision or taxing authority of the United States, will not be less than the amount provided in such note to be then due and payable. However, we will not pay additional amounts if the beneficial owner is subject to taxation solely for reasons other than its ownership of the note, nor will we pay additional amounts for or on account of:

- (a) any tax, assessment or other governmental charge that is imposed or withheld solely by reason of the existence of any present or former connection (other than the mere fact of being a beneficial owner of a note) between the beneficial owner (or between a fiduciary, settlor, beneficiary or person holding a power over such beneficial owner, if the beneficial owner is an estate or trust, or a member or shareholder of the beneficial owner, if the beneficial owner is a partnership or corporation) of a note and the United States, including, without limitation, such beneficial owner (or such fiduciary, settlor, beneficiary, person holding a power, member or shareholder) being or having been a citizen or resident of the United States or treated as being or having been a resident thereof;
- (b) any tax, assessment or other governmental charge that is imposed or withheld solely by reason of the beneficial owner (or a fiduciary, settlor, beneficiary or person holding a power over such beneficial owner, if the beneficial owner is an estate or trust, or a member or shareholder of the beneficial owner, if the beneficial owner is a partnership or corporation) (1) being or having been present in, or engaged in a trade or business in, the United States, (2) being treated as having been present in, or engaged in a trade or business in, the United States, or (3) having or having had a permanent establishment in the United States;
- (c) any tax, assessment or other governmental charge that is imposed or withheld solely by reason of the beneficial owner (or a fiduciary, settlor, beneficiary or person holding a power over such beneficial owner, if the beneficial owner is an estate or trust, or a member or shareholder of the beneficial owner, if the beneficial owner is a partnership or corporation) being or having been with respect to the United States a personal holding company, a controlled foreign corporation, a passive foreign investment company or a foreign private foundation or other foreign tax-exempt organization, or being a corporation that accumulates earnings to avoid United States federal income tax;
- (d) any tax, assessment or other governmental charge imposed on a beneficial owner that actually or constructively owns 10% or more of the total combined voting power of all of our classes of stock that are entitled to vote within the meaning of Section 871(h)(3) of the Internal Revenue Code of 1986, as amended, or the Code;



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(e) any tax, assessment or other governmental charge that is payable by any method other than withholding or deduction by us or any paying agent from payments in respect of such note;

(f) any gift, estate, inheritance, sales, transfer, personal property or excise tax or any similar tax, assessment or other governmental charge;

(g) any tax, assessment or other governmental charge required to be withheld by any paying agent from any payment in respect of any note if such payment can be made without such withholding by at least one other paying agent;

(h) any tax, assessment or other governmental charge that is imposed or withheld by reason of a change in law, regulation, or administrative or judicial interpretation that becomes effective more than 15 days after the payment becomes due or is duly provided for, whichever occurs later;

(i) any tax, assessment or other governmental charge imposed as a result of the failure of the beneficial owner to comply with applicable certification, information, documentation or other reporting requirements concerning the nationality, residence, identity or connection with the United States of the holder or beneficial owner of a note, if such compliance is required by statute or regulation of the United States as a precondition to relief or exemption from such tax, assessment or other governmental charge;

(j) any tax, assessment or other governmental charge imposed by reason of the failure of the beneficial owner to fulfill the statement requirements of Section 871(h) or Section 881(c) of the Code;

(k) any tax, assessment or other governmental charge imposed pursuant to the provisions of Sections 1471 through 1474 of the Code; or

(l) any combination of items (a), (b), (c), (d), (e), (f), (g), (h), (i), (j) and (k).

In addition, we will not pay additional amounts to a beneficial owner of a note that is a fiduciary, partnership, limited liability company or other fiscally transparent entity, or to a beneficial owner of a note that is not the sole beneficial owner of such note, as the case may be. This exception, however, will apply only to the extent that a beneficiary or settlor with respect to the fiduciary, or a beneficial owner or member of the partnership, limited liability company or other fiscally transparent entity, would not have been entitled to the payment of an additional amount had the beneficiary, settlor, beneficial owner or member received directly its beneficial or distributive share of the payment. The term **beneficial owner** includes any person holding a note on behalf of or for the account of a beneficial owner.

As used herein, the term **non-United States person** means a person that is not a United States person. The term **United States person** means a citizen or resident of the United States, a corporation or partnership created or organized in or under the laws of the United States or any political subdivision thereof, an estate the income of which is subject to United States federal income taxation regardless of its source, a trust subject to the primary supervision of a court within the United States and the control of one or more United States persons as described in Section 7701(a)(30) of the Code, or a trust that existed on August 20, 1996, and elected to continue its treatment as a domestic trust. **United States** means the United States of America (including the States and the District of Columbia), its territories, its possessions and other areas subject to its jurisdiction (including the Commonwealth of Puerto Rico).

**Redemption for Tax Reasons**

We may redeem a series of notes prior to maturity in whole, but not in part, on not more than 60 days' notice and not less than 30 days' notice at a redemption price equal to the principal amount of such notes plus any accrued interest and additional amounts to the date fixed for redemption if:

as a result of a change in or amendment to the tax laws, regulations or rulings of the United States or any political subdivision or taxing authority of or in the United States or any change in official position

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regarding the application or interpretation of such laws, regulations or rulings (including a holding by a court of competent jurisdiction in the United States) that is announced or becomes effective on or after November , 2017, we have or will become obligated to pay additional amounts with respect to such series of notes as described above under Payment of Additional Amounts , or

on or after November , 2017, any action is taken by a taxing authority of, or any decision is rendered by a court of competent jurisdiction in, the United States or any political subdivision or taxing authority of or in the United States, including any of those actions specified in the bullet point above, whether or not such action is taken or decision is rendered with respect to us, or any change, amendment, application or interpretation is officially proposed, which, in any such case, in the written opinion of independent legal counsel of recognized standing, will result in a material probability that we will become obligated to pay additional amounts with respect to such series of notes,

and we in our business judgment determine that such obligations cannot be avoided by the use of reasonable measures available to us.

If we exercise our option to redeem a series of notes, we will deliver to the trustee a certificate signed by an authorized officer stating that we are entitled to redeem the notes and the written opinion of independent legal counsel if required.

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**CERTAIN U.S. FEDERAL INCOME TAX CONSIDERATIONS**

The following summary describes generally the material United States federal income and, in the case of non-United States Holders (as defined below), estate tax considerations with respect to your acquisition, ownership and disposition of a note if you are a beneficial owner of such note. Unless otherwise indicated, this summary addresses only notes purchased at original issue for their original offering price and held by beneficial owners as capital assets, and does not address all of the United States federal income and estate tax considerations that may be relevant to you in light of your particular circumstances or if you are subject to special treatment under United States federal income tax laws (for example, if you are an insurance company, tax-exempt organization, financial institution, broker or dealer in securities or currencies, trader in securities that elects to use the mark-to-market method of accounting for your securities holdings, person subject to the alternative minimum tax, United States expatriate, United States person with a functional currency other than the U.S. dollar, person that holds notes as part of an integrated investment (including a straddle), controlled foreign corporation, passive foreign investment company, or corporation that accumulates earnings to avoid United States federal income tax). If a partnership holds notes, the tax treatment of a partner generally will depend upon the status of the partner and the activities of the partnership. A partner of a partnership holding our notes should consult its own tax advisor regarding the tax consequences of the acquisition, ownership and disposition of our notes, as this summary does not address special tax considerations that may be relevant to such a partner. This summary does not discuss any aspect of state, local or non-United States taxation, or any United States federal tax considerations other than income and estate taxation.

This summary is based on current provisions of the Code, Treasury regulations, judicial opinions, published positions of the United States Internal Revenue Service, or IRS, and all other applicable authorities, all of which are subject to change, possibly with retroactive effect. This summary is not intended as tax advice.

**We urge prospective investors in the notes to consult their tax advisors regarding the United States federal, state, local and non-United States income and other tax considerations of acquiring, holding and disposing of the notes.**

**United States Holders**

This discussion applies to you if you are a United States Holder. For this purpose, a United States Holder is a beneficial owner of a note that is:

a citizen or individual resident of the United States;

a corporation, or other entity treated as a corporation for United States federal income tax purposes, created or organized in, or under the laws of, the United States or any political subdivision of the United States;

an estate, the income of which is subject to United States federal income taxation regardless of its source;

a trust, if a court within the United States is able to exercise primary supervision over the administration of the trust and one or more United States persons have the authority to control all substantial decisions of the trust; or

a trust that existed on August 20, 1996, and elected to continue its treatment as a domestic trust.

*Payments of Interest*

Payments of interest on a note generally will be taxable to you as ordinary interest income at the time the interest accrues or is received, in accordance with your method of accounting for tax purposes.

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### *Sale, Exchange, Redemption or Disposition of a Note*

Upon the sale, exchange, redemption or other taxable disposition of a note, you will recognize taxable gain or loss equal to the difference between (i) the amount you realize on the sale, exchange, redemption or other taxable disposition, other than amounts, if any, attributable to accrued but unpaid stated interest and (ii) your adjusted tax basis in the note. Your adjusted tax basis in a note generally will equal the cost of the note to you. The gain or loss you recognize on the sale, exchange, redemption or other taxable disposition of a note generally will be capital gain or loss and will be long-term capital gain or loss if, at the time of the sale, exchange, redemption or other taxable disposition, you have held the note for more than one year. Under current U.S. federal income tax law, net long-term capital gains realized by taxpayers that are individuals, estates or trusts are eligible for taxation at preferential rates. The distinction between capital gain or loss and ordinary income or loss also is relevant for purposes of the limitation on the deductibility of capital losses.

### *Backup Withholding and Information Reporting*

Unless you are an exempt recipient, a backup withholding tax and certain information reporting requirements may apply to payments we make to you of principal of, and interest or premium (if any) on, and proceeds of the sale or exchange before maturity of, a note. Backup withholding and information reporting will not apply to payments that we make on the notes to exempt recipients that establish their status as such, regardless of whether such entities are the beneficial owners of such notes or hold such notes as a custodian, nominee or agent of the beneficial owner. However, with respect to payments made to a custodian, nominee or agent of the beneficial owner, backup withholding and information reporting may apply to payments made by such custodian, nominee or other agent to you unless you are an exempt recipient and establish your status as such.

If you are not an exempt recipient (for example, if you are an individual), backup withholding will not be applicable to payments made to you if you (i) have supplied an accurate Taxpayer Identification Number (usually on an IRS Form W-9), (ii) have not been notified by the IRS that you have failed to properly report payments of interest and dividends and (iii) in certain circumstances, have certified under penalties of perjury that you have received no such notification and have supplied an accurate Taxpayer Identification Number. However, information reporting will be required in such a case.

Any amounts withheld from a payment to you by operation of the backup withholding rules will be refunded or allowed as a credit against your United States federal income tax liability, provided that any required information is furnished to the IRS in a timely manner.

### *Unearned Income Medicare Contribution*

A tax of 3.8 percent is imposed on the amount of net investment income (or undistributed net investment income, in the case of an estate or trust) received by taxpayers with adjusted gross income above certain threshold amounts. Net investment income as defined for United States federal Medicare contribution purposes generally includes interest payments and gain recognized from the sale or other disposition of the notes. Tax exempt trusts, which are not subject to income taxes generally, and foreign individuals will not be subject to this tax. You should consult your own tax advisors regarding the effect, if any, of this tax on your investment in the notes.

### **Non-United States Holders**

This discussion applies to you if you are a non-United States Holder. A non-United States Holder is a beneficial owner of a note that is neither a United States Holder nor a partnership (or other entity treated as a partnership for United States federal income tax purposes).

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### *Payments of Interest*

Payments of interest that we make to you will be subject to United States withholding tax at a rate of 30% of the gross amount, unless you are eligible for one of the exceptions described below.

Subject to the discussion of backup withholding below, no withholding of United States federal income tax will be required with respect to payments we make to you of interest provided that:

you do not actually or constructively own 10% or more of the total combined voting power of all classes of our stock entitled to vote within the meaning of Section 871(h)(3) of the Code;

you are not a controlled foreign corporation that is related to us through stock ownership; and

you have provided the required certifications as set forth in Section 871(h) and Section 881(c) of the Code.

To satisfy these certification requirements, you generally will be required to provide in the year in which a payment of interest occurs, or in one of the three preceding years, a statement that:

is signed by you under penalties of perjury;

certifies that you are the beneficial owner of the notes and are not a United States Holder; and

provides your name and address.

This statement generally may be made on an IRS Form W-8BEN or W-8BEN-E or a substantially similar substitute form and you must inform the recipient of any change in the information on the statement within 30 days of such change. Special certification rules apply to non-United States Holders that are pass-through entities rather than corporations or individuals.

If you are engaged in a United States trade or business and interest received by you on a note is effectively connected with your conduct of such trade or business (and, under certain income tax treaties, is attributable to a United States permanent establishment you maintain), you will be exempt from the withholding of United States federal income tax described above, so long as you have provided an IRS Form W-8ECI or substantially similar substitute form stating that interest on the note is effectively connected with your conduct of a trade or business in the United States. In such a case, you will be subject to tax on interest you receive on a net income basis in the same manner as if you were a United States Holder. If you are a corporation, effectively connected income may also be subject to a branch profits tax at a rate of 30% (or such lower rate as may be specified by an applicable income tax treaty).

If you are not eligible for relief under one of the exceptions described above, the amount of any interest that we pay to you that is subject to withholding may be reduced if we qualify as an 80/20 company for United States federal income tax purposes. A U.S. corporation that was an 80/20 company on August 10, 2010 generally continues to be an 80/20 company if at least 80% of its gross income during an applicable testing period is, directly or through subsidiaries, active foreign business income, and it does not add a substantial line of business to its operations. The 80% test for active foreign business income is computed annually. Although we believe that we currently are an 80/20 company, our operations and business plans may change in subsequent taxable years. Therefore, no assurance can be given regarding our classification as an 80/20 company for United States federal income tax purposes in the future.

In addition, regardless of whether we qualify as an 80/20 company, you may qualify for an exemption from, or a reduced rate of, United States federal withholding tax under a United States income tax treaty. In general, this exemption or reduced rate of tax applies only if you provide a properly completed IRS Form W-8BEN or W-8BEN-E or substantially similar form claiming benefits under an applicable income tax treaty.



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### *Sale, Exchange, Redemption or Disposition of Notes*

You generally will not be subject to United States federal income tax on any gain realized upon your sale, exchange, redemption or other taxable disposition of notes unless:

the gain is effectively connected with your conduct of a trade or business within the United States (and, under certain income tax treaties, is attributable to a United States permanent establishment you maintain); or

you are an individual, you are present in the United States for 183 days or more in the taxable year of disposition and you meet other conditions, and you are not eligible for relief under an applicable income tax treaty.

Gain that is effectively connected with your conduct of a trade or business within the United States generally will be subject to United States federal income tax, net of certain deductions, at the same rates applicable to United States persons. If you are a corporation, the branch profits tax also may apply to such effectively connected gain. If the gain from the sale or disposition of your notes is effectively connected with your conduct of a trade or business in the United States but under an applicable income tax treaty is not attributable to a permanent establishment you maintain in the United States, your gain may be exempt from United States tax under the treaty. If you are described in the second bullet point above, you generally will be subject to United States tax at a rate of 30% on the gain realized, although the gain may be offset by some United States source capital losses realized during the same taxable year.

### *Backup Withholding and Information Reporting*

The amount of interest we pay to you on notes will be reported to you and to the IRS annually on an IRS Form 1042-S even if you are exempt from the 30% withholding tax described above. Copies of the information returns reporting those payments and the amounts withheld may also be made available to the tax authorities in the country where you are resident under provisions of an applicable income tax treaty or agreement.

In addition, backup withholding tax and certain other information reporting requirements apply to payments of interest and certain reportable payments, unless an exemption applies. Backup withholding and information reporting will not apply to payments we make to you if you have provided under penalties of perjury the required certification of your non-United States person status as discussed above under *Payments of Interest* (and the applicable withholding agent does not have actual knowledge or reason to know that you are a United States Holder) or if you are an exempt recipient.

If you sell or redeem a note through a United States broker or the United States office of a foreign broker, the proceeds from such sale or redemption will be subject to information reporting and backup withholding unless you provide a withholding certificate or other appropriate documentary evidence establishing that you are not a United States Holder to the broker and such broker does not have actual knowledge or reason to know that you are a United States Holder, or you are an exempt recipient eligible for an exemption from information reporting and backup withholding. If you sell or redeem a note through the foreign office of a broker who is a United States person or has certain enumerated connections with the United States, the proceeds from such sale or redemption will be subject to information reporting unless you provide to such broker a withholding certificate or other documentary evidence establishing that you are not a United States Holder and such broker does not have actual knowledge or reason to know that such evidence is false, or you are an exempt recipient eligible for an exemption from information reporting. In circumstances where information reporting by the foreign office of such a broker is required, backup withholding will be required only if the broker has actual knowledge that you are a United States Holder.

Any amounts withheld from a payment to you by operation of the backup withholding rules will be refunded or allowed as a credit against your United States federal income tax liability, if any, provided that you timely file a United States federal income tax return with the IRS claiming such refund or credit.

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*Estate Tax*

A note held by an individual who at the time of death is a non-United States Holder will not be subject to United States federal estate tax as a result of such individual's death, provided that such individual does not actually or constructively own 10% or more of the total combined voting power of all classes of our stock entitled to vote within the meaning of Section 871(h)(3) of the Code and provided that the interest payments with respect to such note are not effectively connected with such individual's conduct of a United States trade or business.

**Foreign Account Tax Compliance Act**

Sections 1471 through 1474 of the Code (commonly known as FATCA) may impose a 30% withholding tax on payments of any interest income paid on the notes and, for a disposition of a note occurring after December 31, 2018, the gross proceeds from such disposition, to certain non-U.S. entities (whether such non-U.S. entities are beneficial owners or intermediaries), including certain foreign financial institutions and investment funds, unless such non-U.S. entity complies with certain specified information reporting and other requirements, including reporting requirements regarding its United States account holders (in the case of foreign financial institutions) or beneficial United States owners (in the case of non-financial foreign entities). Foreign financial institutions located in jurisdictions that have an intergovernmental agreement with the United States with respect to FATCA may be subject to different rules. In addition, under certain circumstances, a non-United States Holder might be eligible for refunds or credits of any taxes imposed pursuant to FATCA. Prospective purchasers of the notes should consult their own tax advisors regarding these withholding and reporting provisions.



**Table of Contents****UNDERWRITING**

Subject to the terms and conditions set forth in the terms agreement dated the date of this prospectus supplement, which incorporates by reference the underwriting agreement dated as of April 25, 2008, each of the underwriters named below, for whom Barclays Capital Inc., Citigroup Global Markets Inc., Credit Suisse Securities (USA) LLC, Deutsche Bank Securities Inc., ING Financial Markets LLC and Santander Investment Securities Inc. are acting as representatives, has severally agreed to purchase, and we have agreed to sell to each underwriter, the respective principal amount of each series of notes as set forth opposite the name of each underwriter below.

4,771

5,260

Europe  
17,170

19,630

South America  
4,159

302

Total cash and cash equivalents

\$  
49,695\$  
50,611**Restricted Cash**

In connection with a court order issued in a now settled litigation matter, we previously placed \$4.6 million of cash into a collateralized surety bond. This bond had certain restrictions for liquidation and was therefore classified as restricted cash. On February 10, 2017, the \$4.6 million surety bond was returned to us upon final settlement of the related litigation matter.

In connection with the pending sale of our Guangzhou factory in the PRC (Note 10), the buyer made a cash deposit of RMB 32 million (\$4.7 million based on June 30, 2017 exchange rates) into an escrow account on September 29, 2016. Under the terms of the escrow account, these funds will not be paid to us until the close of the sale. Accordingly, this deposit is presented as long-term restricted cash within our consolidated balance sheet.

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

Accounts receivable, net were as follows:

(In thousands)	June 30, 2017	December 31, 2016
Trade receivables, gross	\$ 140,845	\$ 120,965
Allowance for doubtful accounts	(950 )	(904 )
Allowance for sales returns	(480 )	(539 )

Net trade receivables	139,415	119,522
Other	8,323	5,070
Accounts receivable, net	\$147,738	\$124,592

Allowance for Doubtful Accounts

Changes in the allowance for doubtful accounts were as follows:

(In thousands)	Six Months	
	Ended June	
	2017	2016
Balance at beginning of period	\$904	\$822
Additions (reductions) to costs and expenses	81	116
(Write-offs)/Foreign exchange effects	(35 )	4
Balance at end of period	\$950	\$942

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**Sales Returns**

The allowance for sales returns at June 30, 2017 and December 31, 2016 included reserves for items returned prior to period-end that were not completely processed, and therefore had not yet been removed from the allowance for sales returns balance. If these returns had been fully processed, the allowance for sales returns balance would have been approximately \$0.2 million and \$0.4 million on June 30, 2017 and December 31, 2016, respectively. The value of these returned goods was included in our inventory balance at June 30, 2017 and December 31, 2016.

**Significant Customers**

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

	Three Months Ended June 30,				2016	
	2017				2016	
	\$ (thousands)	% of Net Sales	%	\$ (thousands)	% of Net Sales	%
Comcast Corporation	\$42,951	24.2	%	\$36,366	21.3	%
DIRECTV	17,826	10.0		20,035	11.7	

	Six Months Ended June 30,				2016	
	2017			\$ (thousands)	% of Net Sales	%
	\$ (thousands)	% of Net Sales	%	\$ (thousands)	% of Net Sales	%
Comcast Corporation	\$85,198	25.1	%	\$75,975	23.6	%
DIRECTV	34,458	10.2		36,854	11.5	

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

	June 30, 2017				December 31, 2016	
	\$ (thousands)	% of Accounts Receivable, Net	%	\$ (thousands)	% of Accounts Receivable, Net	%
Comcast Corporation	\$30,491	20.6	%	\$23,716	19.0	%
DIRECTV	15,718	10.6		12,878	10.3	

**Note 4 — Inventories, Net and Significant Supplier**

Inventories, net were as follows:

(In thousands)	June 30,	December 31,
	2017	2016
Raw materials	\$40,035	\$ 33,059
Components	20,241	15,046
Work in process	5,227	5,860
Finished goods	82,121	80,119
Reserve for excess and obsolete inventory	(4,207 )	(4,205 )
Inventories, net	\$143,417	\$ 129,879

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## Reserve for Excess and Obsolete Inventory

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

(In thousands)	Six Months	
	Ended June 30,	
	2017	2016
Balance at beginning of period	\$4,205	\$3,045
Additions charged to costs and expenses <sup>(1)</sup>	1,218	1,486
Sell through <sup>(2)</sup>	(576 )	(537 )
(Write-offs)/Foreign exchange effects	(640 )	(445 )
Balance at end of period	\$4,207	\$3,549

(1) The additions charged to costs and expenses do not include inventory directly written-off that was scrapped during production totaling \$0.2 million and \$0.2 million for the six months ended June 30, 2017 and 2016, respectively. These amounts are production waste and are not included in management's reserve for excess and obsolete inventory.

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

## Significant Supplier

We purchase integrated circuits, components and finished goods from multiple sources. Purchases from the following supplier totaled more than 10% of our total inventory purchases:

	Three Months Ended June 30,		2017		2016	
	\$	% of Total	\$	% of Total	\$	% of Total
	(thousands)	Inventory Purchases	(thousands)	Inventory Purchases	(thousands)	Inventory Purchases
Texas Instruments	\$11,450	11.0 %	\$11,437	11.8 %		
	Six Months Ended June 30,		2017		2016	
	\$	% of Total	\$	% of Total	\$	% of Total
	(thousands)	Inventory Purchases	(thousands)	Inventory Purchases	(thousands)	Inventory Purchases
Texas Instruments	\$20,578	10.7 %	\$19,941	11.3 %		

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**Related Party Supplier**

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

	Three Months Ended June 30,			2016		
	\$	% of Total	\$	% of Total		
	(thousands)	Inventory	(thousands)	Inventory		
		Purchases		Purchases		

Related party supplier	\$1,638	1.6 %	\$1,977	2.0 %		
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	Six Months Ended June 30,			2016		
	\$	% of Total	\$	% of Total		
	(thousands)	Inventory	(thousands)	Inventory		
		Purchases		Purchases		

Related party supplier	\$2,584	1.3 %	\$3,589	2.0 %		
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Total accounts payable to this supplier were as follows:

	June 30, 2017			December 31, 2016		
	\$	% of	\$	% of		
	(thousands)	Accounts	(thousands)	Accounts		
		Payable		Payable		

Related party supplier	\$1,838	1.7 %	\$1,690	1.7 %		
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Our payment terms and pricing with this supplier are consistent with the terms offered by other suppliers in the ordinary course of business. The accounting policies that we apply to our transactions with our related party supplier are consistent with those applied in transactions with independent third parties. Corporate management routinely monitors purchases from our related party supplier to ensure these purchases remain consistent with our business objectives.

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

Changes in the carrying amount of goodwill were as follows:

(In thousands)

Balance at December 31, 2016	\$43,052
Goodwill acquired during the period <sup>(1)</sup>	5,294
Foreign exchange effects	26
Balance at June 30, 2017	\$48,372

<sup>(1)</sup> During the second quarter of 2017, we recorded \$5.3 million of goodwill related to the Residential Control Systems, Inc. acquisition. Refer to Note 18 for further information about this acquisition.

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## Intangible Assets, Net

The components of intangible assets, net were as follows:

(In thousands)	June 30, 2017			December 31, 2016		
	Gross <sup>(1)</sup>	Accumulated		Gross <sup>(1)</sup>	Accumulated	
		Amortization <sup>(1)</sup>	Net		Amortization <sup>(1)</sup>	Net
Distribution rights	\$329	\$ (143)	) \$186	\$302	\$ (119)	) \$183
Patents	12,330	(4,932)	) 7,398	12,038	(4,775)	) 7,263
Trademarks and trade names <sup>(2)</sup>	2,787	(1,442)	) 1,345	2,400	(1,310)	) 1,090
Developed and core technology	12,563	(5,065)	) 7,498	12,585	(4,068)	) 8,517
Capitalized software development costs	142	(42)	) 100	142	(5)	) 137
Customer relationships <sup>(2)</sup>	32,751	(17,772)	) 14,979	27,703	(16,344)	) 11,359
Order backlog <sup>(2)</sup>	150	(37)	) 113	—	—	) —
Total intangible assets, net	\$61,052	\$ (29,433)	) \$31,619	\$55,170	\$ (26,621)	) \$28,549

<sup>(1)</sup> This table excludes the gross value of fully amortized intangible assets totaling \$5.7 million and \$10.2 million at June 30, 2017 and December 31, 2016, respectively.

During the second quarter of 2017, we purchased a trade name valued at \$0.4 million, which is being amortized ratably over eight years; customer relationships valued at \$5.2 million, which are being amortized ratably over 10 years; and order backlog valued at \$0.2 million, which is being amortized ratably over one year. Refer to Note 18 for further information regarding the purchase of these intangible assets.

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

(In thousands)	Three Months		Six Months	
	Ended June 30,		Ended June 30,	
	2017	2016	2017	2016
Cost of sales	\$55	\$21	\$74	\$42
Selling, general and administrative expenses	1,736	1,534	3,317	3,067
Total amortization expense	\$1,791	\$1,555	\$3,391	\$3,109

Estimated future annual amortization expense related to our intangible assets at June 30, 2017, is as follows:

(In thousands)	
2017 (remaining 6 months)	\$3,582
2018	7,152
2019	7,067
2020	5,980
2021	2,575
Thereafter	5,263
Total	\$31,619

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Note 6 — Line of Credit

Our Amended and Restated Credit Agreement ("Amended Credit Agreement") with U.S. Bank National Association ("U.S. Bank") provides for a \$125.0 million revolving line of credit ("Credit Line") that expires on November 1, 2019 and that may be used for working capital and other general corporate purposes including acquisitions, share repurchases and capital expenditures. Amounts available for borrowing under the Credit Line are reduced by the balance of any outstanding letters of credit. There were no outstanding letters of credit at June 30, 2017.

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

Under the 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, 2017 was 2.34%. 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, 2017, we were in compliance with the covenants and conditions of the Amended Credit Agreement.

At June 30, 2017, we had \$92.0 million outstanding under the Credit Line. Our total interest expense on borrowings was \$0.6 million and \$0.3 million during the three months ended June 30, 2017 and 2016, respectively. Our total interest expense on borrowings was \$1.1 million and \$0.6 million during the six months ended June 30, 2017 and 2016, respectively.

Note 7 — Income Taxes

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

We recorded income tax expense of \$1.4 million and \$1.8 million for the three months ended June 30, 2017 and 2016, respectively. Our effective tax rate was 23.2% and 21.3% during the three months ended June 30, 2017 and 2016, respectively. The increase in the effective tax rate was primarily due to the non-deductibility of certain transactions in China as a result of the pending sale of our Guangzhou factory (Note 10).

We recorded income tax expense of \$1.1 million and \$2.5 million for the six months ended June 30, 2017 and 2016, respectively. Our effective tax rate was 18.9% and 21.3% during the six months ended June 30, 2017 and 2016, respectively. The decrease in our effective tax rate was primarily due to the recognition of \$0.4 million of excess tax benefits related to stock-based compensation during the six months ended June 30, 2017 as a result of implementing ASU 2016-09.

At June 30, 2017, we had gross unrecognized tax benefits of \$3.8 million, including interest and penalties, of which \$3.5 million would affect the annual effective tax rate if these tax benefits are realized. Further, we are unaware of any positions for which it is reasonably possible that the total amount of unrecognized tax benefits will significantly change within the next twelve months. However, based on federal, state and foreign statute expirations in various jurisdictions, we anticipate a decrease in unrecognized tax benefits of approximately \$0.1 million within the next twelve months. We have classified uncertain tax positions as non-current income tax liabilities unless expected to be paid within one year.

We have elected to classify interest and penalties as a component of tax expense. Accrued interest and penalties of \$0.3 million and \$0.3 million at June 30, 2017 and December 31, 2016, respectively, are included in our unrecognized tax benefits.



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## Note 8 — Accrued Compensation

The components of accrued compensation were as follows:

(In thousands)	June 30, December 31,	
	2017	2016
Accrued social insurance <sup>(1)</sup>	\$17,188	\$ 19,974
Accrued salary/wages	8,656	7,903
Accrued vacation/holiday	2,778	2,411
Accrued bonus <sup>(2)</sup>	1,782	2,421
Accrued commission	682	933
Accrued medical insurance claims	286	122
Other accrued compensation	2,148	1,816
Total accrued compensation	\$33,520	\$ 35,580

Effective January 1, 2008, the Chinese Labor Contract Law was enacted in the PRC. This law mandated that PRC employers remit the applicable social insurance payments to their local government. Social insurance is comprised of various components such as pension, medical insurance, job injury insurance, unemployment insurance, and a housing assistance fund, and is administered in a manner similar to social security in the United States. This amount represents our estimate of the amounts due to the PRC government for social insurance on June 30, 2017 and December 31, 2016.

Accrued bonus includes an accrual for an extra month of salary ("13<sup>th</sup> month salary") to be paid to employees in certain geographies where it is the customary business practice. This 13<sup>th</sup> month salary is paid to these employees if they remain employed with us through December 31st. The total accrued for the 13<sup>th</sup> month salary was \$0.6 million and \$0.7 million at June 30, 2017 and December 31, 2016, respectively.

## Note 9 — Other Accrued Expenses

The components of other accrued expenses were as follows:

(In thousands)	June 30, December 31,	
	2017	2016
Advertising and marketing	\$280	\$ 213
Deferred revenue	1,444	1,431
Duties	1,047	1,127
Freight and handling fees	1,935	1,919
Product development	502	454
Product warranty claim costs	298	134
Professional fees	1,320	1,313
Property, plant, and equipment	738	1,017
Sales taxes and VAT	2,914	2,715
Short-term contingent consideration	2,500	—
Third-party commissions	667	853
Tooling <sup>(1)</sup>	1,605	1,520
Unrealized loss on foreign currency exchange contracts	667	1,623
URC court order and settlement agreement (Note 2)	—	6,622
Utilities	409	331
Other	3,968	3,138
Total other accrued expenses	\$20,294	\$ 24,410

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

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## Note 10 — Commitments and Contingencies

## Product Warranties

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

(In thousands)	Six Months	
	Ended June 30,	
	2017	2016
Balance at beginning of period	\$ 134	\$ 35
Accruals for warranties issued during the period	167	—
Settlements (in cash or in kind) during the period	(3 )	—
Balance at end of period	\$ 298	\$ 35

## Restructuring Activities and Sale of Guangzhou Factory

In the first quarter of 2016, we implemented a plan to reduce the impact of rising labor rates in China by transitioning manufacturing activities from our southern-most China factory, located in the city of Guangzhou in the Guangdong province, to our other three China factories where labor rates are rising at a slower rate. As a result, we incurred severance costs of \$5.7 million and \$1.5 million during the six months ended June 30, 2017 and 2016, respectively, which are included within operating expenses. We expect to incur additional severance costs of approximately \$1.5 million as we continue to execute this transition over the next three to six months. Because severance costs relate to involuntary terminations, we record the related liability at the communication date. At June 30, 2017, we had \$0.2 million of unpaid severance costs included within accrued compensation.

On September 26, 2016, we entered into an agreement to sell our Guangzhou manufacturing facility for RMB 320 million (approximately \$47.2 million based on June 30, 2017 exchange rates). Under the terms of this agreement, we have up to 24 months to cease all operations within the facility. The closing of the sale will be subject to customary due diligence and local regulatory approval and per the terms of the agreement could take up to approximately 28 months from the execution of the agreement. In accordance with the terms of the agreement, the buyer deposited 10% of the purchase price into an escrow account at agreement inception, which we have presented as long-term restricted cash in our consolidated balance sheet (also refer to Note 2). The remaining balance of the purchase price is to be placed into the escrow account prior to the closing of the sale and will be released to us upon closing.

## Litigation

On or about June 10, 2015, FM Marketing GmbH ("FMH") and Ruwido Austria GmbH ("Ruwido"), filed a Summons in Summary Proceedings in Belgium court against one of our subsidiaries, Universal Electronics BV ("UEBV") and one of its customers, Telenet N.V. ("Telenet"), claiming that one of the products UEBV supplies Telenet violates two design patents and one utility patent owned by FMH and/or Ruwido. By this summons, FMH and Ruwido sought to enjoin Telenet and UEBV from continued distribution and use of the products at issue. After the September 29, 2015 hearing, the court issued its ruling in our and Telenet's favor, rejecting FMH and Ruwido's request entirely. On October 22, 2015, Ruwido filed its notice of appeal in this ruling. The parties have fully briefed and argued before the appellate court and we are awaiting the appellate court's ruling. In addition, on or about February 9, 2016, Ruwido filed a writ of summons for proceeding on the merits with respect to asserted patents. UEBV and Telenet have replied, denying all of Ruwido's allegations and in June 2017, a hearing was held before the trial court. We are awaiting the ruling from the trial court. Finally, in September 2015, UEBV filed an Opposition with the European Patent Office seeking to invalidate the one utility patent asserted against UEBV and Telenet by Ruwido. The hearing on this opposition was held in July 2017. During this hearing the panel requested additional information. We are in the process of assembling this additional information and scheduling a date for rehearing.

On January 26, 2017, OpenTV, Inc., Nagra USA, Inc., Nagravision SA, and Kudelski SA (collectively, the “Kudelski Group”) filed a request with the U.S. International Trade Commission (“ITC”) to institute an investigation pursuant to Section 337 of the Tariff Act of 1930, as amended, concerning certain remote control devices we supply Comcast Corporation (“Comcast”) to which the ITC agreed to accept this request. On July 21, 2017, the Kudelski Group filed a motion to terminate the investigation as to all parties, including us. We expect this motion to be accepted soon by the ITC.

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

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

## Note 11 — Treasury Stock

From time to time, our Board of Directors authorizes management to repurchase shares of our issued and outstanding common stock on the open market. Repurchases may be made to manage dilution created by shares issued under our stock incentive plans or whenever we deem a repurchase is a good use of our cash and the price to be paid is at or below a threshold approved by our Board. As of June 30, 2017, we had 148,853 shares available for repurchase on the open market under the Board's authorizations. On July 26, 2017, our Board increased these repurchase authorizations by 51,147 shares bringing the total authorization as of the approval date to 200,000 shares. Shares may also be tendered by employees to satisfy tax withholding obligations in connection with the vesting of restricted stock.

Repurchased shares of our common stock were as follows:

	Six Months Ended June 30,	
(In thousands)	2017	2016
Shares repurchased	239	36
Cost of shares repurchased	\$ 14,885	\$ 1,944

Repurchased shares are recorded as shares held in treasury at cost. We hold these shares for future use as management and the Board of Directors deem appropriate, which has included compensating our outside directors.

## Note 12 — Business Segment and Foreign Operations

## Reportable Segment

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

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## Foreign Operations

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

	Three Months		Six Months Ended	
	Ended June 30,		June 30,	
(In thousands)	2017	2016	2017	2016
United States	\$85,569	\$90,872	\$167,497	\$174,810
Asia (excluding PRC)	26,916	20,618	51,566	42,191
People's Republic of China	21,835	23,153	37,578	40,079
Europe	19,740	18,544	37,164	34,327
Latin America	15,381	11,686	31,026	19,241
Other	8,139	6,113	14,155	10,996
Total net sales	\$177,580	\$170,986	\$338,986	\$321,644

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

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

(In thousands)	June 30,		December 31,	
	2017	2016	2017	2016
United States	\$13,004	\$11,948		
People's Republic of China	100,300	94,113		
All other countries	3,969	4,186		
Total long-lived tangible assets	\$117,273	\$110,247		

## Note 13 — Stock-Based Compensation

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

	Three Months		Six Months	
	Ended June 30,		Ended June 30,	
(In thousands)	2017	2016	2017	2016
Cost of sales	\$19	\$15	\$34	\$29
Research and development expenses	144	137	263	273
Selling, general and administrative expenses:				
Employees	1,975	1,731	3,719	3,576
Outside directors	794	594	1,539	1,092
Total employee and director stock-based compensation expense	\$2,932	\$2,477	\$5,555	\$4,970
Income tax benefit	\$889	\$736	1,704	1,469

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## Stock Options

Stock option activity was as follows:

	Number of Options (in 000's)	Weighted-Average Exercise Price	Weighted-Average Contractual Term (in years)	Remaining Aggregate Intrinsic Value (in 000's)
Outstanding at December 31, 2016	652	\$ 39.27		
Granted	92	62.70		
Exercised	(35 )	24.41		\$ 1,555
Forfeited/canceled/expired	(18 )	28.08		
Outstanding at June 30, 2017 <sup>(1)</sup>	691	\$ 43.41	4.88	\$ 16,207
Vested and expected to vest at June 30, 2017 <sup>(1)</sup>	691	\$ 43.41	4.88	\$ 16,204
Exercisable at June 30, 2017 <sup>(1)</sup>	424	\$ 35.97	4.25	\$ 13,092

The aggregate intrinsic value represents the total pre-tax value (the difference between our closing stock price on <sup>(1)</sup> the last trading day of the second quarter of 2017 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, 2017.

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, 2017	2016	Six Months Ended June 30, 2017	2016
Weighted average fair value of grants	\$—	\$ —	\$19.61	\$17.96
Risk-free interest rate	—%	—%	1.75 %	1.36 %
Expected volatility	—%	—%	34.25 %	41.38 %
Expected life in years	0.00	0.00	4.52	4.55

As of June 30, 2017, we expect to recognize \$4.3 million of total unrecognized pre-tax stock-based compensation expense related to non-vested stock options over a remaining weighted-average life of 1.9 years.

## Restricted Stock

Non-vested restricted stock award activity was as follows:

	Shares (in 000's)	Weighted-Average Grant Date Fair Value
Non-vested at December 31, 2016	153	\$ 57.43
Granted	99	63.40
Vested	(43 )	59.64
Forfeited	(4 )	60.64
Non-vested at June 30, 2017	205	\$ 59.78

As of June 30, 2017, we expect to recognize \$9.6 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 to purchase up to 725,000 shares of our common stock at a price of \$54.55 per share. The right to exercise the warrants is subject to vesting over three successive two-year periods (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 warrants. The table below presents the purchase levels and number of warrants that will vest in each period based upon achieving these purchase levels.

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

If total aggregate purchases by Comcast and its affiliates are below \$260 million in any of the two-year periods above, no warrants will vest related to that two-year period. If total aggregate purchases of goods and services by Comcast and its affiliates exceed \$340 million during either the first or second two-year period, the amount of any such excess will count toward aggregate purchases in the following two-year period. 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 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. At June 30, 2017, 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:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Fair value	\$28.89	\$35.88	\$28.89	\$35.88
Price of Universal Electronics Inc. common stock	\$67.21	\$71.16	\$67.21	\$71.16
Risk-free interest rate	1.95 %	1.22 %	1.95 %	1.22 %
Expected volatility	35.05 %	41.17 %	35.05 %	41.17 %
Expected life in years	5.50	6.50	5.50	6.50



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The impact to net sales recorded in connection with the warrants and the related income tax benefit were as follows:

	Three months ended June 30,		Six months ended June 30,	
(in thousands)	2017	2016	2017	2016
Reduction to net sales	\$331	\$1,193	\$1,263	\$2,059
Income tax benefit	123	438	471	756

At June 30, 2017, we estimated the number of warrants that will vest based on the combination of purchases already made and projected future purchases that will be made by Comcast and its affiliates. These estimates may increase or decrease based on actual future purchases. The aggregate unrecognized estimated fair value of unvested warrants at June 30, 2017 was \$17.0 million.

Note 15 — Other Income (Expense), Net

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

	Three Months Ended June 30,		Six Months Ended June 30,	
(In thousands)	2017	2016	2017	2016
Net gain (loss) on foreign currency exchange contracts <sup>(1)</sup>	\$(1,598)	\$(477)	\$(1,364)	\$(676)
Net gain (loss) on foreign currency exchange transactions	1,006	1,105	1,336	2,016
Other income (expense)	(50)	43	(31)	51
Other income (expense), net	\$(642)	\$671	\$(59)	\$1,391

<sup>(1)</sup> This represents the gains (losses) incurred on foreign currency hedging derivatives (see Note 17 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)	2017	2016	2017	2016
<b>BASIC</b>				
Net income attributable to Universal Electronics Inc.	\$4,684	\$6,590	\$4,803	\$9,311
Weighted-average common shares outstanding	14,404	14,440	14,427	14,406
Basic earnings per share attributable to Universal Electronics Inc.	\$0.33	\$0.46	\$0.33	\$0.65
<b>DILUTED</b>				
Net income attributable to Universal Electronics Inc.	\$4,684	\$6,590	\$4,803	\$9,311
Weighted-average common shares outstanding for basic	14,404	14,440	14,427	14,406
Dilutive effect of stock options and restricted stock	279	295	273	280
Weighted-average common shares outstanding on a diluted basis	14,683	14,735	14,700	14,686
Diluted earnings per share attributable to Universal Electronics Inc.	\$0.32	\$0.45	\$0.33	\$0.63

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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, 2017	Six Months Ended June 30, 2016	Three Months Ended June 30, 2017	Six Months Ended June 30, 2016
(In thousands)				
Stock options	165	78	147	167
Restricted stock awards	—	1	29	10

Note 17 — Derivatives

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

(In thousands)	June 30, 2017			December 31, 2016		
	Fair Value			Fair Value		
	Measurement			Measurement		
	Using			Using		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
	Total Balance			Total Balance		
Foreign currency exchange contracts	\$—	\$(479)	\$—	\$(479)	\$(1,584)	\$—

We held foreign currency exchange contracts, which resulted in a net pre-tax loss of \$1.6 million and \$0.5 million for the three months ended June 30, 2017 and 2016, respectively. For the six months ended June 30, 2017 and 2016, we had a net pre-tax loss of \$1.4 million and \$0.7 million, respectively (see Note 15).

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 Settlement Date (in thousands) <sup>(1)</sup>	Settlement Date
June 30, 2017	USD/Euro	USD	\$ 21.0	1.1149	\$ (537 )	July 28, 2017
June 30, 2017	USD/Chinese Yuan Renminbi	USD	\$ 12.0	6.8655	\$ (128 )	July 28, 2017
June 30, 2017	USD/Brazilian Real	USD	\$ 4.5	3.2330	\$ 188	October 20, 2017
June 30, 2017	USD/Brazilian Real	BRL	\$ 1.0	3.3660	\$ (2 )	October 20, 2017
December 31, 2016	USD/Euro	USD	\$ 18.0	1.0513	\$ (61 )	January 27, 2017
December 31, 2016	USD/Chinese Yuan Renminbi	Chinese Yuan Renminbi	\$ 25.0	6.7230	\$ (974 )	January 13, 2017
December 31, 2016	USD/Chinese Yuan Renminbi	Chinese Yuan Renminbi	\$ 10.0	6.6757	\$ (457 )	January 13, 2017

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December 31, 2016	USD/Brazilian Real	USD	\$ 2.0	3.4775	\$ (131 )	January 13, 2017
December 31, 2016	USD/Brazilian Real	USD	\$ 4.0	3.2316	\$ 39	January 13, 2017

- (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.

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## Note 18 — Business Combination

On April 6, 2017, we acquired substantially all of the net assets of Residential Control Systems, Inc. ("RCS"), a U.S.-based designer and manufacturer of energy management and control products for the residential, small commercial and hospitality markets. The initial purchase price of \$12.6 million was comprised of \$8.9 million in cash, which is subject to adjustment based on the final acquired working capital balances, and \$3.7 million of contingent consideration. Additionally, we incurred approximately \$0.1 million in acquisition costs, consisting primarily of accounting related expenses, which are included within selling, general and administrative expenses for the three and six months ended June 30, 2017. The acquisition of these assets will allow us to expand our product offering of home sensing, monitoring and control solutions to include smart thermostat, sensing and monitoring products currently sold and marketed by RCS.

Our consolidated income statement for the three and six months ended June 30, 2017 includes net sales of \$1.4 million and a net loss of \$0.4 million attributable to RCS for the period commencing on April 6, 2017.

## Contingent Consideration

The initial purchase price is subject to adjustment for differences between the initial estimated working capital balances and the final adjusted balances. In accordance with the terms of the RCS Asset Purchase Agreement ("APA"), any adjustment to the initial purchase price must be completed within 120 days of the acquisition date. We expect this calculation to be completed in the third quarter of 2017.

We are required to make additional earnout payments of up to \$10.0 million upon the achievement of certain operating income levels attributable to RCS over the period commencing on the acquisition date through June 30, 2022. The amount of contingent consideration is calculated at the end of each calendar year and is based upon the agreed upon percentage of operating income as defined in the APA. Operating income will be calculated using certain revenues, costs and expenses directly attributable to RCS as specified in the APA. At the acquisition date, the value of earnout contingent consideration was estimated using a valuation methodology based on projections of future operating income calculated in accordance with the APA. Such projections were then discounted using an average discount rate of 24.8% to reflect the risk in achieving the projected operating income levels as well as the time value of money. The fair value measurement of the earnout contingent consideration was based primarily on significant inputs not observable in an active market and thus represents a Level 3 measurement as defined under U.S. GAAP. The fair value of earnout consideration is presented as long-term contingent consideration in our consolidated balance sheet at June 30, 2017.

## Preliminary Purchase Price Allocation

Using the acquisition method of accounting, the acquisition date fair value of the consideration transferred was allocated to the net tangible and intangible assets acquired and liabilities assumed based on their estimated fair values on the acquisition date. The excess of the purchase price over the estimated fair value of net assets acquired is recorded as goodwill. The goodwill is expected to be deductible for income tax purposes. Management's preliminary purchase price allocation as of June 30, 2017 was the following:

(in thousands)	Estimated Lives	Preliminary Fair Value
Accounts receivable		\$ 429
Inventories		1,460
Prepaid expenses and other current assets		6
Property, plant and equipment	1-4 years	14
Current liabilities		(399 )
Net tangible assets acquired		1,510
Trade name	8 years	400

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Customer relationships	10 years	5,200
Order backlog	1 year	150
Goodwill		5,294
Total purchase price		12,554
Less: Contingent consideration		(3,700 )
Cash paid		\$ 8,854

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

The fair value assigned to RCS customer relationships and order backlog intangible assets were 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 trade name, customer relationships, and order backlog intangible assets are expected to be deductible for income tax purposes.

Pro Forma Results (Unaudited)

The following unaudited pro forma financial information presents the combined results of our operations and the operations of RCS as if this transaction had occurred on January 1, 2016. This unaudited pro forma financial information is not intended to represent or be indicative of the consolidated results of operations that would have been achieved had the acquisition actually been completed as of January 1, 2016, and should not be taken as a projection of the future consolidated results of our operations.

	Three Months		Six Months Ended	
	Ended June 30, 2017		June 30, 2017	
(In thousands, except per-share amounts)	2017	2016	2017	2016
Net sales	\$177,580	\$172,308	\$339,548	\$326,514
Net income	4,767	6,381	4,541	9,367
Net income attributable to Universal Electronics Inc.	4,767	6,373	4,541	9,337
Basic earnings per share attributable to Universal Electronics Inc.	\$0.33	\$0.44	\$0.31	\$0.65
Diluted earnings per share attributable to Universal Electronics Inc.	\$0.32	\$0.43	\$0.31	\$0.64

For purposes of determining pro forma net income attributable to Universal Electronics Inc., adjustments were made to all periods presented in the table above. The pro forma net income and net income attributable to Universal Electronics Inc. assumes that amortization of acquired intangible assets began at January 1, 2016 rather than on April 6, 2017. The result is a net increase in amortization expense of \$0.1 million for the six months ended June 30, 2017 and a net increase in amortization expense of \$0.2 million and \$0.4 million for the three and six months ended June 30, 2016, respectively. Additionally, acquisition costs totaling \$0.1 million are excluded from pro forma net income attributable to Universal Electronics Inc. All adjustments have been made net of their related tax effects.



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

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

Overview

We develop and manufacture a broad line of pre-programmed universal remote control products, AV accessories, software and intelligent wireless security, sensing and automation components dedicated to redefining the home entertainment and automation experience. Our customers operate primarily in the consumer electronics market and include subscription broadcasters, OEMs, international retailers, private label brands, pro-security dealers 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 approximately one million individual device functions and approximately 8,000 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 more than 400 pending and issued patents related to remote controls and home automation.

We operate as one business segment. We have 24 international subsidiaries located in Argentina, Brazil, British Virgin Islands, Cayman Islands, France, Germany, Hong Kong (3), India, Italy, Japan, Korea, Mexico, the Netherlands, People's Republic of China (6), Singapore, Spain, and the United Kingdom.

To recap our results for the three months ended June 30, 2017:

• Net sales increased 3.9% to \$177.6 million for the three months ended June 30, 2017 from \$171.0 million for the three months ended June 30, 2016.

• Our gross margin percentage decreased from 25.4% for the three months ended June 30, 2016 to 24.6% for the three months ended June 30, 2017.

• Operating expenses, as a percent of net sales, decreased from 20.7% for the three months ended June 30, 2016 to 20.5% for the three months ended June 30, 2017.

• Our operating income decreased from \$8.0 million for the three months ended June 30, 2016 to \$7.3 million for the three months ended June 30, 2017, and our operating margin percentage decreased from 4.7% for the three months ended June 30, 2016 to 4.1% for the three months ended June 30, 2017.

• Our effective tax rate increased to 23.2% for the three months ended June 30, 2017, compared to 21.3% for the three months ended June 30, 2016.

Our strategic business objectives for 2017 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. We do not believe that there have been any significant changes during the three months ended June 30, 2017 to 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, 2016.

**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		Six Months	
	Ended June 30,		Ended June 30,	
	2017	2016	2017	2016
Net sales	100.0 %	100.0 %	100.0 %	100.0 %
Cost of sales	75.4	74.6	75.0	74.8
Gross profit	24.6	25.4	25.0	25.2
Research and development expenses	2.8	3.0	3.1	3.2
Factory transition restructuring charges	0.2	0.0	1.7	0.5
Selling, general and administrative expenses	17.5	17.7	18.2	18.1
Operating income	4.1	4.7	2.0	3.4
Interest income (expense), net	(0.3 )	(0.2 )	(0.3 )	(0.1 )
Other income (expense), net	(0.4 )	0.4	(0.0 )	0.4
Income before provision for income taxes	3.4	4.9	1.7	3.7
Provision for income taxes	0.8	1.0	0.3	0.8
Net income	2.6	3.9	1.4	2.9
Net income attributable to noncontrolling interest	—	0.0	—	0.0
Net income attributable to Universal Electronics Inc.	2.6 %	3.9 %	1.4 %	2.9 %

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## Three Months Ended June 30, 2017 versus Three Months Ended June 30, 2016

Net sales. Net sales for the three months ended June 30, 2017 were \$177.6 million, an increase of 3.9% compared to \$171.0 million for the three months ended June 30, 2016. Net sales by our Business and Consumer lines were as follows:

	Three Months Ended June 30,			
	2017		2016	
	\$ (millions)	% of total	\$ (millions)	% of total
Business	\$164.5	92.6 %	\$158.5	92.7 %
Consumer	13.1	7.4	12.5	7.3
Total net sales	\$177.6	100.0 %	\$171.0	100.0 %

Net sales in our Business lines (subscription broadcasting, OEM, and computing companies) were 92.6% of net sales for the three months ended June 30, 2017 compared to 92.7% for the three months ended June 30, 2016. Net sales in our Business lines for the three months ended June 30, 2017 increased by 3.8% to \$164.5 million from \$158.5 million driven primarily by the rollout of higher end platforms in North America and Europe, increased sales of home security products and increased market share in Latin America. These increases were partially offset by decreased sales to North American satellite broadcasting customers as certain customers are in the process of depleting their current stock of inventory in preparation for the launch of their new advanced platforms.

Net sales in our Consumer lines (One For All<sup>®</sup> retail and private label) were 7.4% of net sales for the three months ended June 30, 2017 compared to 7.3% for the three months ended June 30, 2016. Net sales in our Consumer lines for the three months ended June 30, 2017 increased by 4.8% to \$13.1 million from \$12.5 million in the three months ended June 30, 2016 driven primarily by growth in the U.S. market.

Gross profit. Gross profit for the three months ended June 30, 2017 was \$43.8 million compared to \$43.5 million for the three months ended June 30, 2016. Gross profit as a percent of sales decreased to 24.6% for the three months ended June 30, 2017 compared to 25.4% for the three months ended June 30, 2016. The gross margin percentage was unfavorably impacted by manufacturing inefficiencies experienced due to factory transition activities in China, price reductions granted to certain large volume customers, and lower-margin projects undertaken in Latin America. These were partially offset by the weakening of the Chinese Yuan Renminbi relative to the U.S. Dollar and improved margins in our Consumer lines.

Research and development ("R&D") expenses. R&D expenses decreased 4.0% to \$4.9 million for the three months ended June 30, 2017 from \$5.2 million for the three months ended June 30, 2016.

Factory transition restructuring charges. In the first quarter of 2016, we implemented a plan to reduce the impact of rising labor rates in China by transitioning manufacturing activities from our southern-most China factory, located in the city of Guangzhou in the Guangdong province, to our other three China factories where labor rates are rising at a slower rate. As a result, we incurred severance costs of \$0.4 million and \$0.1 million for the three months ended June 30, 2017 and 2016, respectively. We expect to incur additional severance costs of approximately \$1.5 million as we continue to execute this transition over the next three to six months.

Selling, general and administrative ("SG&A") expenses. SG&A expenses increased 2.6% to \$31.1 million for the three months ended June 30, 2017 from \$30.3 million for the three months ended June 30, 2016. The increase was primarily due to increased payroll and benefits costs attributable to annual merit increases and additional headcount to support product development efforts; incremental expense recorded to reflect an increase in the value of contingent consideration to be paid in connection with our acquisition of the net assets of Ecolink Intelligent Technology, Inc. ("Ecolink"); additional outside product development expense; additional expense related to the acquisition of the net assets of Residential Control Systems, Inc. ("RCS"); and additional expense to support our implementation of a new ERP system. Partially offsetting these increases was a decrease in legal expense as a result of higher legal fees, including the recording of a \$2.0 million legal settlement, in the prior year period related to a patent litigation lawsuit. In addition, incentive compensation expense decreased from the prior year quarter.

Interest income (expense), net. Net interest expense was \$0.6 million for the three months ended June 30, 2017 compared to net interest expense of \$0.3 million for the three months ended June 30, 2016 as a result of an increased level of borrowings on our line of credit.

Other income (expense), net. Net other expense was \$0.6 million for the three months ended June 30, 2017 compared to net other income of \$0.7 million for the three months ended June 30, 2016. This change was driven primarily by foreign currency losses associated with fluctuations in the Chinese Yuan Renminbi and Euro exchange rates versus the U.S. Dollar.

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Income tax provision. Income tax expense was \$1.4 million for the three months ended June 30, 2017 compared to \$1.8 million for the three months ended June 30, 2016. Our effective tax rate was 23.2% for the three months ended June 30, 2017 compared to 21.3% for the three months ended June 30, 2016. The increase in our effective tax rate was primarily due to the nondeductibility of certain transactions in China as a result of the pending sale of our Guangzhou factory.

Six Months Ended June 30, 2017 versus Six Months Ended June 30, 2016

Net sales. Net sales for the six months ended June 30, 2017 were \$339.0 million, an increase of 5.4% compared to \$321.6 million for the six months ended June 30, 2016. Net sales by our Business and Consumer lines were as follows:

	Six Months Ended June 30, 2017			2016		
	\$ (millions) of total			\$ (millions) of total		
Business	\$314.9	92.9 %		\$299.1	93.0 %	
Consumer	24.1	7.1 %		22.5	7.0 %	
Total net sales	\$339.0	100.0 %		\$321.6	100.0 %	

Net sales in our Business lines (subscription broadcasting, OEM, and computing companies) were 92.9% of net sales for the six months ended June 30, 2017 compared to 93.0% for the six months ended June 30, 2016. Net sales in our Business lines for the six months ended June 30, 2017 increased by 5.3% to \$314.9 million from \$299.1 million driven primarily by the rollout of higher end platforms in North America and Europe, increased sales of home security products and increased market share in Latin America. These increases were partially offset by decreased sales to North American satellite customers as certain customers are in the process of depleting their current stock of inventory in preparation for the launch of their new advanced platforms.

Net sales in our Consumer lines (One For All<sup>®</sup> retail and private label) were 7.1% of net sales for the six months ended June 30, 2017 compared to 7.0% for the six months ended June 30, 2016. Net sales in our Consumer lines for the six months ended June 30, 2017 increased by 7.1% to \$24.1 million from \$22.5 million in the six months ended June 30, 2016 driven primarily by growth in the U.S. market.

Gross profit. Gross profit for the six months ended June 30, 2017 was \$84.8 million compared to \$81.1 million for the six months ended June 30, 2016. Gross profit as a percent of sales decreased slightly to 25.0% for the six months ended June 30, 2017 compared to 25.2% for the six months ended June 30, 2016. The gross margin percentage was unfavorably impacted by manufacturing inefficiencies experienced due to factory transition activities in China, price reductions granted to certain large volume customers, and lower-margin projects undertaken in Latin America. These were partially offset by the weakening of the Chinese Yuan Renminbi relative to the U.S. Dollar and improved margins in our Consumer lines.

Research and development expenses. R&D expenses increased 1.0% to \$10.4 million for the six months ended June 30, 2017 from \$10.3 million for the six months ended June 30, 2016.

Factory transition restructuring charges. In the first quarter of 2016, we implemented a plan to reduce the impact of rising labor costs in China by transitioning manufacturing activities from our southern-most China factory, located in the city of Guangzhou in the Guangdong province, to our other three China factories where labor rates are rising at a slower rate. As a result, we incurred severance costs of \$5.7 million and \$1.5 million for the six months ended June 30, 2017 and 2016, respectively. We expect to incur additional severance costs of approximately \$1.5 million as we continue to execute this transition over the next three to six months.

Selling, general and administrative expenses. SG&A expenses increased 5.9% to \$61.7 million for the six months ended June 30, 2017 from \$58.2 million for the six months ended June 30, 2016. The increase was primarily due to incremental expense recorded to reflect an increase in the value of contingent consideration to be paid in connection with our acquisition of the net assets of Ecolink; additional expense to support our implementation of a new ERP system; additional outside product development expense; increased payroll and benefits costs attributable to annual merit increases and additional headcount to support product development efforts; and additional expense related to the acquisition of the net assets of RCS. Partially offsetting these increases was a decrease in legal expense as a result of higher legal fees, including the recording of a \$2.0 million legal settlement, in the prior year period related to a patent

litigation lawsuit. In addition, incentive compensation expense decreased from the prior year period. Interest income (expense), net. Net interest expense was \$1.0 million for the six months ended June 30, 2017 compared to net interest expense of \$0.5 million for the six months ended June 30, 2016 as a result of an increased level of borrowings on our line of credit.

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Other income (expense), net. Net other expense was \$0.1 million for the six months ended June 30, 2017 compared to net other income of \$1.4 million for the six months ended June 30, 2016. This change was driven primarily by a decrease in foreign currency gains associated with fluctuations in the Chinese Yuan Renminbi exchange rate versus the U.S. Dollar.

Income tax provision. Income tax expense was \$1.1 million for the six months ended June 30, 2017 compared to \$2.5 million for the six months ended June 30, 2016. Our effective tax rate was 18.9% for the six months ended June 30, 2017 compared to 21.3% for the six months ended June 30, 2016. The decrease in our effective tax rate was primarily due to the recognition of \$0.4 million of excess tax benefits related to stock-based compensation during the six months ended June 30, 2017 as a result of implementing ASU 2016-09, which became effective January 1, 2017.

## Liquidity and Capital Resources

## Sources and Uses of Cash

(In thousands)	Six Months Ended June 30, 2017	Increase (Decrease)	Six Months Ended June 30, 2016
Cash provided by (used for) operating activities	\$ (249 )	\$ (23,500 )	\$ 23,251
Cash used for investing activities	(27,138)	(8,204 )	(18,934 )
Cash provided by (used for) financing activities	27,970	33,344	(5,374 )
Effect of exchange rate changes on cash	(1,499 )	965	(2,464 )
Net increase (decrease) in cash and cash equivalents	\$ (916 )	\$ 2,605	\$(3,521 )

	June 30, 2017	Increase (Decrease)	December 31, 2016
Cash and cash equivalents	\$49,695	\$ (916 )	\$ 50,611
Working capital	87,889	(20,402 )	108,291

Net cash used for operating activities was \$0.2 million during the six months ended June 30, 2017 compared to \$23.3 million of net cash provided by operating activities during the six months ended June 30, 2016. The decrease in net cash provided by operating activities was primarily due to working capital needs associated with inventories and accounts receivable. Cash outflows associated with inventories increased during the six months ended June 30, 2017 as a result of increased sales as well as some buildup of inventory related to the anticipated rollout of higher end platforms to certain customers. Our inventory turns decreased from 4.3 turns at June 30, 2016 to 3.9 turns at June 30, 2017. With respect to accounts receivable, cash outflows have increased primarily as a result of sales growth and collection timing. Days sales outstanding have increased from 70 days at June 30, 2016 to 75 days at June 30, 2017. Net cash used for investing activities during the six months ended June 30, 2017 was \$27.1 million compared to \$18.9 million during the six months ended June 30, 2016. The increase in cash used for investing activities was driven primarily by our acquisition of the net assets of RCS for \$8.9 million in April 2017. We anticipate that property, plant and equipment purchases in 2017 will total between \$24 million and \$27 million.

Net cash provided by financing activities was \$28.0 million during the six months ended June 30, 2017 compared to \$5.4 million of net cash used for financing activities during the six months ended June 30, 2016. The increase in cash provided by financing activities was driven primarily by net borrowings on our line of credit of \$42.0 million during the six months ended June 30, 2017, compared to net payments of \$7.0 million on our line of credit during the six months ended June 30, 2016. This was partially offset by an increase of \$12.9 million in treasury stock purchases. During the six months ended June 30, 2017, we repurchased 239,470 shares of our common stock at a cost of \$14.9 million compared to our repurchase of 36,329 shares at a cost of \$1.9 million during the six months ended June 30, 2016. We hold these shares as treasury stock and they are available for reissue. Presently, we have no plans to distribute these shares, although we may change these plans if necessary to fulfill our on-going business objectives. From time to time, our Board of Directors authorizes management to repurchase shares of our issued and outstanding common stock on the open market. Repurchases may be made to manage dilution created by shares issued under our



stock incentive plans or whenever we deem a repurchase is a good use of our cash and the price to be paid is at or below a threshold approved by our Board. As of June 30, 2017, we had 148,853 shares available for repurchase on the open market under the Board's authorizations. On July 26, 2017, our Board increased these repurchase authorizations by 51,147 shares bringing the total authorization as of the approval date to 200,000 shares.

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## Contractual Obligations

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

(In thousands)	Payments Due by Period				
	Total	Less than 1 year	1 - 3 years	4 - 5 years	After 5 years
Operating lease obligations	\$13,402	\$4,591	\$5,246	\$3,047	\$518
Capital lease obligations	3	3	—	—	—
Purchase obligations <sup>(1)</sup>	8,235	8,235	—	—	—
Contingent consideration <sup>(2)</sup>	15,100	2,500	8,222	4,194	184
Total contractual obligations	\$36,740	\$15,329	\$13,468	\$7,241	\$702

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

<sup>(2)</sup> Contingent consideration consists of contingent payments related to our purchases of the net assets of Ecolink and RCS.

## Liquidity

Historically, we have utilized cash provided from operations as our primary source of liquidity, as internally generated cash flows have been sufficient to support our business operations, capital expenditures and discretionary share repurchases. More recently, we have utilized our revolving line of credit to fund an increased level of share repurchases and our acquisitions of the net assets of Ecolink and RCS. We anticipate that we will continue to utilize both cash flows from operations and our revolving line of credit to support ongoing business operations, capital expenditures and future discretionary share repurchases. 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, December 31,	
	2017	2016
Cash and cash equivalents	\$49,695	\$50,611
Available borrowing resources	33,000	35,000

Our cash balances are held in numerous locations throughout the world. The majority of our cash is held outside of the United States and may be repatriated to the United States but, under current law, 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, 2017, we had \$6.4 million, \$17.2 million, \$4.8 million, \$17.2 million and \$4.1 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, 2016, we had \$3.3 million, \$22.1 million, \$5.3 million, \$19.6 million, and \$0.3 million of cash and cash equivalents in the United States, the PRC, Asia (excluding the PRC), Europe and South America, respectively. We attempt to mitigate our exposure to liquidity, credit and other relevant risks by placing our cash and cash equivalents with financial institutions we believe are high quality.

Our Amended and Restated Credit Agreement ("Amended Credit Agreement") with U.S. Bank National Association ("U.S. Bank") provides for a \$125.0 million revolving line of credit ("Credit Line") that expires on November 1, 2019 and that may be used for working capital and other general corporate purposes including acquisitions, share repurchases and capital expenditures. Amounts available for borrowing under the Credit Line are reduced by the balance of any outstanding letters of credit. There were no outstanding letters of credit at June 30, 2017.

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All obligations under the Credit Line are secured by substantially all of our U.S. personal property and tangible and intangible assets as well as 65% of our ownership interest in Enson Assets Limited, our wholly-owned subsidiary that 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, 2017 was 2.34%. 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, 2017, we were in compliance with the covenants and conditions of the Amended Credit Agreement.

At June 30, 2017, we had an outstanding balance of \$92.0 million on our Credit Line and \$33.0 million of availability. Off-Balance Sheet Arrangements

We do not participate in any material off-balance sheet arrangements.

## Factors That May Affect Financial Condition and Future Results

### Forward-Looking Statements

We caution that the following important factors, among others (including but not limited to factors discussed in "Management's Discussion and Analysis of Financial Condition and Results of Operations," as well as those discussed in our 2016 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 and RCS assets and business lines; our inability to add profitable complementary products which are accepted by the marketplace; our inability to attract and retain a quality workforce at adequate levels in all regions of the world, and particularly Asia; our inability to continue to maintain our operating costs at acceptable levels through our cost containment efforts; an unfavorable ruling in any or all of the litigation matters to which we are party; our inability to continue selling our products or licensing our technologies at higher or profitable margins; our inability to obtain orders or maintain our order volume with new and existing customers; our inability to develop new and innovative technologies and products that are accepted by our customers; the sale of our Guangzhou facility not occurring as or within the time frame anticipated by management; our inability to successfully and profitably restructure our manufacturing facilities and activities; possible dilutive effect our stock incentive programs

may have on our earnings per share and stock price; the continued ability to identify and execute on opportunities that maximize stockholder value, including the effects repurchasing the company's shares have on the company's stock value; our inability to continue to obtain adequate quantities of component parts or secure adequate factory production capacity on a timely basis; and other factors listed from time to time in our press releases and filings with the Securities and Exchange Commission.

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**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

We are exposed to various market risks, including interest rate and foreign currency exchange rate fluctuations. We have established policies, procedures and internal processes governing our management of these risks and the use of financial instruments to mitigate our risk exposure.

**Interest Rate Risk**

We are exposed to interest rate risk related to our debt. From time to time we borrow amounts on our Credit Line for working capital and other liquidity needs. Under our Amended Credit Agreement, we may elect to pay interest on outstanding borrowings on our Credit Line based on LIBOR or a base rate (based on the prime rate of U.S. Bank) plus an applicable margin as defined in the 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 \$0.6 million annual impact on net income based on our outstanding line of credit balance at June 30, 2017.

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, 2017, we had wholly-owned subsidiaries in Argentina, Brazil, Cayman Islands, France, Germany, Hong Kong, India, Italy, Japan, Korea, Mexico, the Netherlands, the PRC, Singapore, Spain and the United Kingdom. We are exposed to foreign currency exchange rate risk inherent in our sales commitments, anticipated sales, anticipated purchases, operating expenses, assets and liabilities denominated in currencies other than the U.S. Dollar. The most significant foreign currencies to our operations are the Chinese Yuan Renminbi, Euro, British Pound, Argentinian Peso, Mexican Peso, Brazilian Real, Indian Rupee and Japanese Yen. Our most significant foreign currency exposure is to the Chinese Yuan Renminbi as this is the functional currency of our China-based factories where the majority of our products are manufactured. If the Chinese Yuan Renminbi were to strengthen against the U.S. Dollar, our manufacturing costs would increase. We are generally a net payor of the Euro, Mexican Peso, Indian Rupee and Japanese Yen and therefore benefit from a stronger U.S. Dollar and are adversely affected by a weaker U.S. Dollar relative to the foreign currency. For the British Pound, Argentinian Peso and Brazilian Real, we are generally a net receiver of the foreign currency and therefore benefit from a weaker U.S. Dollar and are adversely affected by a stronger U.S. Dollar relative to the foreign currency. Even where we are a net receiver, a weaker U.S. Dollar may adversely affect certain expense figures taken alone.

From time to time, we enter into foreign currency exchange agreements to manage the foreign currency exchange rate risks inherent in our forecasted income and cash flows denominated in foreign currencies. The terms of these foreign currency exchange agreements normally last less than nine months. We recognize the gains and losses on these foreign currency contracts in the same period as the remeasurement losses and gains of the related foreign currency-denominated exposures.

It is difficult to estimate the impact of fluctuations on reported income, as it depends on the opening and closing rates, the average net balance sheet positions held in a foreign currency and the amount of income generated in local currency. We routinely forecast what these balance sheet positions and income generated in local currency may be and we take steps to minimize exposure as we deem appropriate. Alternatively, we may choose not to hedge the foreign currency risk associated with our foreign currency exposures, primarily if such exposure acts as a natural foreign currency hedge for other offsetting amounts denominated in the same currency or the currency is difficult or too expensive to hedge. We do not enter into any derivative transactions for speculative purposes.

The sensitivity of earnings and cash flows to variability in exchange rates is assessed by applying an approximate range of potential rate fluctuations to our assets, obligations and projected results of operations denominated in foreign currency with all other variables held constant. The analysis includes all of our foreign currency contracts offset by the underlying exposures. Based on our overall foreign currency rate exposure at June 30, 2017, we believe that movements in foreign currency rates may have a material effect on our financial position and results of operations. We estimate that if the exchange rates for the Chinese Yuan Renminbi, Euro, British Pound, Argentinian Peso, Mexican

Peso, Brazilian Real, Indian Rupee and Japanese Yen relative to the U.S. Dollar fluctuate 10% from June 30, 2017, net income in the third quarter of 2017 would fluctuate by approximately \$10.4 million.

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ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Exchange Act Rule 13a-15(d) defines "disclosure controls and procedures" to mean controls and procedures of a company that are designed to ensure that information required to be disclosed by the company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Commission's rules and forms. The definition further states that disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that the information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company's management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

An evaluation was performed under the supervision and with the participation of our management, including our principal executive and principal financial officers, of the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this report. Based on that evaluation, our principal executive and principal financial officers have concluded that our disclosure controls and procedures were effective, as of the end of the period covered by this report, to provide reasonable assurance that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms and is accumulated and communicated to our management to allow timely decisions regarding required disclosures.

Changes in Internal Control Over Financial Reporting

There have been no changes in internal controls or in other factors that may significantly affect our internal controls during the fiscal quarter covered by this Quarterly Report on Form 10-Q.



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## PART II. OTHER INFORMATION

## ITEM 1. LEGAL PROCEEDINGS

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

## ITEM 1A. RISK FACTORS

The 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 2016 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, 2017, we repurchased 54,350 shares of our issued and outstanding common stock for \$3.5 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, 2017, we had 148,853 shares available for repurchase on the open market under the Board's authorizations. On July 26, 2017, our Board increased these repurchase authorizations by 51,147 shares bringing the total authorizations as of the approval date to 200,000 shares. 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, 2017, our total stock repurchases, average price paid per share and the maximum number of shares that may yet be purchased on the open market under our plans or programs:

Period	Total Number of Shares Purchased <sup>(1)</sup>	Weighted Average Price Paid per Share <sup>(2)</sup>	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs <sup>(3)</sup>
April 1, 2017 - April 30, 2017	1,354	\$ 67.89	—	200,000
May 1, 2017 - May 31, 2017	52,392	64.20	51,147	148,853
June 1, 2017 - June 30, 2017	604	67.11	—	148,853
Total	54,350	\$ 64.33	51,147	148,853

Of the repurchases in April, May and June, 1,354, 1,245 and 604 shares, respectively, represent common shares of (1) the company that were owned and tendered by employees to satisfy tax withholding obligations in connection with the vesting of restricted shares.

(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. The Company may make all or part of the purchases pursuant to accelerated share repurchases or Rule 10b5-1 plans.

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ITEM 6. EXHIBITS

- 10.1 Ninth Amendment to Amended and Restated Credit Agreement dated as of June 20, 2017 between Universal Electronics Inc. and U.S. Bank National Association (filed herewith)
- 31.1 Rule 13a-14(a) Certifications of Paul D. Arling, Chief Executive Officer (principal executive officer) of Universal Electronics Inc.
- 31.2 Rule 13a-14(a) Certifications of Bryan M. Hackworth, Chief Financial Officer (principal financial officer and principal accounting officer) of Universal Electronics Inc.
- 32 Section 1350 Certifications of Paul D. Arling, Chief Executive Officer (principal executive officer) of Universal Electronics Inc., and Bryan M. Hackworth, Chief Financial Officer (principal financial officer and principal accounting officer) of Universal Electronics Inc. pursuant to 18 U.S.C. Section 1350
- 101.INS XBRL Instance Document
- 101.SCH XBRL Taxonomy Extension Schema Document
- 101.CAL XBRL Taxonomy Extension Calculation Linkbase Document
- 101.DEF XBRL Taxonomy Extension Definition Linkbase Document
- 101.LAB XBRL Taxonomy Extension Label Linkbase Document
- 101.PRE XBRL Taxonomy Extension Presentation Linkbase Document

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SIGNATURES

Pursuant to the requirement of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Dated: August 8, 2017 UNIVERSAL ELECTRONICS INC.

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

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EXHIBIT INDEX

Exhibit No.	Description
10.1	Ninth Amendment to Amended and Restated Credit Agreement dated as of June 20, 2017 between Universal Electronics Inc. and U.S. Bank National Association (filed herewith)
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