

VOXX International Corp
Form 10-Q
October 10, 2017

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

FORM 10-Q
(Mark One)
 QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended August 31, 2017

or

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

Commission file number: 0-28839

VOXX International Corporation
(Exact name of registrant as specified in its charter)
Delaware
(State or other jurisdiction of incorporation or organization) 13-1964841
(IRS Employer Identification No.)

2351 J Lawson Blvd., Orlando, Florida 32824
(Address of principal executive offices) (Zip Code)

(800) 654-7750
(Registrant's telephone number, including area code)

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

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

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company
Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the

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Exchange Act

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

Number of shares of each class of the issuer's common stock outstanding as of the latest practicable date.

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Class	As of October 6, 2017
Class A Common Stock	21,920,011 Shares
Class B Common Stock	2,260,954 Shares

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VOXX International Corporation and Subsidiaries

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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

VOXX International Corporation and Subsidiaries
 Consolidated Balance Sheets
 (In thousands, except share and per share data)

	August 31, 2017	February 28, 2017
	(unaudited)	
Assets		
Current assets:		
Cash and cash equivalents	\$ 45,821	\$ 956
Accounts receivable, net	70,956	79,971
Inventory, net	142,053	122,352
Receivables from vendors	617	634
Prepaid expenses and other current assets	23,543	12,332
Income tax receivable	1,644	1,596
Assets held for sale, current	—	55,507
Total current assets	284,634	273,348
Investment securities	8,763	10,388
Equity investments	21,340	21,926
Property, plant and equipment, net	66,197	65,589
Goodwill	53,916	53,905
Intangible assets, net	153,403	154,939
Deferred income taxes	23	23
Other assets	6,541	1,699
Assets held for sale, non-current	—	86,669
Total assets	\$ 594,817	\$ 668,486
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 44,146	\$ 46,244
Accrued expenses and other current liabilities	49,227	32,110
Income taxes payable	2,320	703
Accrued sales incentives	13,033	13,154
Current portion of long-term debt	6,770	9,215
Liabilities held for sale, current	—	28,641
Total current liabilities	115,496	130,067
Long-term debt, net of debt issuance costs	8,842	97,747
Capital lease obligation	849	926
Deferred compensation	3,624	3,844
Deferred income tax liabilities	28,757	27,627
Other tax liabilities	3,328	3,194
Other long-term liabilities	3,389	2,125
Liabilities held for sale, non-current	—	11,641
Total liabilities	164,285	277,171
Commitments and contingencies		
Stockholders' equity:		
Preferred stock:		
No shares issued or outstanding (see Note 19)	—	—

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Common stock:

Class A, \$.01 par value, 60,000,000 shares authorized, 24,068,105 and 24,067,444 shares issued and 21,900,011 and 21,899,370 shares outstanding at August 31, 2017 and February 28, 2017, respectively 256 256

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Class B Convertible, \$.01 par value, 10,000,000 shares authorized, 2,260,954 shares issued and outstanding	22	22
Paid-in capital	295,847	295,432
Retained earnings	173,445	159,369
Accumulated other comprehensive loss	(15,478)	(43,898)
Treasury stock, at cost, 2,168,094 and 2,168,074 shares of Class A Common Stock at August 31, 2017 and February 28, 2017, respectively	(21,176)	(21,176)
Total VOXX International Corporation stockholders' equity	432,916	390,005
Non-controlling interest	(2,384)	1,310
Total stockholders' equity	430,532	391,315
Total liabilities and stockholders' equity	\$594,817	\$668,486

See accompanying notes to unaudited consolidated financial statements.

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VOXX International Corporation and Subsidiaries
 Unaudited Consolidated Statements of Operations and Comprehensive Income
 (In thousands, except share and per share data)

	Three Months Ended August 31,		Six Months Ended August 31,	
	2017	2016	2017	2016
Net sales	\$113,470	\$118,325	\$228,293	\$232,225
Cost of sales	85,049	85,882	169,728	167,809
Gross profit	28,421	32,443	58,565	64,416
Operating expenses:				
Selling	10,652	9,924	23,061	21,306
General and administrative	20,640	18,021	40,837	38,148
Engineering and technical support	7,383	6,609	14,037	14,655
Total operating expenses	38,675	34,554	77,935	74,109
Operating loss	(10,254)	(2,111)	(19,370)	(9,693)
Other (expense) income:				
Interest and bank charges	(1,843)	(1,729)	(3,635)	(3,293)
Equity in income of equity investees	1,927	1,545	3,730	3,353
Investment gain	1,416	—	1,416	—
Other, net	(7,629)	223	(8,636)	(257)
Total other (expense) income, net	(6,129)	39	(7,125)	(197)
Loss from continuing operations before income taxes	(16,383)	(2,072)	(26,495)	(9,890)
Income tax expense (benefit) from continuing operations	3,465	(5,543)	(3,963)	(6,940)
Net (loss) income from continuing operations	(19,848)	3,471	(22,532)	(2,950)
Net income (loss) from discontinued operations, net of tax (Note 2)	34,931	(2,167)	32,710	(1,866)
Net income (loss)	15,083	1,304	10,178	(4,816)
Less: net loss attributable to non-controlling interest	(2,023)	(1,716)	(3,898)	(3,528)
Net income (loss) attributable to VOXX International Corporation	\$17,106	\$3,020	\$14,076	\$(1,288)
Other comprehensive income (loss):				
Foreign currency translation adjustments	20,480	(680)	27,839	3,516
Derivatives designated for hedging	(134)	(21)	(1,186)	(512)
Pension plan adjustments	1,810	6	1,690	(52)
Unrealized holding gain (loss) on available-for-sale investment securities, net of tax	81	(3)	77	(8)
Other comprehensive income (loss), net of tax	22,237	(698)	28,420	2,944
Comprehensive income attributable to VOXX International Corporation	\$39,343	\$2,322	\$42,496	\$1,656
Earnings (loss) per share - basic:				
Continuing operations	\$(0.74)	\$0.21	\$(0.77)	\$0.02
Discontinued operations	\$1.45	\$(0.09)	\$1.35	\$(0.08)
Attributable to VOXX International Corporation	\$0.71	\$0.12	\$0.58	\$(0.05)

Earnings (loss) per share - diluted:

Continuing operations	\$ (0.74)	\$ 0.21	\$ (0.77)	\$ 0.02
Discontinued operations	\$ 1.45	\$ (0.09)	\$ 1.35	\$ (0.08)
Attributable to VOXX International Corporation	\$ 0.71	\$ 0.12	\$ 0.58	\$ (0.05)

Weighted-average common shares outstanding (basic)	24,160,680	24,160,324	24,160,502	24,160,324
Weighted-average common shares outstanding (diluted)	24,160,680	24,242,447	24,160,502	24,255,341

See accompanying notes to unaudited consolidated financial statements.

VOXX International Corporation and Subsidiaries
 Unaudited Consolidated Statements of Cash Flows

	Six Months Ended August 31,	
	2017	2016
Cash flows from operating activities:		
Net loss from continuing operations	\$(22,532)	\$(2,950)
Net income (loss) from discontinued operations	32,710	(1,866)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	9,093	9,104
Amortization of debt discount	411	410
Bad debt expense	179	20
Non-cash bank charges	—	76
Non-cash interest on borrowings	—	1,053
Gain (loss) on forward contracts	6,389	(424)
Loss on interest rate swap unwind	—	114
Equity in income of equity investees	(3,730)	(3,353)
Distribution of income from equity investees	4,316	3,344
Deferred income tax benefit	1,347	(1,421)
Non-cash compensation adjustment	370	727
Stock based compensation expense	299	363
Gain on sale of property, plant and equipment	(10)	(5)
Gain on sale of RxNetworks	(1,416)	—
Gain on sale of Hirschmann	(36,118)	—
Changes in operating assets and liabilities:		
Accounts receivable	11,331	6,497
Inventory	(16,783)	(15,517)
Receivables from vendors	240	943
Prepaid expenses and other	(18,032)	(1,172)
Investment securities-trading	345	(91)
Accounts payable, accrued expenses, accrued sales incentives and other liabilities	480	2,478
Income taxes payable	(1,096)	(5,347)
Net cash used in operating activities	(32,207)	(7,017)
Cash flows provided by (used in) investing activities:		
Purchases of property, plant and equipment	(4,842)	(5,098)
Proceeds from sale of property, plant and equipment	10	9
Issuance of notes receivable	(2,000)	—
Proceeds from sale of long-term investment	2,617	—
Purchase of business	(1,814)	—
Proceeds from sale of Hirschmann, net of settlement of forward contracts	170,020	—
Net cash provided by (used in) investing activities	163,991	(5,089)
Cash flows provided by (used in) financing activities:		
Principal payments on capital lease obligation	(419)	(237)
Repayment of bank obligations	(127,915)	(27,946)
Borrowings on bank obligations	36,057	32,767
Proceeds from exercise of stock options	5	—
Net cash (used in) provided by financing activities	(92,272)	4,584

Effect of exchange rate changes on cash

(1,491) 606

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Net increase (decrease) in cash and cash equivalents	38,021	(6,916)
Cash and cash equivalents at beginning of period	(a)7,800	(a)11,767
Cash and cash equivalents at end of period	\$45,821	(a)\$4,851

(a) Cash and cash equivalents at February 28, 2017, February 29, 2016 and August 31, 2016 include \$6,844, \$6,789, and \$3,403, respectively, in current assets held for sale for Hirschmann.
See accompanying notes to unaudited consolidated financial statements.

VOXX International Corporation and Subsidiaries
 Notes to Unaudited Consolidated Financial Statements
 (Amounts in thousands, except share and per share data)

(1) Basis of Presentation

The accompanying unaudited interim consolidated financial statements of VOXX International Corporation and Subsidiaries ("Voxx" or the "Company") have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission and in accordance with accounting principles generally accepted in the United States of America and include all adjustments (consisting of normal recurring adjustments), which, in the opinion of management, are necessary to present fairly the consolidated financial position, results of operations and cash flows for all periods presented. The results of operations are not necessarily indicative of the results to be expected for the full fiscal year or any interim period. These consolidated financial statements do not include all disclosures associated with consolidated financial statements prepared in accordance with accounting principles generally accepted in the United States of America. Accordingly, these statements should be read in conjunction with the Company's audited consolidated financial statements and notes thereto contained in the Company's Form 10-K for the fiscal year ended February 28, 2017. The Company's financial statements for the prior periods presented herein have been recast to reflect a certain business that was classified as discontinued operations during the second quarter of Fiscal 2018. See Note 2 for additional information.

We operate in three reportable segments, Automotive, Premium Audio and Consumer Accessories. See Note 21 for the Company's segment reporting disclosures.

(2) Acquisitions and Dispositions

Rosen Electronics LLC

On April 18, 2017, Voxx acquired certain assets and assumed certain liabilities of Rosen Electronics LLC. As consideration for the Rosen asset purchase, the Company paid \$1,814. In addition, the Company agreed to pay a 2% fee related to future net sales of Rosen products for three years.

Rosen's results of operations have been included in the consolidated financial statements from the date of acquisition. The purpose of this acquisition was to increase the Company's market share and strengthen its intellectual property related to the rear seat entertainment market.

The following summarizes the preliminary allocation of the purchase price for the fair value of the assets acquired and liabilities assumed at the date of acquisition:

Assets acquired:

Inventory	\$2,314
Goodwill	10
Intangible assets including trademarks and customer relationships	520
Total assets acquired	\$2,844

Liabilities assumed:

Warranty accrual	\$ 500
Other liabilities acquired	530
Total	\$1,030
Total purchase price	\$1,814

Hirschmann Car Communication GmbH

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On August 31, 2017 (the "Closing Date"), the Company completed its sale of Hirschmann Car Communication GmbH and its subsidiaries (collectively, "Hirschmann") to a subsidiary of TE Connectivity Ltd ("TE"). The consideration received by the Company was €148,500. The purchase price, at the exchange rate as of the close of business on the Closing Date approximated \$177,000, and is subject to adjustment based upon the final working capital. VOXX International (Germany) GmbH, the Company's German wholly-owned subsidiary, was the selling entity in this transaction.

VOXX International Corporation and Subsidiaries
Notes to Unaudited Consolidated Financial Statements, continued
(Amounts in thousands, except share and per share data)

The Hirschmann subsidiary group, which was included within the Automotive segment, qualified to be presented as a discontinued operation in accordance with ASC 205-20 beginning in the Company's second quarter ending August 31, 2017. Voxx will not have any continuing involvement in the Hirschmann business subsequent to the Closing Date.

In order to hedge the fluctuation in the exchange rate before closing, the Company entered into forward contracts totaling €148,500, which could be settled on dates ranging from August 31, 2017 through September 6, 2017. As the sale of Hirschmann closed on August 31, 2017, the Company settled all of the forward contracts on this date. The forward contracts were not designated for hedging and a total foreign currency loss of \$(6,618) was recorded in continuing operations for the three and six months ended August 31, 2017 when the contracts were settled.

The following table presents a reconciliation of the carrying amounts of major classes of assets and liabilities of the discontinued operation to the amounts presented separately in the Company's Consolidated Balance Sheet:

	February 28, 2017
Cash and cash equivalents	\$ 6,844
Accounts receivable, net	10,670
Inventory, net	30,701
Receivables from vendors	31
Prepaid expenses and other current assets	7,261
Assets held for sale, current	\$ 55,507
Property, plant and equipment, net	16,012
Goodwill	49,307
Intangible assets, net	21,350
Assets held for sale, non-current	\$ 86,669
Accounts payable	14,899
Accrued expenses and other current liabilities	10,366
Income taxes payable	2,374
Current portion of long-term debt	1,002
Liabilities held for sale, current	\$ 28,641
Capital lease obligation	474
Deferred compensation	380
Deferred income tax liabilities	2,528
Other long-term liabilities	8,259
Liabilities held for sale, non-current	\$ 11,641
Net assets held for sale	\$ 101,894

The following table presents a reconciliation of the major financial lines constituting the results of operations for discontinued operations to the net income from discontinued operations, net of tax, presented separately in the Consolidated Statements of Operations and Comprehensive Income (Loss):

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VOXX International Corporation and Subsidiaries
Notes to Unaudited Consolidated Financial Statements, continued
(Amounts in thousands, except share and per share data)

	Three Months Ended August 31,		Six Months Ended August 31,	
	2017	2016	2017	2016
Net sales	\$47,545	\$40,937	\$91,824	\$82,492
Cost of sales	32,925	26,887	63,610	54,314
Gross profit	14,620	14,050	28,214	28,178
Operating expenses:				
Selling	1,396	1,190	2,778	2,473
General and administrative	7,680	6,882	14,676	13,826
Engineering and technical support	3,982	4,682	7,920	10,115
Total operating expenses	13,058	12,754	25,374	26,414
Operating income of discontinued operations	1,562	1,296	2,840	1,764
Other (expense) income:				
Interest and bank charges (a)	(157)	(140)	(279)	(271)
Other, net	150	(41)	138	(73)
Total other expense of discontinued operations, net	(7)	(181)	(141)	(344)
Gain on sale of discontinued operation before taxes	36,118	—	36,118	—
Total income from discontinued operation before taxes	37,673	1,115	38,817	1,420
Income tax expense on discontinued operation (b)	2,742	3,282	6,107	3,286
Income from discontinued operation, net of taxes	\$34,931	\$(2,167)	\$32,710	\$(1,866)
Income per share - basic	\$1.45	\$(0.09)	\$1.35	\$(0.08)
Income per share - diluted	\$1.45	\$(0.09)	\$1.35	\$(0.08)

(a) Includes an allocation of consolidated interest expense and interest expense directly related to debt assumed by the buyer. The allocation of consolidated interest expense was based upon the ratio of net assets of the discontinued operation to that of the Consolidated Company.

(b) The income tax expense on discontinued operations for the three and six months ended August 31, 2017, was positively impacted by an income tax benefit related to the partial reversal of the Company's valuation allowance as the Company utilized a significant portion of its tax attributes to offset the U.S. tax gain related to sale of Hirschmann sale.

The following table presents supplemental cash flow information of the discontinued operation:

	Six Months Ended August 31,	
	2017	2016
Operating activities:		
Depreciation and amortization expense	\$2,939	\$3,020
Stock-based compensation expense	50	37
Investing activities:		
Capital expenditures	\$2,652	\$3,088

Non-cash investing an financing activities:

Capital expenditures funded by long-term obligations \$1,910 \$—

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VOXX International Corporation and Subsidiaries
Notes to Unaudited Consolidated Financial Statements, continued
(Amounts in thousands, except share and per share data)

(3) Net Income (Loss) Per Common Share

Basic net income (loss) per common share from continuing operations, net of non-controlling interest, is based upon the weighted-average common shares outstanding during the period. Diluted net income (loss) per common share from continuing operations, net of non-controlling interest reflects the potential dilution that would occur if common stock equivalent securities or other contracts to issue common stock were exercised or converted into common stock.

There are no reconciling items which impact the numerator of basic and diluted net income (loss) per common share. A reconciliation between the denominator of basic and diluted net income (loss) per common share is as follows:

	Three Months Ended		Six Months Ended	
	August 31,		August 31,	
	2017	2016	2017	2016
Weighted-average common shares outstanding	24,160,680	24,160,324	24,160,502	24,160,324
Effect of dilutive securities:				
Stock options, warrants and restricted stock	—	82,123	—	95,017
Weighted-average common shares and potential common shares outstanding	24,160,680	24,242,447	24,160,502	24,255,341

Restricted stock, stock options and warrants totaling 586,395 and 328,576 for the three months ended August 31, 2017 and 2016, respectively, and 570,044 and 460,869 for the six months ended August 31, 2017 and 2016, respectively, were not included in the net income (loss) per diluted share calculation because the exercise price of these stock options and warrants was greater than the average market price of the Company's common stock during these periods, or the inclusion of these components would have been anti-dilutive.

(4) Fair Value Measurements and Derivatives

The Company applies the authoritative guidance on "Fair Value Measurements," which among other things, requires enhanced disclosures about investments that are measured and reported at fair value. This guidance establishes a hierarchal disclosure framework that prioritizes and ranks the level of market price observability used in measuring investments at fair value. Market price observability is impacted by a number of factors, including the type of investment and the characteristics specific to the investment. Investments with readily available active quoted prices, or for which fair value can be measured from actively quoted prices, generally will have a higher degree of market price observability and a lesser degree of judgment used in measuring fair value.

Investments measured and reported at fair value are classified and disclosed in one of the following categories:

Level 1 - Quoted market prices in active markets for identical assets or liabilities.

Level 2 - Inputs other than Level 1 inputs that are either directly or indirectly observable.

Level 3 - Unobservable inputs developed using the Company's estimates and assumptions, which reflect those that market participants would use.

The following table presents assets measured at fair value on a recurring basis at August 31, 2017:

VOXX International Corporation and Subsidiaries
 Notes to Unaudited Consolidated Financial Statements, continued
 (Amounts in thousands, except share and per share data)

	Total	Fair Value Measurements at Reporting Date Using	
		Level 1	Level 2
Cash and cash equivalents:			
Cash and money market funds	\$45,821	\$45,821	\$—
Derivatives			
Designated for hedging	\$(1,057)	\$—	\$(1,057)
Investment securities:			
Trading securities	\$3,749	\$3,749	\$—
Available-for-sale securities	3	3	—
Other investments at cost (a)	5,011	—	—
Total investment securities	\$8,763	\$3,752	\$—

The following table presents assets measured at fair value on a recurring basis at February 28, 2017:

	Total	Fair Value Measurements at Reporting Date Using	
		Level 1	Level 2
Cash and cash equivalents:			
Cash and money market funds	\$956	\$956	\$—
Derivatives			
Designated for hedging	\$345	\$—	\$345
Investment securities:			
Trading securities	\$4,094	\$4,094	\$—
Available-for-sale securities	6	6	—
Other investments at cost (a)	6,288	—	—
Total investment securities	\$10,388	\$4,100	\$—

Included in this balance are investments in two non-controlled corporations accounted for at cost (see Note 5). The (a) fair values of these investments would be based upon Level 3 inputs. At August 31, 2017 and February 28, 2017, it is not practicable to estimate the fair values of these items.

The carrying amount of the Company's accounts receivable, short-term debt, accounts payable, accrued expenses, bank obligations and long-term debt approximates fair value because of (i) the short-term nature of the financial instrument; (ii) the interest rate on the financial instrument being reset every quarter to reflect current market rates, and (iii) the stated or implicit interest rate approximates the current market rates or are not materially different from market rates.

Derivative Instruments

The Company's derivative instruments include forward foreign currency contracts utilized to hedge a portion of its foreign currency inventory purchases. The forward foreign currency derivatives qualifying for hedge accounting are designated as cash flow hedges and valued using observable forward rates for the same or similar instruments (Level 2). The duration of open forward foreign currency contracts ranges from 1 - 6 months and are classified in the balance

sheet according to their terms. The Company also has an interest rate swap agreement as of August 31, 2017 that hedges interest rate exposure related to the forecasted outstanding balance of its Florida Mortgage, with monthly payments due through March 2026. The swap agreement locks the interest rate on the debt at 3.48% (inclusive of credit spread) through the maturity date of the loan. During the first quarter of Fiscal 2017, the Company unwound another interest rate swap agreement that hedged interest rate exposure related to one of its mortgage notes when that mortgage was paid in full. The fair value of that interest rate swap agreement on the date it was unwound was \$(114), and was charged to interest expense in the Company's Consolidated Statements of Operations and Comprehensive Income (Loss) during the six months ended August 31, 2016. Interest rate swap agreements qualifying for hedge accounting are designated as cash flow hedges and valued based on a comparison of the change in fair value of the actual swap contracts designated as the hedging instruments and the change in fair value of a hypothetical swap contract (Level 2). We calculate the fair value of interest rate swap agreements quarterly based on the

VOXX International Corporation and Subsidiaries
Notes to Unaudited Consolidated Financial Statements, continued
(Amounts in thousands, except share and per share data)

quoted market price for the same or similar financial instruments. Interest rate swaps are classified in the balance sheet as either assets or liabilities based on the fair value of the instruments at the end of the period.

It is the Company's policy to enter into derivative instrument contracts with terms that coincide with the underlying exposure being hedged. As such, the Company's derivative instruments are expected to be highly effective. Hedge ineffectiveness, if any, is recognized as incurred through Other Income (Expense) in the Company's Consolidated Statements of Operations and Comprehensive Income (Loss) and amounted to \$(52) and \$(95) for the three and six months ended August 31, 2017, respectively, and \$29 and \$(21) for the three and six months ended August 31, 2016, respectively.

Financial Statement Classification

The following table discloses the fair value as of August 31, 2017 and February 28, 2017 of derivative instruments:

		Derivative Assets and Liabilities	
		Fair Value	
Account		August 31, 2017	February 28, 2017
Designated derivative instruments			
Foreign currency contracts	Prepaid expenses and other current assets	\$—	\$ 643
	Accrued expenses and other current liabilities	(690)	—
Interest rate swap agreements	Other long-term liabilities	(367)	(298)
Total derivatives		\$(1,057)	\$ 345

In connection with the sale of Hirschmann on August 31, 2017 (see Note 2), the Company entered into forward contracts totaling €148,500, which could be settled on dates ranging from August 31, 2017 through September 6, 2017. As the sale of Hirschmann closed on August 31, 2017, the Company settled all of the forward contracts on this date. The forward contracts were not designated for hedging and a total foreign currency loss of \$(6,618) was recorded for the three and six months ended August 31, 2017, within continuing operations, when the contracts were settled.

Cash flow hedges

During Fiscal 2017, the Company entered into forward foreign currency contracts, which have a current outstanding notional value of \$9,720 and are designated as cash flow hedges at August 31, 2017. The current outstanding notional value of the Company's interest rate swap at August 31, 2017 is \$8,864. For cash flow hedges, the effective portion of the gain or loss is reported as a component of Other Comprehensive Income (Loss) and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings.

Activity related to cash flow hedges pertaining to continuing operations recorded during the three and six months ended August 31, 2017 and 2016 was as follows:

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	Three months ended August 31, 2017			Six months ended August 31, 2017		
	Pretax Gain Recognized in Other Comprehensive Income	Pretax Gain (Loss) Reclassified from Accumulated Other Comprehensive Income	Gain (Loss) for Ineffectiveness in Other Income	Pretax Gain (Loss) Recognized in Other Comprehensive Income	Pretax Gain (Loss) Reclassified from Accumulated Other Comprehensive Income	Gain (Loss) for Ineffectiveness in Other Income
Cash flow hedges						
Foreign currency contracts	\$(533)	\$ 42	\$ (52)	\$(1,266)	\$ 317	\$ (95)
Interest rate swaps	(25)	—	—	(69)	—	—

	Three months ended August 31, 2016			Six months ended August 31, 2016		
	Pretax Gain Recognized in Other Comprehensive Income	Pretax Gain (Loss) Reclassified from Accumulated Other Comprehensive Income	Gain (Loss) for Ineffectiveness in Other Income	Pretax Gain (Loss) Recognized in Other Comprehensive Income	Pretax Gain (Loss) Reclassified from Accumulated Other Comprehensive Income	Gain (Loss) for Ineffectiveness in Other Income
Cash flow hedges						
Foreign currency contracts	\$ 108	\$ 44	\$ 29	\$(536)	\$ 259	\$ (21)
Interest rate swaps	(107)	—	—	73	(114)	—

The net income (loss) recognized in Other Comprehensive Income (Loss) for foreign currency contracts is expected to be recognized in cost of sales within the next nine months. No amounts were excluded from the assessment of hedge effectiveness during the respective periods. As of August 31, 2017, no foreign currency contracts originally designated for hedge accounting were de-designated or terminated. Refer to Note 6 for information regarding activity related to cash flow hedges pertaining to discontinued operations.

(5) Investment Securities

As of August 31, 2017, and February 28, 2017, the Company had the following investments:

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	August 31, 2017			February 28, 2017		
	Cost Basis	Unrealized Holding Gain/(Loss)	Fair Value	Cost Basis	Unrealized Holding Gain/(Loss)	Fair Value
Investment Securities						
Marketable Securities						
Trading						
Deferred Compensation Available-for-sale	\$3,749	\$ —	\$3,749	\$4,094	\$ —	\$4,094
Cellstar	—	3	3	—	6	6
Total Marketable Securities	3,749	3	3,752	4,094	6	4,100
Other Long-Term Investments	5,011	—	5,011	6,288	—	6,288
Total Investment Securities	\$8,760	\$ 3	\$8,763	\$10,382	\$ 6	\$10,388

Long-Term Investments

Trading Securities

The Company's trading securities consist of mutual funds, which are held in connection with the Company's deferred compensation plan. Unrealized holding gains and losses on trading securities are offset by changes in the corresponding deferred compensation liability.

Available-For-Sale Securities

The Company's available-for-sale marketable securities include a less than 20% equity ownership in CLST Holdings, Inc. ("Cellstar").

Unrealized holding gains and losses, net of the related tax effect (if applicable), on available-for-sale securities are reported as a component of Accumulated Other Comprehensive Income (Loss) until realized. Realized gains and losses from the sale of available-for-sale securities are determined on a specific identification basis and reported in Other Income (Expense).

A decline in the market value of any available-for-sale security below cost that is deemed other-than-temporary results in a reduction in carrying amount to fair value. The impairment is charged to earnings and a new cost basis for the security is established. No other-than-temporary losses were incurred by the Company during the three and six months ended August 31, 2017 or 2016.

Other Long-Term Investments

Other long-term investments include investments in two non-controlled corporations accounted for by the cost method. As of August 31, 2017, the Company's investments in 360fly, Inc. totaled \$4,453 and we held 5.0% of the outstanding shares of this company. No additional investment was made in 360fly, Inc. during the three and six months ended August 31, 2017. During the three and six months ended August 31, 2017, the Company issued a senior secured note to 360fly, Inc. totaling \$2,000. This note bears interest at 8% and is due on August 31, 2019.

On July 31, 2017, RxNetworks, a Canadian company in which Voxx held a cost method investment consisting of shares of the investee's preferred stock, was sold to a third party. In consideration for its holdings in RxNetworks on

July 31, 2017, Voxx received cash, as well as a proportionate share of the value (consisting of preferred stock) in a newly formed subsidiary of RxNetworks, called Fathom Systems Inc. ("Fathom"). As a result of this transaction, Voxx recognized a gain of \$1,416 for the three and six months ended August 31, 2017. The cash proceeds were subject to a hold-back provision, which was not included in the calculation of the gain recognized. As of August 31, 2017, the Company's investment in Fathom is being accounted for by the cost method and totaled \$558 and we held 8.3% of the outstanding

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shares of this company. Voxx's total cost method investment balance for 360fly, Inc. and Fathom was \$5,011 as of August 31, 2017.

(6) Accumulated Other Comprehensive (Loss) Income

The Company's accumulated other comprehensive (losses) income consist of the following:

	Foreign Currency Translation Gains (Losses)	Unrealized gains (losses) on investments, net of tax	Pension plan adjustments, net of tax	Derivatives designated in a hedging relationship, net of tax	Total
Balance at February 28, 2017	\$ (41,831)	\$ (98)	\$ (2,282)	\$ 313	\$(43,898)
Other comprehensive income (loss) before reclassifications	17,100	(12)	(265)	(1,422)	15,401
Reclassified from accumulated other comprehensive income (loss)	10,739	89	1,955	236	13,019
Net current-period other comprehensive income (loss)	27,839	77	1,690	(1,186)	28,420
Balance at August 31, 2017	\$ (13,992)	\$ (21)	\$ (592)	\$ (873)	\$(15,478)

In the above table, all reclassifications of other comprehensive income (loss) for the six months ended August 31, 2017 for foreign currency translation, investments and pension plan adjustments are related to the sale of Hirschmann on August 31, 2017 (see Note 2). Within reclassifications for derivatives designated in a hedging relationship, pre-tax losses totaling \$(71) are related to cash flow hedge activity of discontinued operations for the six months ended August 31, 2017, and \$335 is related to the sale of Hirschmann on August 31, 2017. Within other comprehensive income (loss) before reclassifications for derivatives designated in a hedging relationship, \$(501) is related to cash flow hedge activity of discontinued operations for the six months ended August 31, 2017.

During the three and six months ended August 31, 2017, the Company recorded tax expense (benefit) related to derivatives designated in a hedging relationship of \$(207) and \$(673), respectively, unrealized losses on investments of \$0 and pension plan adjustments of \$0.

The other comprehensive income (loss) before reclassification of \$17,100 includes the remeasurement of intercompany transactions of a long-term nature of \$12,070 with certain subsidiaries whose functional currency is not the U.S. dollar, and \$5,029 from translating the financial statements of the Company's non-U.S. dollar functional currency subsidiaries into our reporting currency, which is the U.S. dollar. Foreign currency translation gains (losses) reclassified from accumulated other comprehensive income (loss) of \$10,739 include \$9,911 due to the settlement of a euro based loan and the recognition of the cumulative translation adjustment of \$828 due to the sale of Hirschmann.

(7) Supplemental Cash Flow Information

The following is supplemental information relating to the consolidated statements of cash flows, including continuing and discontinued operations:

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	Six Months Ended August 31, 2017 2016	
Non-cash investing and financing activities:		
Capital expenditures funded by long-term obligations	\$ 1,917	\$ —
Mortgage settlement funded by long-term obligations	—	5,590
Deferred financing costs funded by long-term obligations	—	1,769
Cash paid during the period:		
Interest (excluding bank charges)	\$ 2,430	\$ 2,225
Income taxes (net of refunds)	2,001	3,086

See Note 2 for additional supplemental cash flow information pertaining to discontinued operations.

(8) Accounting for Stock-Based Compensation

The Company has various stock-based compensation plans, which are more fully described in Note 1 of the Company's Form 10-K for the fiscal year ended February 28, 2017.

Information regarding the Company's stock options and warrants is summarized below:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life
Outstanding at February 28, 2017	116,250	\$ 7.76	
Granted	—	—	
Exercised	661	7.76	
Forfeited/expired	—	—	
Outstanding and exercisable at August 31, 2017	115,589	\$ 7.76	0.13

A restricted stock award is an award of common stock that is subject to certain restrictions during a specified period. Restricted stock awards are independent of option grants and are subject to forfeiture if employment terminates for a reason other than death, disability or retirement, prior to the release of the restrictions. The Company has a Supplemental Executive Retirement Plan (SERP), which was established in Fiscal 2014. Shares are granted based on certain performance criteria and vest on the later of three years from the date of grant (or three years from the date of participation in the SERP with respect to grants made when the plan was established in Fiscal 2014), or the grantee reaching the age of 65 years. The shares will also vest upon termination of the grantee's employment by the Company without cause, provided that the grantee, at the time of termination, has been employed by the Company for at least 10 years, or as a result of the sale of all of the issued and outstanding stock, or all, or substantially all, of the assets of the subsidiary of which the grantee serves as CEO and/or President. When vested shares are issued to the grantee, the awards will be settled in shares or in cash, at the Company's sole option. The grantee cannot transfer the rights to receive shares before the restricted shares vest. There are no market conditions inherent in the award, only an employee performance requirement, and the service requirement that the respective employee continues employment with the Company through the vesting date. During July 2017, the Company granted 74,156 shares of restricted stock under the SERP. The Company expenses the cost of the restricted stock awards on a straight-line basis over the

requisite service period of each employee or a maximum. For these purposes, the fair market value of the restricted stock is determined based on the mean of the high and low price of the Company's common stock on the grant dates. The fair market value of the restricted stock granted during July 2017 was \$6.52.

In conjunction with the sale of Hirschmann on August 31, 2017 (see Note 2), all restricted shares granted to the CEO and President of Hirschmann, totaling 72,300 shares became immediately vested in accordance with the SERP and were settled in cash in the amount of \$582. The remaining unrecognized stock-based compensation expense related to this

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individual's restricted stock awards was recognized as a reduction of the gain on sale of discontinued operations in the amount of \$373.

The following table presents a summary of the Company's restricted stock activity for the six months ended August 31, 2017:

	Number of Shares	Weighted Average Grant Date Fair Value
Balance at February 28, 2017	437,443	\$ 6.99
Granted	74,156	6.52
Vested and settled	72,300	5.98
Forfeited	—	—
Balance at August 31, 2017	439,299	\$ 7.08
Vested and unissued at August 31, 2017	56,181	\$ 13.62

During the three and six months ended August 31, 2017, the Company recorded \$131 and \$250 in stock-based compensation related to restricted stock awards for continuing operation, respectively. As of August 31, 2017, there was \$670 of unrecognized stock-based compensation expense related to unvested restricted stock awards.

(9) Supply Chain Financing

The Company has supply chain financing agreements and factoring agreements that were entered into for the purpose of accelerating receivable collection and better managing cash flow. The balances under the agreements are sold without recourse and are accounted for as sales of accounts receivable. Total receivable balances sold for the three and six months ended August 31, 2017, net of discounts, were \$30,515 and \$63,927, respectively, compared to \$31,819 and \$60,800 for the three and six months ended August 31, 2016, respectively.

(10) Research and Development

Expenditures for research and development are charged to expense as incurred. Such expenditures amounted to \$3,400 and \$6,186 for the three and six months ended August 31, 2017, respectively, compared to \$2,826 and 6,552 for the three and six months ended August 31, 2016, respectively, net of customer reimbursements, and are included in continuing operations within Engineering and Technical Support Expenses on the Consolidated Statements of Operations and Comprehensive Income (Loss).

(11) Goodwill and Intangible Assets

The change in goodwill pertaining to continuing operations by segment is as follows:

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Automotive:	Amount
Beginning balance at March 1, 2017	\$7,373
Goodwill acquired (see Note2)	10
Balance at August 31, 2017	\$7,383
Gross carrying amount at August 31, 2017	\$7,383
Accumulated impairment charge	—
Net carrying amount at August 31, 2017	\$7,383
Premium Audio:	
Beginning balance at March 1, 2017	\$46,533
Activity during the period	—
Balance at August 31, 2017	\$46,533
Gross carrying amount at August 31, 2017	\$78,696
Accumulated impairment charge	(32,163)
Net carrying amount at August 31, 2017	\$46,533
Total Goodwill, net	\$53,916

Note: The Company's Consumer Accessories segment did not carry a goodwill balance at August 31, 2017 or February 28, 2017.

At August 31, 2017, intangible assets consisted of the following:

	Gross Carrying Value	Accumulated Amortization	Total Net Book Value
Finite-lived intangible assets:			
Customer relationships	\$50,033	\$24,885	\$25,148
Trademarks/Tradenames	415	397	18
Developed technology	31,290	5,442	25,848
Patents	2,812	2,048	764
License	1,400	1,400	—
Contract	2,141	1,790	351
Total finite-lived intangible assets	\$88,091	\$35,962	52,129
Indefinite-lived intangible assets			
Trademarks			101,274
Total net intangible assets			\$153,403

At February 28, 2017, intangible assets consisted of the following:

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	Gross Carrying Value	Accumulated Amortization	Total Net Book Value
Finite-lived intangible assets:			
Customer relationships	\$49,005	\$ 22,615	\$26,390
Trademarks/Tradenames	415	395	20
Developed technology	31,290	4,081	27,209
Patents	2,755	1,930	825
License	1,400	1,400	—
Contract	2,141	1,732	409
Total finite-lived intangible assets	\$87,006	\$ 32,153	54,853
Indefinite-lived intangible assets			
Trademarks			100,086
Total net intangible assets			\$ 154,939

The Company recorded amortization expense for continuing operations of \$1,642 and \$3,255, respectively for the three and six months ended August 31, 2017, and \$1,620 and \$3,240 for the three and six months ended August 31, 2016, respectively. The estimated aggregate amortization expense for continuing operations for all amortizable intangibles for August 31 of each of the succeeding years is as follows:

Year	Amount
2018	\$ 6,399
2019	6,281
2020	6,228
2021	6,003
2022	5,874

(12) Equity Investment

As of August 31, 2017, and February 28, 2017, the Company had a 50% non-controlling ownership interest in ASA Electronics, LLC and Subsidiary ("ASA") which acts as a distributor of mobile electronics specifically designed for niche markets within the automotive industry, including RV's; buses; and commercial, heavy duty, agricultural, construction, powersport, and marine vehicles.

The following presents summary financial information for ASA. Such summary financial information has been provided herein based upon the individual significance of ASA to the consolidated financial information of the Company.

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	August 3 February 28,	
	2017	2017
Current assets	\$43,783	\$ 43,643
Non-current assets	6,983	6,207
Current liabilities	8,086	5,998
Members' equity	42,680	43,852

	Six Months Ended	
	August 31,	
	2017	2016
Net sales	\$49,477	\$ 47,864
Gross profit	16,137	15,093
Operating income	7,391	6,686
Net income	7,460	6,706

The Company's share of income from ASA was \$1,927 and \$3,730, respectively, for the three and six months ended August 31, 2017 and \$1,545 and \$3,353 for the three and six months ended August 31, 2016, respectively.

(13) Income Taxes

For the six months ended August 31, 2017, the Company recorded an income tax benefit from continuing operations of \$(3,963), which includes a discrete income tax provision of \$65 related to the accrual of interest for unrecognized tax benefits and the re-measurement of state deferred taxes based on law changes enacted during the period. The income tax benefit relates primarily to foreign taxes offset by an income tax benefit for domestic losses incurred during Fiscal 2018, as the U.S. taxable income from discontinued operations is treated as a source of income under the intra-period allocation guidance. For the six months ended August 31, 2016, the Company recorded an income tax benefit from continuing operations of \$(6,940), which includes a discrete income tax provision of \$166 related to the accrual of interest for unrecognized tax benefits.

The effective tax rate for the six months ended August 31, 2017 and August 31, 2016 was an income tax benefit from continuing operations of 15.0% and 70.2%, respectively. The effective tax rate for the six months ended August 31, 2017 differs from the U.S. statutory rate of 35% primarily due to the ability to provide an income tax benefit for domestic losses, as the U.S. taxable income from discontinued operations is treated as a source of income under the intra-period allocation guidance, coupled with the mix of domestic and foreign earnings, the non-controlling interest related to EyeLock LLC, and an income tax benefit related to various federal tax credits.

For the three months ended August 31, 2017, the Company recorded an income tax provision from continuing operations of \$3,465, which includes a discrete income tax provision of \$55 related to the accrual of interest for unrecognized tax benefits and the re-measurement of state deferred taxes based on law changes enacted during the quarter. For the three months ended August 31, 2016, the Company recorded an income tax benefit from continuing operations of \$(5,543), which includes a discrete income tax provision of \$64 related to the accrual of interest for unrecognized tax benefits.

The effective tax rate for the three months ended August 31, 2017 and August 31, 2016 was an income tax provision from continuing operations of 21.2% and an income tax benefit of 267.6%, respectively. The effective tax rate for the three months ended August 31, 2017 differs from the U.S. statutory rate of 35% primarily due to the ability to provide an income tax benefit for domestic losses as the U.S. taxable income from discontinued operations is treated as a

source of income under the intra-period allocation guidance, coupled with the mix of domestic and foreign earnings, the non-controlling interest related to EyeLock LLC, and an income tax benefit related to various federal tax credits.

At August 31, 2017, the Company had an uncertain tax position liability from continuing operations of \$3,328, including interest and penalties. The unrecognized tax benefits include amounts related to various U.S. federal, state and local and foreign tax issues.

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(14) Inventory

Inventories by major category are as follows:

	August 31, February 28,	
	2017	2017
Raw materials	\$ 25,603	\$ 20,488
Work in process	2,494	2,270
Finished goods	113,956	99,594
Inventory, net	\$ 142,053	\$ 122,352

(15) Financing Arrangements

The Company has the following financing arrangements:

	August 31, February 28,	
	2017	2017
Debt		
Domestic credit facility (a)	\$ 94	\$ 92,793
Florida mortgage (b)	8,864	9,113
Euro asset-based lending obligation (c)	5,164	3,905
Schwaiger mortgage (d)	592	644
Klipsch note (e)	15	113
Voxx Germany mortgage (f)	3,953	3,875
Total debt	18,682	110,443
Less: current portion of long-term debt	6,770	9,215
Long-term debt	11,912	101,228
Debt issuance costs	3,070	3,481
Total long-term debt, net of debt issuance costs	\$ 8,842	\$ 97,747

(a) Domestic Credit Facility

The Company has a senior secured credit facility (the "Credit Facility") that provides for a revolving credit facility with committed availability of up to \$140,000, which may be increased, at the option of the Company, up to a maximum of \$175,000, and a term loan in the amount of \$15,000. The Credit Facility also includes a \$15,000 sublimit for letters of credit and a \$15,000 sublimit for swingline loans. The availability under the revolving credit line within the Credit Facility is subject to a borrowing base, which is based on eligible accounts receivable, eligible inventory and certain real estate, subject to reserves as determined by the lender, and is also limited by amounts outstanding under the Florida Mortgage (see Note 15(b)). In conjunction with the sale of Hirschmann on August 31, 2017 (see Note 2), the Company paid down substantially all of the outstanding balance of the revolving credit facility, as well as the entire outstanding balance of the term loan. As of August 31, 2017, \$94 was outstanding under the revolving credit facility. The remaining availability under the revolving credit line of the Credit Facility was \$100,563 as of August 31, 2017.

All amounts outstanding under the Credit Facility will mature and become due on April 26, 2021; however, it is subject to acceleration upon the occurrence of an Event of Default (as defined in the Credit Agreement). The Company may prepay any amounts outstanding at any time, subject to payment of certain breakage and redeployment

costs relating to LIBOR Rate Loans. The commitments under the Credit Facility may be irrevocably reduced at any time, without premium or penalty as set forth in the agreement.

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