

VOXX International Corp  
Form 10-Q  
October 10, 2018

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, 2018

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.

1

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Class	As of October 9, 2018
Class A Common Stock	21,938,100 Shares
Class B Common Stock	2,260,954 Shares

2

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VOXX International Corporation and Subsidiaries

Table of Contents

	Page
<b>PART I</b>	<b>FINANCIAL INFORMATION</b>
Item 1	<b>FINANCIAL STATEMENTS</b>
	Consolidated Balance Sheets at August 31, 2018 (unaudited) and February 28, 2018 <u>4</u>
	Unaudited Consolidated Statements of Operations and Comprehensive (Loss) Income for the Three and Six Months Ended August 31, 2018 and 2017 <u>6</u>
	Unaudited Consolidated Statements of Cash Flows for the Six Months Ended August 31, 2018 and 2017 <u>9</u>
	Notes to Unaudited Consolidated Financial Statements <u>10</u>
Item 2	<b>MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</b> <u>37</u>
Item 3	<b>QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</b> <u>49</u>
Item 4	<b>CONTROLS AND PROCEDURES</b> <u>49</u>
<b>PART II</b>	<b>OTHER INFORMATION</b>
Item 1	<b>LEGAL PROCEEDINGS</b> <u>50</u>
Item 1A	<b>RISK FACTORS</b> <u>50</u>
Item 2	<b>UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS</b> <u>50</u>
Item 6	<b>EXHIBITS</b> <u>51</u>
	<b>SIGNATURES</b> <u>52</u>

## 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, 2018	February 28, 2018
	(unaudited)	
Assets		
Current assets:		
Cash and cash equivalents	\$ 44,191	\$ 51,740
Accounts receivable, net	70,600	81,116
Inventory, net	124,415	117,992
Receivables from vendors	353	493
Prepaid expenses and other current assets	30,041	14,007
Income tax receivable	650	511
Total current assets	270,250	265,859
Investment securities	3,649	4,167
Equity investment	22,049	21,857
Property, plant and equipment, net	59,467	65,259
Goodwill	54,785	54,785
Intangible assets, net	136,839	150,320
Deferred income tax assets	24	24
Other assets	3,165	13,373
Total assets	\$ 550,228	\$ 575,644
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 38,657	\$ 34,700
Accrued expenses and other current liabilities	30,318	36,350
Income taxes payable	1,718	2,587
Accrued sales incentives	12,628	14,020
Current portion of long-term debt	8,153	7,730
Total current liabilities	91,474	95,387
Long-term debt, net of debt issuance costs	7,974	8,476
Capital lease obligation	742	699
Deferred compensation	2,986	3,369
Deferred income tax liabilities	18,380	12,217
Other tax liabilities	1,887	2,191
Other long-term liabilities	3,018	3,187
Total liabilities	126,461	125,526
Commitments and contingencies		
Stockholders' equity:		
Preferred stock:		
No shares issued or outstanding (see Note 20)	—	—
Common stock:		
Class A, \$.01 par value, 60,000,000 shares authorized, 24,106,194 shares issued and 21,938,100 shares outstanding at both August 31, 2018 and February 28, 2018	242	256
	22	22

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Class B Convertible, \$.01 par value, 10,000,000 shares authorized, 2,260,954 shares issued and outstanding at both August 31, 2018 and February 28, 2018

Paid-in capital	296,629	296,395
Retained earnings	172,931	194,673
Accumulated other comprehensive loss	(15,739 )	(14,222 )
Treasury stock, at cost, 2,168,094 shares of Class A Common Stock at both August 31, 2018 and February 28, 2018	(21,176 )	(21,176 )
Total VOXX International Corporation stockholders' equity	432,909	455,948
Non-controlling interest	(9,142 )	(5,830 )
Total stockholders' equity	423,767	450,118
Total liabilities and stockholders' equity	\$ 550,228	\$ 575,644

4

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See accompanying notes to unaudited consolidated financial statements.

5

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

6

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	Three Months Ended		Six Months Ended	
	August 31,		August 31,	
	2018	2017	2018	2017
Net sales	\$108,867	\$113,470	\$209,722	\$228,293
Cost of sales	77,804	85,049	150,982	169,728
Gross profit	31,063	28,421	58,740	58,565
Operating expenses:				
Selling	9,604	10,652	20,298	23,061
General and administrative	17,038	20,640	33,150	40,837
Engineering and technical support	6,070	7,383	11,981	14,037
Intangible asset impairment charges (see Note 11)	9,814	—	9,814	—
Total operating expenses	42,526	38,675	75,243	77,935
Operating loss	(11,463 )	(10,254 )	(16,503 )	(19,370 )
Other (expense) income:				
Interest and bank charges	(1,117 )	(1,843 )	(2,217 )	(3,635 )
Equity in income of equity investee	1,637	1,927	3,451	3,730
Investment gain (see Note 4)	—	1,416	—	1,416
Impairment of Venezuela investment properties (see Note 18)	(3,473 )	—	(3,473 )	—
Other, net	252	(7,629 )	913	(8,636 )
Total other expense, net	(2,701 )	(6,129 )	(1,326 )	(7,125 )
Loss from continuing operations before income taxes	(14,164 )	(16,383 )	(17,829 )	(26,495 )
Income tax expense (benefit) from continuing operations	8,338	3,465	7,225	(3,963 )
Net loss from continuing operations	(22,502 )	(19,848 )	(25,054 )	(22,532 )
Net income from discontinued operations, net of tax (see Note 2)	—	34,931	—	32,710
Net (loss) income	(22,502 )	15,083	(25,054 )	10,178
Less: net loss attributable to non-controlling interest	(1,699 )	(2,023 )	(3,312 )	(3,898 )
Net (loss) income attributable to VOXX International Corporation	\$(20,803 )	\$17,106	\$(21,742 )	\$14,076
Other comprehensive income (loss):				
Foreign currency translation adjustments	(50 )	20,480	(2,070 )	27,839
Derivatives designated for hedging	50	(134 )	492	(1,186 )
Pension plan adjustments	1	1,810	37	1,690
Unrealized holding gain on available-for-sale investment securities, net of tax	—	81	24	77
Other comprehensive income (loss), net of tax	1	22,237	(1,517 )	28,420
Comprehensive (loss) income attributable to VOXX International Corporation	\$(20,802 )	\$39,343	\$(23,259 )	\$42,496
(Loss) income per share - basic:				
Continuing operations	\$(0.85 )	\$(0.74 )	\$(0.89 )	\$(0.77 )
Discontinued operations	\$—	\$1.45	\$—	\$1.35
Attributable to VOXX International Corporation	\$(0.85 )	\$0.71	\$(0.89 )	\$0.58
(Loss) income per share - diluted:				
Continuing operations	\$(0.85 )	\$(0.74 )	\$(0.89 )	\$(0.77 )

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Discontinued operations	\$—	\$ 1.45	\$—	\$ 1.35
Attributable to VOXX International Corporation	\$(0.85	) \$0.71	\$(0.89	) \$0.58
Weighted-average common shares outstanding (basic)	24,355,791	24,160,680	24,355,791	24,160,502
Weighted-average common shares outstanding (diluted)	24,355,791	24,160,680	24,355,791	24,160,502

See accompanying notes to unaudited consolidated financial statements.

7

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VOXX International Corporation and Subsidiaries  
Unaudited Consolidated Statements of Cash Flows

	Six Months Ended	
	August 31,	
	2018	2017
Cash flows from operating activities:		
Net loss from continuing operations	\$(25,054)	\$(22,532)
Net income from discontinued operations	—	32,710
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	5,925	9,093
Amortization of debt discount	411	411
Intangible asset impairment charges	9,814	—
Bad debt expense	103	179
Loss (gain) on forward contracts	218	6,389
Equity in income of equity investees	(3,451 )	(3,730 )
Distribution of income from equity investees	3,263	4,316
Deferred income tax expense (benefit)	6,080	1,347
Non-cash compensation adjustment	(383 )	370
Stock based compensation expense	234	299
Impairment of Venezuela investment properties	3,473	—
Gain (loss) on sale of property, plant and equipment	13	(10 )
Gain on sale of RxNetworks	—	(1,416 )
Gain on sale of Hirschmann	—	(36,118 )
Changes in operating assets and liabilities:		
Accounts receivable	9,285	11,331
Inventory	(7,644 )	(16,783 )
Receivables from vendors	136	240
Prepaid expenses and other	699	(18,032 )
Investment securities-trading	508	345
Accounts payable, accrued expenses, accrued sales incentives and other liabilities	(2,225 )	480
Income taxes payable	(1,225 )	(1,096 )
Net cash provided by (used in) operating activities	180	(32,207 )
Cash flows (used in) provided by investing activities:		
Purchases of property, plant and equipment	(685 )	(4,842 )
Proceeds from sale of property, plant and equipment	51	10
Issuance of notes receivable	(3,164 )	(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 (used in) provided by investing activities	(3,798 )	163,991
Cash flows used in financing activities:		
Principal payments on capital lease obligation	(190 )	(419 )
Repayment of bank obligations	(1,490 )	(127,915)
Borrowings on bank obligations	1,487	36,057
Proceeds from exercise of stock options	—	5
Net cash used in financing activities	(193 )	(92,272 )
Effect of exchange rate changes on cash	(3,738 )	(1,491 )
Net (decrease) increase in cash and cash equivalents	(7,549 )	38,021

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Cash and cash equivalents at beginning of period	(a)51,740	(a)7,800
Cash and cash equivalents at end of period	\$44,191	(a)\$45,821
(a) Cash and cash equivalents at February 28, 2017 included \$6,844 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 unaudited 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, 2018. 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. Net (loss) income per share amounts for continuing and discontinued operations are computed independently. As a result, the sum of the per share amounts may not equal the total.

We operate in three reportable segments, Automotive, Premium Audio and Consumer Accessories. See Note 22 for the Company's segment reporting disclosures.

(2) Dispositions

Hirschmann Car Communication GmbH

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.

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 Fiscal 2018 second quarter ending August 31, 2017. Voxx will not have any continuing involvement in the Hirschmann business subsequent to the Closing Date. Hirschmann and TE will not be related parties of the Company after the deconsolidation of Hirschmann.

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 when the contracts were settled, within continuing operations for the three and six months ended August 31, 2017.

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

Unaudited Consolidated Statements of Operations and Comprehensive (Loss) Income:

10

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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, 2017	Six Months Ended August 31, 2017
Net sales	\$47,545	\$91,824
Cost of sales	32,925	63,610
Gross profit	14,620	28,214
Operating expenses:		
Selling	1,396	2,778
General and administrative	7,680	14,676
Engineering and technical support	3,982	7,920
Total operating expenses	13,058	25,374
Operating income of discontinued operations	1,562	2,840
Other (expense) income:		
Interest and bank charges (a)	(157 )	(279 )
Other, net	150	138
Total other expense of discontinued operations, net	(7 )	(141 )
Gain on sale of discontinued operations before taxes	36,118	36,118
Total income from discontinued operations before taxes	37,673	38,817
Income tax expense on discontinued operations (b)	2,742	6,107
Income from discontinued operations, net of taxes	\$34,931	\$32,710
Income per share - basic	\$1.45	\$1.35
Income per share - diluted	\$1.45	\$1.35

(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 operations 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 the sale of Hirschmann.

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

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

	Six Months Ended August 31, 2017
Operating activities:	
Depreciation and amortization expense	\$ 2,939
Stock-based compensation expense	50
Investing activities:	
Capital expenditures	\$ 2,652
Non-cash investing and financing activities:	
Capital expenditures funded by long-term obligations	\$ 1,910

(3) Net (Loss) Income Per Common Share

Basic net (loss) income 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 (loss) income 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 (loss) income common share. A reconciliation between the denominator of basic and diluted net (loss) income per common share is as follows:

	Three Months Ended August 31,		Six Months Ended August 31,	
	2018	2017	2018	2017
Weighted-average common shares outstanding (basic)	24,355,791	24,160,680	24,355,791	24,160,502
Effect of dilutive securities:				
Stock options, warrants and restricted stock	—	—	—	—
Weighted-average common shares and potential common shares outstanding (diluted)	24,355,791	24,160,680	24,355,791	24,160,502

Restricted stock, stock options and warrants totaling 615,267 and 586,395 for the three months ended August 31, 2018 and 2017, respectively, and 527,283 and 570,044 for the six months ended August 31, 2018 and 2017, respectively, were not included in the net (loss) income 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) Investment Securities

As of August 31, 2018, and February 28, 2018, the Company had the following investments:



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

	August 31, 2018 Carrying Value
Investment Securities	
Marketable Equity Securities	
Mutual funds	\$ 3,112
Total Marketable Equity Securities	3,112
Investment Held at Cost, Less Impairment	537
Total Investment Securities	\$ 3,649

	February 28, 2018		
	Cost Basis	Unrealized Holding Gain/(Loss)	Fair Value
Investment Securities			
Marketable Equity Securities			
Trading			
Mutual funds	\$3,620	\$	—\$ 3,620
Total Marketable Securities	3,620	—	3,620
Other Long-Term Investment at Cost	547	—	547
Total Investment Securities	\$4,167	\$	—\$ 4,167

#### Equity Securities

As required, in the first quarter of Fiscal 2019 the Company adopted ASU 2016-01, "Recognition and Measurement of Financial Assets and Financial Liabilities" ("ASU 2016-01"), which requires changes to the accounting for financial instruments that affect the Company's equity investments and the presentation and disclosure for such instruments. Marketable equity securities previously classified as available-for-sale equity investments are now measured and recorded at fair value with changes in fair value recorded in the Unaudited Consolidated Statements of Operations and Comprehensive (Loss) Income. The impact of adopting ASU 2016-01 resulted in a cumulative effect adjustment of \$24, which was recorded in other income (expense) in the Unaudited Consolidated Statements of Operations and Comprehensive (Loss) Income for the six months ended August 31, 2018, rather than in retained earnings, as it was not considered material to the Company's consolidated financial statements for the period.

#### Mutual Funds

The Company's mutual funds are held in connection with its deferred compensation plan. Changes in the carrying value of these securities are offset by changes in the corresponding deferred compensation liability.

Upon the adoption of ASU 2016-01, changes in fair value of equity securities are now recorded within the Unaudited Consolidated Statements of Operations and Comprehensive (Loss) Income, and as such, other than temporary impairment ("OTTI") considerations are no longer made with respect to equity securities. Prior to the adoption of ASU 2016-01, in determining whether equity securities were other than temporarily impaired, the Company considered its intent and ability to hold a security for a period of time sufficient to allow for the recovery of cost, along with factors including the length of time each security had been in an unrealized loss position, the extent of the decline and the near-term prospect for recovery. Additionally, on a quarterly basis, the Company was required to make

a qualitative assessment of whether the investment was impaired. No OTTI losses were incurred by the Company during the three and six months ended August 31, 2017.

#### Investment Held at Cost, Less Impairment

The Company's investment held at cost, less impairment, represents an investment in Fathom Systems Inc. ("Fathom"), a non-controlled corporation. On July 31, 2017, RxNetworks, a Canadian company in which Voxx held a cost method

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

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 Fathom, a newly formed Canadian entity, formerly a subsidiary of RxNetworks. 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. On March 1, 2018, the Company adopted ASU No. 2016-01. This guidance requires equity investments to be measured at fair value with changes in fair value recognized in net income. Since it does not have a readily determinable market value, the Company has elected to measure its investment in Fathom at cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or similar investment. No adjustments have been made to the value of the Company's investment in Fathom for the three and six months ended August 31, 2018 either due to impairment or based on observable price changes. The variance in the balance of this investment is attributable solely to foreign currency adjustments. The Company monitors any events or changes in circumstances that may have a significant adverse effect on the fair value of this investment and makes any necessary adjustments. As of August 31, 2018, the Company's investment in Fathom totaled \$537, or 8.0% of the outstanding shares of this company.

During Fiscal 2018, the Company had an investment in 360fly, Inc., consisting of shares of the investee's preferred stock. The Company also issued a total of five senior secured notes to 360fly, Inc. during the fiscal year. One of the notes issued to the investee on February 28, 2018 was issued in the amount of, and in exchange for, the outstanding equity investment held by the Company on that date and as a result of this loan, all of the preferred stock shares of 360fly, Inc. owned by Voxx were canceled and the Company had no remaining investment in the equity of 360fly, Inc. as of February 28, 2018. Interest on all of the notes accrues at 8%. The notes are due on August 31, 2019 and are convertible into equity at the option of the Company only. The total outstanding balance of the notes receivable from 360fly, Inc. at August 31, 2018 is \$13,069, net of an allowance of \$1,819, included in prepaid expenses and other current assets and \$10,888, net of an allowance of \$1,288 at February 28, 2018, included in other assets on the Consolidated Balance Sheet.

(5) 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, 2018:

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

	Fair Value Measurements at Reporting Date Using		
	Total	Level 1	Level 2
Cash and cash equivalents:			
Cash and money market funds	\$44,191	\$44,191	\$—
Derivatives:			
Designated for hedging	\$122	\$—	\$122
Investment securities:			
Mutual funds	\$3,112	\$3,112	\$—
Investment held at cost, less impairment (a)	537	—	—
Total investment securities	\$3,649	\$3,112	\$—

The following table presents assets and liabilities measured at fair value on a recurring basis at February 28, 2018:

	Fair Value Measurements at Reporting Date Using		
	Total	Level 1	Level 2
Cash and cash equivalents:			
Cash and money market funds	\$51,740	\$51,740	\$—
Derivatives:			
Designated for hedging	\$(262 )	\$—	\$(262)
Investment securities:			
Trading securities	\$3,620	\$3,620	\$—
Other investment at cost (a)	547	—	—
Total investment securities	\$4,167	\$3,620	\$—

This balance represents an investment in a non-controlled corporation held at cost, less impairment (see Note 4).

(a) The fair value of this investment would be based upon Level 3 inputs and is not considered material to the Company's consolidated financial statements.

At August 31, 2018, the carrying amount of the Company's accounts receivable, notes 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; or (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 month - 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, 2018

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. 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 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,

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

if any, is recognized as incurred through other income (expense) in the Company's Unaudited Consolidated Statements of Operations and Comprehensive (Loss) Income and amounted to \$(8) and \$25 for the three and six months ended August 31, 2018, respectively, and \$(52) and \$(95) for the three and six months ended August 31, 2017, respectively.

Financial Statement Classification

The following table discloses the fair value as of August 31, 2018 and February 28, 2018 of derivative instruments:

		Derivative Assets and Liabilities	
		Fair Value	
Account		August 31,	February 28,
		2018	2018
Designated derivative instruments			
Foreign currency contracts	Prepaid expenses and other current assets	\$ 119	\$ —
	Accrued expenses and other current liabilities	—	(227 )
Interest rate swap agreements	Other assets	3	—
	Other long-term liabilities	—	(35 )
Total derivatives		\$ 122	\$ (262 )
Cash flow hedges			

During Fiscal 2018, the Company entered into forward foreign currency contracts, which have a current outstanding notional value of \$4,800 and are designated as cash flow hedges at August 31, 2018. The current outstanding notional value of the Company's interest rate swap at August 31, 2018 is \$8,365. 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, 2018 and 2017 was as follows:

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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, 2018			Six months ended August 31, 2018		
	Pretax Gain (Loss) Recognized in Other Comprehensive Income	Pretax Gain (Loss) Reclassified from Accumulated Other Comprehensive Income	(Loss) Gain for Ineffectiveness in Other Income	Pretax Gain (Loss) Recognized in Other Comprehensive Income	Pretax (Loss) Gain Reclassified from Accumulated Other Comprehensive Income	Gain (Loss) for Ineffectiveness in Other Income
Cash flow hedges						
Foreign currency contracts	\$56	\$ 21	\$ (8 )	\$422	\$ (214 )	\$ 25
Interest rate swaps	27	—	—	38	—	—

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

The net (loss) income 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, 2018, no foreign currency contracts originally designated for hedge accounting were de-designated or terminated.

(6) Accumulated Other Comprehensive (Loss) Income

The Company's accumulated other comprehensive (loss) income consists of the following:

	Foreign Currency Translation (Losses) Gains	Unrealized (losses) gains on investments, net of tax (a)	Pension plan adjustments, net of tax	Derivatives designated in a hedging relationship, net of tax	Total
Balance at February 28, 2018	\$(13,027 )	\$ (24 )	\$ (786 )	\$ (385 )	\$(14,222)
Other comprehensive (loss) income before reclassifications	(2,070 )	—	37	344	(1,689 )
Reclassified from accumulated other comprehensive income (loss)	—	24	—	148	172

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Net current-period other comprehensive (loss) income	(2,070 )	24	37	492	(1,517 )
Balance at August 31, 2018	\$ (15,097 )	\$ —	\$ (749 )	\$ 107	\$ (15,739)

(a) Pursuant to ASU 2016-01 adopted by the Company (see Note 4), beginning on March 1, 2018, changes in fair value of the Company's investments in equity investments are recorded in earnings.

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

During the three and six months ended August 31, 2018, the Company recorded tax expense related to derivatives designated in a hedging relationship of \$10 and \$197, respectively, and pension plan adjustments of \$0 in both periods.

The other comprehensive (loss) income before reclassification of \$(2,070) includes the remeasurement of intercompany transactions of a long-term investment nature of \$(533) with certain subsidiaries whose functional currency is not the U.S. dollar, and \$(1,537) 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.

(7) Supplemental Cash Flow Information

The following is supplemental information relating to the Unaudited Consolidated Statements of Cash Flows, including continuing and discontinued operations:

	Six Months Ended August 31, 2018 2017	
Non-cash investing and financing activities:		
Capital expenditures funded by long-term obligations	\$360	\$1,917
Cash paid during the period:		
Interest (excluding bank charges)	\$764	\$2,430
Income taxes (net of refunds)	2,305	2,001

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, 2018.

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 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 2018, the Company granted 188,245 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. 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 in July 2018 was \$5.50.

The following table presents a summary of the Company's restricted stock activity for the six months ended August 31, 2018:

18

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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)

	Number of Shares	Weighted Average Grant Date Fair Value
Balance at February 28, 2018	439,299	\$ 7.08
Granted	188,245	5.50
Forfeited	—	—
Balance at August 31, 2018	627,544	\$ 6.60
Vested and unissued at August 31, 2018	156,737	\$ 9.96

During the three and six months ended August 31, 2018, the Company recorded \$127 and \$234, respectively, and during the three and six months ended August 31, 2017, the Company recorded \$131 and \$250, respectively, in stock-based compensation related to restricted stock awards for continuing operations. As of August 31, 2018, there was approximately \$1,843 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, 2018, net of discounts, were \$24,945 and \$47,924, respectively, compared to \$30,515 and \$63,927, for the three and six months ended August 31, 2017, respectively.

(10) Research and Development

Expenditures for research and development are charged to expense as incurred. Such expenditures amounted to \$2,202 and \$4,560 for the three and six months ended August 31, 2018, respectively, compared to \$3,400 and \$6,186 for the three and six months ended August 31, 2017, respectively, net of customer reimbursements, and are included in continuing operations within engineering and technical support expenses on the Unaudited Consolidated Statements of Operations and Comprehensive (Loss) Income.

(11) Goodwill and Intangible Assets

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

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

Automotive:	Amount
Beginning balance at March 1, 2018	\$8,252
Activity during the period	—
Balance at August 31, 2018	\$8,252
Gross carrying amount at August 31, 2018	\$8,252
Accumulated impairment charge	—
Net carrying amount at August 31, 2018	\$8,252
Premium Audio:	
Beginning balance at March 1, 2018	\$46,533
Activity during the period	—
Balance at August 31, 2018	\$46,533
Gross carrying amount at August 31, 2018	\$78,696
Accumulated impairment charge	(32,163 )
Net carrying amount at August 31, 2018	\$46,533
Total Goodwill, net	\$54,785

Note: The Company's Consumer Accessories segment did not carry a goodwill balance at August 31, 2018 or February 28, 2018.

At August 31, 2018, intangible assets consisted of the following:

	Gross Carrying Value	Accumulated Amortization	Total Net Book Value
Finite-lived intangible assets:			
Customer relationships	\$49,905	\$ 28,209	\$21,696
Trademarks/Tradenames	415	403	12
Developed technology	31,290	8,163	23,127
Patents	2,803	2,193	610
License	1,400	1,400	—
Contract	2,141	1,907	234
Total finite-lived intangible assets	\$87,954	\$ 42,275	45,679
Indefinite-lived intangible assets			
Trademarks			91,160
Total net intangible assets			\$136,839

At February 28, 2018, intangible assets consisted of the following:

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

	Gross Carrying Value	Accumulated Amortization	Total Net Book Value
Finite-lived intangible assets:			
Customer relationships	\$ 50,249	\$ 26,807	\$ 23,442
Trademarks/Tradenames	415	400	15
Developed technology	31,290	6,802	24,488
Patents	2,830	2,138	692
License	1,400	1,400	—
Contract	2,141	1,849	292
Total finite-lived intangible assets	\$ 88,325	\$ 39,396	48,929
Indefinite-lived intangible assets			
Trademarks			101,391
Total net intangible assets			\$ 150,320

During the second quarter of Fiscal 2019, the Company re-evaluated its projections for several brands in its Consumer Accessory and Automotive segments based on lower than anticipated results due to lower product load-ins, increased competition for certain product lines, a streamlining of SKU's, and its marketing strategy for one of its brands. Accordingly, these were considered indicators of impairment requiring the Company to test the related indefinite-lived tradenames for impairment.

The Company tested these indefinite-lived intangible assets as of August 31, 2018. The respective fair values were estimated using a Relief-from-Royalty Method, applying royalty rates of 0.5% to 5.5% for the trademarks after reviewing comparable market rates, the profitability of the products associated with relative intangible assets, and other qualitative factors. We determined that risk-adjusted discount rates ranging from 12.6% to 13.1% were appropriate (developed using a weighted average cost of capital analysis). The long-term growth rates ranged from 0% to 2.0%. As a result of this analysis, it was determined that several of the Company's Consumer Accessory trademarks and one Automotive trademark were impaired at August 31, 2018. The Company recorded an impairment charge of \$9,814 for the three and six months ended August 31, 2018, with \$9,654 related to the Consumer Accessories segment and \$160 related to the Automotive segment. Approximately 54% (\$46,870) of the carrying value of the Company's indefinite lived tradenames are close to fair value and sensitive to changes and assumptions. There can be no assurance that its estimates and assumptions made for purposes of impairment testing as of August 31, 2018 will prove to be accurate predictions of the future. Reduced demand for our existing product offerings, less than anticipated results for the holiday season, lack of acceptance of its new products, or unfavorable changes in assumptions used in the discounted cash flow model such as discount rates, royalty rates or projected long-term growth rates could result in additional impairment charges in the future. The Company determined that the above indicators of impairment required the Company to evaluate the related long-lived assets at the lowest level for which there are separately identifiable cash flows. After further analysis, no additional impairments of long-lived assets were recorded for the three and six months ended August 31, 2018.

The Company recorded amortization expense for continuing operations of \$1,581 and \$3,163 for the three and six months ended August 31, 2018, respectively, and \$1,642 and \$3,255 for the three and six months ended August 31, 2017, 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
2019	\$ 6,306
2020	6,213

2021 5,994  
2022 5,831  
2023 5,520

21

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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)

(12) Equity Investment

As of August 31, 2018 and February 28, 2018, 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.

	August 3 February 28,	
	2018	2018
Current assets	\$44,901	\$ 42,318
Non-current assets	6,638	7,095
Liabilities	7,441	5,699
Members' equity	44,098	43,714

	Six Months Ended	
	August 31,	
	2018	2017
Net sales	\$50,560	\$ 49,477
Gross profit	16,509	16,137
Operating income	6,806	7,391
Net income	6,902	7,460

The Company's share of income from ASA was \$1,637 and \$3,451 for the three and six months ended August 31, 2018, respectively, and \$1,927 and \$3,730 for the three and six months ended August 31, 2017, respectively.

(13) Income Taxes

For the three months ended August 31, 2018, the Company recorded an income tax provision from continuing operations of \$8,338, which includes a discrete income tax benefit of \$226, related primarily to the reversal of uncertain tax position liabilities, offset by a provision related to the accrual of interest for unrecognized tax benefits and the impact of re-measurement of state deferred taxes based on law changes enacted during the quarter. 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.

The effective tax rates for the three months ended August 31, 2018 and August 31, 2017 were an income tax provision from continuing operations of 58.9% on a pre-tax loss of \$(14,164) and an income tax provision of 21.2% on a pre-tax loss of \$(16,383), respectively. The effective tax rate for the three months ended August 31, 2018 differs from the U.S. statutory rate of 21% primarily due to the non-controlling interest related to EyeLock LLC, and state and local income taxes, nondeductible permanent differences, income taxed in foreign jurisdictions at varying tax rates. In addition, the valuation allowance increased for tax credits and loss jurisdictions for which a limited tax benefit can be recognized.

For the six months ended August 31, 2018, the Company recorded an income tax provision from continuing operations of \$7,225, which includes a discrete income tax benefit of \$199, related primarily to the reversal of uncertain tax position liabilities, offset by a provision 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. 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.

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

The effective tax rates for the six months ended August 31, 2018 and August 31, 2017 were an income tax provision from continuing operations of 40.5% on a pre-tax loss of \$(17,829) and an income tax benefit of 15.0% on a pre-tax loss of \$(26,495), respectively. The effective tax rate for the six months ended August 31, 2018 differs from the U.S. statutory rate of 21% primarily due to the non-controlling interest related to EyeLock LLC, state and local income taxes, nondeductible permanent differences, and income taxed in foreign jurisdictions at varying tax rates. In addition, the valuation allowance increased for tax credits and loss jurisdictions for which a limited tax benefit can be recognized.

At August 31, 2018, the Company had an uncertain tax position liability from continuing operations of \$1,887, including interest and penalties. The unrecognized tax benefits include amounts related to various U.S. federal, state and local, and foreign tax issues.

On December 22, 2017, the SEC staff issued Staff Accounting Bulletin No. 118 ("SAB No. 118"), which provides guidance on accounting for the tax effects of the Tax Cuts and Jobs Act ("TCJA"). The purpose of SAB No. 118 was to address any uncertainty or diversity of view in applying ASC Topic 740, Income Taxes in the reporting period in which the TCJA was enacted. SAB No. 118 addresses situations in which the accounting is incomplete for certain income tax effects of the TCJA upon issuance of a company's financial statements for the reporting period that includes the enactment date. SAB No. 118 allows for a provisional amount to be recorded if it is a reasonable estimate of the impact of the TCJA. Additionally, SAB No. 118 allows for a measurement period to finalize the impacts of the TCJA, not to extend beyond one year from the date of enactment. The Company's accounting for certain elements of the TCJA was incomplete as of the year ended February 28, 2018, and remains incomplete as of the quarter August 31, 2018; however, the Company was able to make reasonable estimates of the effects, and therefore, recorded provisional estimates for these items at August 31, 2018 and February 28, 2018.

(14) Inventory

Inventories by major category are as follows:

	August 31, February 28,	
	2018	2018
Raw materials	\$ 29,165	\$ 28,071
Work in process	3,212	2,485
Finished goods	92,038	87,436
Inventory, net	\$ 124,415	\$ 117,992

(15) Product Warranties and Product Repair Costs

The following table provides a summary of the activity with respect to product warranties and product repair costs. Liabilities for product warranties and product repair costs are included within accrued expenses and other current liabilities on the Consolidated Balance Sheets.

	Three Months Ended		Six Months Ended	
	August 31,		August 31,	
	2018	2017	2018	2017
Opening balance	\$4,925	\$5,927	\$6,233	\$5,608
Liabilities acquired during acquisition	—	—	—	500

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Liabilities accrued for warranties accrued during the period	1,366	2,077	2,866	4,109
Balances transferred (a)	—	—	(832 )	—
Warranties paid during the period	(1,436 )	(2,038 )	(3,412 )	(4,251 )
Ending balance	\$4,855	\$5,966	\$4,855	\$5,966

23

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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)

(a) In conjunction with the implementation of ASC Topic 606, Revenue from Contracts with Customers (see Note 23), the Company recorded a refund liability, representing the amount of consideration received for products sold that the Company expects to refund to customers, as well as a corresponding return asset that reflects the Company's right to receive goods back from customers. The return asset is calculated as the carrying amount of goods at the time of sale, less any expected costs to recover the goods and any expected reduction in value and is included in prepaid expenses and other current assets on the Unaudited Consolidated Balance Sheet at August 31, 2018. The balance above represents amounts that would reduce the value of inventory returned to the Company and has been reclassified to the return asset in order to properly reflect the value of the inventory the Company expects to receive back from customers.

(16) Financing Arrangements

The Company has the following financing arrangements:

	August 31, February 28,	
	2018	2018
Debt		
Domestic credit facility (a)	\$ —	\$ —
Florida mortgage (b)	8,365	8,613
Euro asset-based lending obligation (c)	6,595	6,119
Schwaiger mortgage (d)	360	468
Voxx Germany mortgage (e)	3,056	3,665
Total debt	18,376	18,865
Less: current portion of long-term debt	8,153	7,730
Long-term debt	10,223	11,135
Less: debt issuance costs	2,249	2,659
Total long-term debt, net of debt issuance costs	\$ 7,974	\$ 8,476

(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 16(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, which is not renewable. As of August 31, 2018, there was no balance outstanding under the revolving credit facility. The availability under the revolving credit line of the Credit Facility was \$93,567 as of August 31, 2018.

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.

Generally, the Company may designate specific borrowings under the Credit Facility as either Base Rate Loans or LIBOR Rate Loans, except that swingline loans may only be designated as Base Rate Loans. Loans designated as LIBOR Rate Loans bear interest at a rate equal to the then applicable LIBOR rate plus a range of 1.75 - 2.25%. Loans designated as Base Rate loans bear interest at a rate equal to the applicable margin for Base Rate Loans of 0.75 - 1.25% as defined in the agreement. As of August 31, 2018, the weighted average interest rate on the facility was 5.75%.

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

The Credit Facility requires compliance with a financial covenant calculated as of the last day of each month, consisting of a Fixed Charge Coverage Ratio. The Credit Facility also contains covenants that limit the ability of the loan parties and certain of their subsidiaries which are not loan parties to, among other things: (i) incur additional indebtedness; (ii) incur liens; (iii) merge, consolidate or dispose of a substantial portion of their business; (iv) transfer or dispose of assets; (v) change their name, organizational identification number, state or province of organization or organizational identity; (vi) make any material change in their nature of business; (vii) prepay or otherwise acquire indebtedness; (viii) cause any change of control; (ix) make any Restricted Junior Payment; (x) change their fiscal year or method of accounting; (xi) make advances, loans or investments; (xii) enter into or permit any transaction with an affiliate of any borrower or any of their subsidiaries; (xiii) use proceeds for certain items; (xiv) issue or sell any of their stock; or (xv) consign or sell any of their inventory on certain terms. In addition, if excess availability under the Credit Facility were to fall below certain specified levels, as defined in the agreement, the lenders would have the right to assume dominion and control over the Company's cash. As of August 31, 2018, the Company was in compliance with all debt covenants, including cash dominion.

The obligations under the loan documents are secured by a general lien on and security interest in substantially all of the assets of the borrowers and certain of the guarantors, including accounts receivable, equipment, real estate, general intangibles and inventory. The Company has guaranteed the obligations of the borrowers under the Credit Agreement.

Charges incurred on the unused portion of the Credit Facility during the three and six months ended August 31, 2018 totaled \$125 and \$272, respectively, compared to \$57 and \$118 during the three and six months ended August 31, 2017, respectively. These charges are included within interest and bank charges on the Unaudited Consolidated Statements of Operations and Comprehensive (Loss) Income.

The Company has deferred financing costs related to the Credit Facility and a previous amendment and modification of the Credit Facility. These deferred financing costs are included in long-term debt on the accompanying Consolidated Balance Sheets as a contra-liability balance and are amortized through interest and bank charges in the Unaudited Consolidated Statements of Operations and Comprehensive (Loss) Income over the five-year term of the Credit Facility. During both the three and six months ended August 31, 2018 and 2017, the Company amortized \$197 and \$395 of these costs, respectively. The net unamortized balance of these deferred financing costs as of August 31, 2018 is \$2,016.

(b) Florida Mortgage

On July 6, 2015, VOXX HQ LLC, the Company's wholly owned subsidiary, closed on a \$9,995 industrial development revenue tax exempt bond under a loan agreement in favor of the Orange County Industrial Development Authority (the "Authority") to finance the construction of the Company's manufacturing facility and executive offices in Lake Nona, Florida. Wells Fargo Bank, N.A. ("Wells Fargo") was the purchaser of the bond and U.S. Bank National Association is the trustee under an Indenture of Trust with the Authority. Voxx borrowed the proceeds of the bond purchase from the Authority during construction as a revolving loan, which converted to a permanent mortgage upon completion of the facility in January 2016 (the "Florida Mortgage"). The Company makes principal and interest payments to Wells Fargo, which began March 1, 2016 and will continue through March of 2026. The Florida Mortgage bears interest at 70% of 1-month LIBOR plus 1.54% (3.65% at August 31, 2018) and is secured by a first mortgage on the property, a collateral assignment of leases and rents and a guaranty by the Company. The financial covenants of the Florida Mortgage are as defined in the Company's Credit Facility with Wells Fargo dated April 26, 2016.

The Company incurred debt financing costs totaling approximately \$332 as a result of obtaining the Florida Mortgage, which are recorded as deferred financing costs and included in Long-term Debt as a contra-liability balance on the accompanying Consolidated Balance Sheets and are being amortized through interest and bank charges in the Unaudited Consolidated Statements of Operations and Comprehensive (Loss) Income over the ten-year term of the Florida Mortgage. The Company amortized \$8 and \$16 of these costs during both the three and six months ended August 31, 2018 and 2017, respectively. The net unamortized balance of these deferred financing costs as of August 31, 2018 is \$233.

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

On July 20, 2015, the Company entered into an interest rate swap agreement in order to hedge interest rate exposure related to the Florida Mortgage and pays a fixed rate of 3.48% under the swap agreement (See Note 4).

(c) Euro Asset-Based Lending Obligation

Foreign bank obligations include a Euro accounts receivable factoring arrangement, which has a credit limit of up to 60% of eligible non-factored accounts receivable (see Note 9), and a Euro Asset-Based Lending ("ABL") credit facility, which has a credit limit of €8,000 and expires on July 31, 2020 for the Company's subsidiary, VOXX Germany. The rate of interest for the factoring arrangement is the three-month Euribor plus 1.6% (1.25% at August 31, 2018) and the rate of interest for the ABL is the three-month Euribor plus 2.3% (1.95% at August 31, 2018). As of August 31, 2018, the amounts outstanding under these credit facilities, which are payable on demand, do not exceed their respective credit limits.

(d) Schwaiger Mortgage

In January 2012, the Company's Schwaiger subsidiary purchased a building, entering into a mortgage note payable. The mortgage note bears interest at 3.75% and will be fully paid by December 2019.

(e) Voxx Germany Mortgage

This balance represents a mortgage on the land and building housing Voxx Germany's headquarters in Pulheim, Germany, which was entered into in January 2013. The mortgage bears interest at 2.85%, payable in twenty-six quarterly installments through September 2019.

(17) Other Income (Expense)

Other income (expense) is comprised of the following:

	Three Months Ended August 31, 2018		Six Months Ended August 31, 2017	
Foreign currency (loss) gain	\$(131)	\$(7,387)	\$204	\$(8,219)
Interest income	269	16	475	31
Rental income	132	131	253	275
Miscellaneous	(18 )	(389 )	(19 )	(723 )
Total other, net	\$252	\$(7,629)	\$913	\$(8,636)

Included within the foreign currency loss for the three and six months ended August 31, 2017 is a loss on forward contracts totaling \$(6,618) incurred in conjunction with the sale of Hirschmann (see Note 2).

(18) Foreign Currency

The Company has a subsidiary in Venezuela. Venezuela is currently experiencing significant political and civil unrest and economic instability and has implemented various foreign currency and price controls. The country has also experienced high rates of inflation over the last several years. The President of Venezuela has the authority to legislate certain areas by decree, which allows the government to nationalize certain industries or expropriate certain

companies and property. These factors have had a negative impact on our business and our financial condition. In 2003, Venezuela created the Commission of Administration of Foreign Currency ("CADIVI") which establishes and administers currency controls and their associated rules and regulations. These controls include creating a fixed exchange rate between the Bolivar Fuerte and the U.S. Dollar, and the ability to restrict the exchange of Bolivar Fuertes for U.S. Dollars and vice versa. On March 1, 2010, the Company transitioned to hyper-inflationary accounting for Venezuela in accordance with the guidelines in ASC 830, "Foreign Currency." A hyper-inflationary economy designation occurs when a country has experienced cumulative inflation of approximately 100 percent or more over a 3-year period. The hyper-inflationary

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

designation requires the local subsidiary in Venezuela to record all transactions as if they were denominated in U.S. dollars.

Since January 2014, the Venezuelan government has created multiple alternative exchange rates designated to be used for the purchase of goods and services deemed non-essential. In January 2018, the Venezuelan government eliminated the official government DIPRO exchange rate, stating that all currency transactions would be carried out at the DICOM rate, which was the floating exchange rate previously used only for non-essential imports and was allowed to float to meet market needs. As of August 31, 2017, the DICOM rate was used for remeasuring its Venezuelan subsidiary's financial statements. On August 20, 2018, the government further devalued the Bolivar Fuerte in an attempt to address continuing hyperinflation, also renaming it the Sovereign Bolivar. As of August 31, 2018, the DICOM rate for the Sovereign Bolivar was approximately 61 bolivars to the U.S. dollar. Total net currency exchange (losses) gains of \$(2) and \$(5) were recorded for the three and six months ended August 31, 2018, respectively, for Venezuela, as compared to \$21 and \$105 for the three and six months ended August 31, 2017, respectively, and are included in other income (expense) on the Unaudited Consolidated Statements of Operations and Comprehensive (Loss) Income.

The Company has certain long-lived assets in Venezuela, which are held for investment purposes. During the second quarter of Fiscal 2019, the Company made an assessment of the recoverability of these properties as a result of the country's continued economic deterioration, which included the significant currency devaluation in August of 2018. The Company estimated the future undiscounted cash flows expected to be received from these properties. The estimate of the future undiscounted cash flows considered the Company's financial condition and its intent and ability to retain its investments for a period of time sufficient to allow for the recovery of the carrying value. The future undiscounted cash flows did not exceed the net carrying value for the long-lived assets. The estimated fair value of the properties, which also considered the current conditions of the economy in Venezuela, the volatility of the real estate market, and the significant political unrest, resulted in a full non-cash impairment charge of \$3,473 for the three and six months ended August 31, 2018. The non-cash impairment charge is included in Other Income (Expense) on the Unaudited Consolidated Statements of Operations and Comprehensive (Loss) Income.

(19) Lease Obligations

At August 31, 2018, the Company was obligated under non-cancelable operating leases for equipment, as well as warehouse and office facilities for minimum annual rental payments for continuing operations, for each of the succeeding years, as follows:

	Operating Leases
2019	\$ 1,268
2020	558
2021	410
2022	334
2023	197
Thereafter	192
Total minimum lease payments	\$ 2,959

The Company has capital leases with a total lease liability of \$1,173 at August 31, 2018. These leases have maturities through Fiscal 2021.

(20) Capital Structure

The Company's capital structure is as follows:

27

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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)

Security	Par Value	Shares Authorized		Shares Outstanding		Voting Rights per Share	Liquidation Rights
		August 31, 2018	February 28, 2018	August 31, 2018	February 28, 2018		
Preferred Stock	\$50.00	50,000	50,000	—	—	—	\$50 per share
Series Preferred Stock	\$0.01	1,500,000	1,500,000	—	—	—	—
Class A Common Stock	\$0.01	60,000,000					