

VOXX International Corp
Form 10-K
May 16, 2016

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

FORM 10-K

Annual Report Pursuant to Section 13 or 15 (d) of the Securities Exchange Act of 1934

For the fiscal year ended February 29, 2016

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 Boulevard, Orlando, Florida 32824
(Address of principal executive offices) (Zip Code)

(800) 645-7750
(Registrant's telephone number, including area code)
180 Marcus Boulevard
Hauppauge, NY 11788
(Former address, if changed since last report)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class:	Name of Each Exchange on which Registered
Class A Common Stock \$.01 par value	The Nasdaq Stock Market LLC

Securities registered pursuant to Section 12(g) of the Act:
None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.
Yes No

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

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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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer or a smaller reporting company. See definition of "accelerated filer", "large accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (check one):

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

Indicate by check mark whether the Registrant is a shell company (as defined in rule 12b-2 of the 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

The aggregate market value of the common stock held by non-affiliates of the Registrant was \$154,239,035 (based upon closing price on the Nasdaq Stock Market on August 31, 2015).

The number of shares outstanding of each of the registrant's classes of common stock, as of May 13, 2016 was:

Class	Outstanding
Class A common stock \$.01 par value	21,899,370
Class B common stock \$.01 par value	2,260,954

DOCUMENTS INCORPORATED BY REFERENCE

Part III - (Items 10, 11, 12, 13 and 14) Proxy Statement for Annual Meeting of Stockholders to be filed on or before June 10, 2016.

VOXX INTERNATIONAL CORPORATION

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CAUTIONARY STATEMENT RELATING TO THE SAFE HARBOR PROVISIONS OF THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

This Annual Report on Form 10-K, including "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Item 7, and the information incorporated by reference contains "forward-looking statements" within the meaning of section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. We intend those forward looking-statements to be covered by the safe harbor provisions for forward-looking statements. All statements regarding our expected financial position and operating results, our business strategy, our financing plans and the outcome of any contingencies are forward-looking statements. Any such forward-looking statements are based on current expectations, estimates, and projections about our industry and our business. Words such as "anticipates," "expects," "intends," "plans," "believes," "seeks," "estimates," or variations of those words and similar expressions are intended to identify such forward-looking statements. Forward-looking statements are subject to risks and uncertainties that could cause actual results to differ materially from those stated in or implied by any forward-looking statements. Factors that could cause actual results to differ materially from forward-looking statements include, but are not limited to, matters listed in Item 1A under "Risk Factors" of this annual report. The Company assumes no obligation and does not intend to update these forward-looking statements.

NOTE REGARDING DOLLAR AMOUNTS AND FISCAL YEAR

In this annual report, all dollar amounts are expressed in thousands, except for share prices and per-share amounts. Unless specifically indicated otherwise, all amounts and percentages in our Form 10-K are exclusive of discontinued operations.

The Company's current fiscal year began March 1, 2015 and ended February 29, 2016.

PART I

Item 1-Business

VOXX International Corporation ("Voxx," "We," "Our," "Us," or the "Company") is a leading international manufacturer and distributor in the Automotive, Premium Audio and Consumer Accessories industries. The Company has widely diversified interests, with more than 30 global brands that it has acquired and grown throughout the years, achieving a powerful international corporate image and creating a vehicle for each of these respective brands to emerge with its own identity. We conduct our business through eighteen wholly-owned subsidiaries: Audiovox Atlanta Corp., VOXX Electronics Corporation, VOXX Accessories Corp., Audiovox Consumer Electronics, Inc. ("ACE"), Audiovox German Holdings GmbH ("Voxx Germany"), Audiovox Venezuela, C.A., Audiovox Canada Limited, Voxx Hong Kong Ltd., Audiovox International Corp., Audiovox Mexico, S. de R.L. de C.V. ("Voxx Mexico"), Code Systems, Inc., Oehlbach Kabel GmbH ("Oehlbach"), Schwaiger GmbH ("Schwaiger"), Invision Automotive Systems, Inc. ("Invision"), Klipsch Holding LLC ("Klipsch"), Car Communication Holding GmbH ("Hirschmann"), Omega Research and Development, LLC ("Omega") and Audiovox Websales LLC, as well as a majority owned subsidiary, EyeLock LLC ("EyeLock"). We market our products under the Audiovox® brand name and other brand names and licensed brands, such as 808®, AR for Her, Acoustic Research®, Advent®, Ambico®, Car Link®, Chapman®, Code-Alarm®, Energy®, Heco®, Hirschmann Car Communication®, Incaar™, Invision®, Jamo®, Jensen®, Klipsch®, Mac Audio™, Magnat®, Mirage®, myris®, Oehlbach®, Omega®, Phase Linear®, Prestige®, Pursuit®, RCA®, RCA Accessories, Schwaiger®, Recoton®, Terk® and Voxx/Hirschmann as well as private labels through a large domestic and international distribution network. We also function as an OEM ("Original Equipment Manufacturer") supplier to several customers, as well as market a number of products under exclusive distribution agreements, such as SiriusXM satellite radio products; Singtrix®, the next generation in karaoke and 360 Fly® Action Cameras.

VOXX International Corporation was incorporated in Delaware on April 10, 1987 under its former name, Audiovox, as successor to a business founded in 1960 by John J. Shalam, our Chairman and controlling stockholder. Our extensive distribution network and long-standing industry relationships have allowed us to benefit from growing market opportunities and emerging niches in the electronics business.

During Fiscal 2013, the Company realigned its subsidiaries into three operating segments based upon the Company's products and internal organizational structure. The operating segments consist of the Automotive, Premium Audio and Consumer Accessories segments. The Automotive segment designs, manufactures, distributes and markets rear-seat entertainment devices, satellite radio products, automotive security, remote start systems, digital TV tuners, mobile antennas, mobile multimedia devices, aftermarket/OE-styled radios, car-link smartphone telematics application, collision avoidance systems and location-based services. The Premium Audio segment designs, manufactures, distributes and markets home theater systems, high-end loudspeakers, outdoor speakers, iPod/computer speakers, business music systems, cinema speakers, flat panel speakers, Bluetooth speakers, soundbars, headphones and DLNA (Digital Living Network Alliance) compatible devices. The Consumer Accessories segment designs and

markets remote controls; rechargeable battery packs; wireless and Bluetooth speakers; Singtrix karaoke products; 360 Fly® Action Cameras; EyeLock iris identification and security related products; personal sound amplifiers; and A/V connectivity, portable/home charging, reception and digital consumer products. See Note 14 to the Company's Consolidated Financial Statements for segment and geographic area information.

We make available financial information, news releases and other information on our web site at www.voxxintl.com. There is a direct link from the web site to the Securities and Exchange Commission's ("SEC") filings web site, where our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and any amendments to these reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 are available free of charge as soon as reasonably practicable after we file such reports and amendments with, or furnish them to, the SEC. In addition, we have adopted a Code of Business Conduct and Ethics which is available free of charge upon request. Any such request should be directed to the attention of: Chris Lis Johnson, Company Secretary, 180 Marcus Boulevard, Hauppauge, New York 11788, (631) 231-7750.

Acquisitions

We have acquired and continue to integrate the following acquisitions, discussed below, into our existing business structure:

Effective September 1, 2015 ("the Closing Date"), Voxx completed its acquisition of a majority voting interest in substantially all of the assets and certain specified liabilities of EyeLock, Inc. and EyeLock Corporation (collectively the "Seller") through a newly-formed entity, EyeLock LLC, for a total purchase consideration of \$31,880, which consisted of a cash payment of \$15,504, assignment of the fair value of the indebtedness owed to the Company by the Seller of \$,676 and the fair value of the non-controlling interest of \$12,900, reduced by \$1,200 for amounts owed to the LLC by the selling shareholders. EyeLock is a market leader of iris-based identity authentication solutions and this acquisition allows the Company to enter into the growing biometrics market.

On March 14, 2012, Voxx International (Germany) GmbH, a wholly owned subsidiary of Voxx, acquired all of the issued and outstanding shares of Car Communication Holding GmbH and its worldwide subsidiaries ("Hirschmann") for a total purchase price of approximately \$114,000 (based on the rate of exchange as of the close of business on the closing date) plus related transaction fees, expenses and working capital adjustments. Hirschmann is a recognized tier-1 supplier of communications and infotainment solutions and antenna solutions, primarily to the automotive industry, and counts among its global customers Audi, BMW, DAF, Daimler, PSA, Renault, Volkswagen Group and AT&T, among others. Hirschmann delivers technologically advanced automotive antenna systems and automotive digital TV tuner systems and is recognized throughout the industry for its commitment to innovation, having developed the world's first hybrid (analog and digital) TV tuner and the first digital TV tuner for the Chinese automotive market.

On March 1, 2011, Soundtech LLC, a Delaware limited liability company and wholly-owned subsidiary of Voxx, acquired all of the issued and outstanding shares of Klipsch Group, Inc. and its worldwide subsidiaries ("Klipsch") for a total purchase price of \$169,599 including contingent consideration of approximately \$2,200 as a result of a contractual agreement with a former principal shareholder, plus related transaction fees and expenses. Klipsch is a global provider of high-end speakers for audio, multi-media and home theater applications. The acquisition of Klipsch added world-class brand names to Voxx's offerings, increased its distribution network, both domestically and abroad, and provided the Company with entry into the high-end installation market at both the residential and commercial installation market. In addition to the Klipsch® brand, the Klipsch portfolio includes Jamo®, Mirage®, and Energy®.

Refer to Note 2 "Business Acquisitions" of the Notes to Consolidated Financial Statements for additional information regarding the EyeLock acquisition in Fiscal 2016.

Strategy

Our objective is to grow our business both organically and through strategic acquisitions. We will drive the business organically by continued product development in new and emerging technologies that should increase gross margins, and improve operating income. We are focused on expanding sales both domestically and internationally and broadening our customer and partner base as we bring these new products to our target markets. In addition, we plan to continue to acquire synergistic companies that would allow us to leverage our overhead, penetrate new markets and expand existing product categories.

The key elements of our strategy are as follows:

Continue to build and capitalize on the VOXX family of brands. We believe the "VOXX" portfolio of brands is one of our greatest strengths and offers us significant opportunity for increased market penetration. Today, VOXX International has over 30 global brands in its portfolio, which provides the Company with the ability to bring to market products under brands that consumers

know to be quality. In addition, with such a wide brand portfolio, we can manage channels and sell into multiple outlets as well as leverage relationships with distributors, retailers, aftermarket car dealers and expeditors, and to global OEMs. Finally, we are open to opportunities to license some of the brands as an additional use of the brands and a growth strategy.

Continue to maintain diversified, blue chip customer base. Voxx distributes products through a wide range of specialty and mass merchandise channels, and has arrangements with tier-1 auto OEMs. OEM products account for 37% of Fiscal 2016 sales. The top-five customers represented 31% of sales, and no single customer accounted for over 10% of 2016 sales.

Capitalize on niche product and distribution opportunities in our target markets. Throughout our history, we have used our extensive distribution and supply networks to capitalize on niche product and distribution opportunities in the automotive, premium audio and consumer accessories categories. We will continue that focus as we remain committed to innovation, developing products internally and through our outsourced technology and manufacturing partners to provide our customers with products that are in demand by consumers.

Combine new, internal manufacturing capabilities with our proven outsourced manufacturing with industry partners. For years, VOXX International employed an outsourced manufacturing strategy that enabled the Company to deliver the latest technological advances without the fixed costs associated with manufacturing. With recent acquisitions, the Company now has added manufacturing capabilities to produce select product lines, such as high-end speakers, rear-seat entertainment systems, digital TV tuners and antennas, and iris identification and security related products. This blend of internal and outsourced manufacturing enables the Company to drive innovation, control product quality and speed time-to-market.

Use innovative technology generation capabilities to enable us to build a robust pipeline of new products. Voxx has invested significantly in R&D, and has increased R&D expenditures from \$21,267 in Fiscal 2014 to \$23,486 in Fiscal 2016, net of reimbursements. The Company saw increases in Fiscal 2016 due in part to the acquisition of a controlling interest in EyeLock on September 1, 2015. Voxx uses a mix of internal and external R&D, internal and external manufacturing, and has a number of valuable trademarks, copyrights, patents, domain names and other intellectual property. Through Voxx's increased focus on R&D, the Company has built a pipeline of new products across all three segments, principally within the Automotive and Consumer Accessories segments.

Leverage our domestic and international distribution network. We believe that today VOXX International Corporation has the most expansive distribution network. Our distribution network, which includes power retailers, mass merchandisers, distributors, online retailers, professional and commercial installation channels, drug stores, hardware and furniture chains, car dealers and OEM's will allow us to increase our market penetration. We intend to capitalize on new and existing distribution outlets to further grow our business across our three operating segments, both domestically and abroad.

Grow our international presence. We continue to expand our international presence in Europe through our subsidiaries in Germany, as well as operations in Canada, Mexico, Hungary and Hong Kong. We also continue to export from our domestic operations in the United States. Through our acquisitions of Klipsch and Hirschmann, we have expanded our presence throughout Europe, the Asia Pacific region and in select emerging markets. Our strategy remains to diversify our exposure to any particular geography, while expanding our product offerings and distribution touch points across the world.

Pursue strategic and complementary acquisitions. We continue to monitor economic and industry conditions in order to evaluate potential strategic and synergistic business acquisitions that are expected to allow us to leverage overhead, penetrate new markets and expand our existing business distribution. Over the past several years, the Company has

employed an M&A strategy to build its brand portfolio and enhance its product offering in higher margin product categories, while at the same time, exiting lower margin and commoditized product lines, resulting in improved bottom-line performance. The Company is focused on continuing to grow organically, but may pursue opportunistic acquisitions to augment our automotive segment (primarily with OEM accounts), consumer accessories and premium audio.

Improve bottom-line performance and generate sustainable shareholder returns. The Company has instituted an aggressive strategy in recent years to shift its product mix to higher-margin product categories, while controlling costs and strategically investing in its infrastructure. These changes have resulted in higher gross profit margins. The Company remains focused on growing its business organically, continuing to enhance its gross profit margins and leveraging its fixed overhead structure to generate sustainable returns for its stockholders.

Maintain disciplined acquisition criteria. Virtually all of our acquisitions over the past decade have been made to strengthen our product offerings, customer reach and growth potential across our operating business segments. Our strategy remains to acquire complimentary businesses, products and/or assets in our Automotive, Premium Audio and Consumer Accessories operating segments. Additionally, acquisitions should have a gross margin structure equal to or higher than our consolidated gross margins,

and we will continue to look for acquisitions where we can leverage our corporate overhead and resources. Furthermore, it is important that management remains with Voxx as part of the acquisition, as their domain expertise, knowledge of both the inner workings of their respective companies and the end-markets they serve are paramount to successfully running operations and achieving growth. We also pursue acquisitions that will be accretive for the Company and its shareholders in the first year such acquisitions are made.

Rapidly integrate acquired businesses. One of the more compelling factors as to why acquired businesses choose VOXX International Corporation is that we are perceived as both a financial and strategic partner. We are operators, and companies view their association with us as a positive for the future of their businesses in that we can provide resources and support that others in our sector, or in the Private Equity community, cannot. Our strategy upon acquisition, and in the years that follow, is to leverage our corporate strengths and integrate acquisitions into our operations. We provide accounting, MIS, warehouse and logistics support, as well as a host of value-added services that enable acquired companies to lower their cost basis and improve profitability. Over the past three years in particular, we have consolidated facilities in our German operations and in Indiana, where we brought our RCA® and Klipsch operating groups together. We have also implemented an Enterprise Resource Planning (ERP) upgrade, which has brought many of our acquired businesses onto our corporate systems, and will provide future cost savings and improved efficiencies.

Industry

We participate in selected product categories in the automotive, premium audio and consumer accessories markets within the electronics industry. These markets are large and diverse, encompass a broad range of products and offer the ability to specialize in niche product groups. The introduction of new products and technological advancements are the major growth drivers in these markets. Based on this, we continue to introduce new products across all segments, with an increased focus on niche product offerings.

Products

The Company currently reports sales data for the following three operating segments:

Automotive products include:

mobile multi-media video products, including in-dash, overhead and headrest systems,
autosound products including radios and amplifiers,
satellite radios including plug and play models and direct connect models,
smart phone telematics applications,
automotive security and remote start systems,
automotive power accessories,
rear observation and collision avoidance systems,
TV tuners and antennas, and
location based services.

Premium Audio products include:

premium loudspeakers,
architectural speakers,
commercial speakers,
outdoor speakers,
flat panel speakers,

wireless speakers,
Bluetooth speakers,
home theater systems,
business music systems,
streaming music systems,
on-ear and in-ear headphones,
soundbars and sound bases, and
DLNA (Digital Living Network Alliance) compatible devices.

Accessories products include:

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High-Definition Television ("HDTV") antennas,
 Wireless Fidelity ("WiFi") antennas,
 High-Definition Multimedia Interface ("HDMI") accessories,
 security related products,
 home electronic accessories such as cabling,
 other connectivity products,
 power cords,
 performance enhancing electronics,
 TV universal remotes,
 flat panel TV mounting systems,
 iPod specialized products,
 wireless headphones,
 wireless speakers,
 Bluetooth speakers,
 action cameras,
 power supply systems and charging products,
 electronic equipment cleaning products,
 personal sound amplifiers,
 set-top boxes,
 home and portable stereos,
 digital multi-media products, such as personal video recorders and MP3 products, and
 portable DVD players.

We believe our segments have expanding market opportunities with certain levels of volatility related to domestic and international markets, new car sales, increased competition by manufacturers, private labels, technological advancements, discretionary consumer spending and general economic conditions. Also, all of our products are subject to price fluctuations, which could affect the carrying value of inventories and gross margins in the future.

Net sales by segment, gross profit and net assets are as follows:

	Fiscal 2016	Fiscal 2015	Fiscal 2014
Automotive	\$351,665	\$396,422	\$412,531
Premium Audio	140,508	165,812	189,208
Consumer Accessories	187,272	194,104	206,319
Corporate/Eliminations	1,301	1,160	1,651
Total net sales	\$680,746	\$757,498	\$809,709
Gross profit	\$195,685	\$223,870	\$230,248
Gross margin percentage	28.7	% 29.6	% 28.4
Total assets	\$669,712	\$677,513	\$747,150

Patents, Trademarks/Tradenames, Licensing and Royalties

The Company regards its trademarks, copyrights, patents, domain names, and similar intellectual property as important to its operations. It relies on trademark, copyright and patent law, domain name regulations, and confidentiality or license agreements to protect its proprietary rights. The Company has registered, or applied for the registration of, a number of patents, trademarks, domain names and copyrights by U.S. and foreign governmental

authorities. Additionally, the Company has filed U.S. and international patent applications covering certain of its proprietary technology. The Company renews its registrations, which vary in duration, as it deems appropriate from time to time.

The Company has licensed in the past, and expects that it may license in the future, certain of its proprietary rights to third parties. Some of the Company's products are designed to include intellectual property licensed or otherwise obtained from third parties. While it may be necessary in the future to seek or renew licenses relating to various aspects of the Company's products, the Company believes, based upon past experience and industry practice, such licenses generally could be obtained on commercially

reasonable terms; however, there is no guarantee such licenses could be obtained at all. We intend to operate in a way that does not result in willful infringement of the patents, trade secrets and other intellectual property rights of other parties. Nevertheless, there can be no assurance that a claim of infringement will not be asserted against us or that any such assertion will not result in a judgment or order requiring us to obtain a license in order to make, use, or sell our products.

License and royalty programs offered to our manufacturers, customers and other electronic suppliers are structured using a fixed amount per unit or a percentage of net sales, depending on the terms of the agreement. Current license and royalty agreements have duration periods which range from 1 to 15 years or continue in perpetuity. Certain agreements may be renewed at termination of the agreement. The Company's license and royalty income is recorded upon sale and amounted to \$1,463, \$1,610 and \$2,072 for the years ended February 29, 2016, February 28, 2015 and February 28, 2014, respectively.

Distribution and Marketing

We sell our products to:

- power retailers,
- mass merchants,
- regional chain stores,
- specialty and internet retailers,
- independent 12 volt retailers,
- distributors,
- new car dealers,
- automotive and vehicle manufacturers,
- automotive, vehicle and transportation equipment manufacturers (OEM's),
- system integrators,
- communication network providers,
- smart grid manufacturers,
- banks,
- the U.S. military,
- cinema operators,
- sporting goods equipment retailers, and
- cell phone carriers.

We sell our products under OEM arrangements with domestic and/or international subsidiaries of automobile manufacturers such as Volkswagen, Audi, BMW, DAF Daimler, Scania, Volvo trucks, Peugeot, Ford Motor Company, Chrysler, General Motors Corporation, Toyota, Kia, Mazda, Subaru, Nissan, Porsche and Bentley. These arrangements require a close partnership with the customer as we develop products to meet specific requirements. OEM products accounted for approximately 37% of net sales for both of the years ended February 29, 2016 and February 28, 2015 and 38% for the year ended February 28, 2014.

Our five largest customers represented 31% of net sales during both of the years ended February 29, 2016 and February 28, 2015 and 29% for the year ended February 28, 2014. No one customer accounted for more than 10% of the Company's sales for the years ended February 29, 2016, 2015 or 2014.

We also provide value-added management services, which include:

- product design and development,

- engineering and testing,
- sales training and customer packaging,
 - in-store display design,
- installation training and technical support,
- product repair services and warranty,
- nationwide installation network,
- fulfillment,
- warehousing, and
- specialized manufacturing.

We have flexible shipping policies designed to meet customer needs. In the absence of specific customer instructions, we ship products within 24 to 48 hours from the receipt of an order from public warehouses, as well as owned and leased facilities throughout

the United States, Canada, Mexico, China, Hong Kong, France, the Netherlands, Hungary and Germany. The Company also employs a direct ship model from our suppliers for select customers upon their request.

Product Development, Warranty and Customer Service

Our product development cycle includes:

identifying consumer trends and potential demand, responding to those trends through product design and feature integration, which includes software design, electrical engineering, industrial design and pre-production testing. In the case of OEM customers, the product development cycle may also include product validation to customer quality standards, and evaluating and testing new products in our own facilities to ensure compliance with our design specifications and standards.

Utilizing our company-owned and third party facilities in the United States, South America, Europe and Asia, we work closely with customers and suppliers throughout the product design, testing and development process in an effort to meet the expectations of consumer demand for technologically-advanced and high quality products. Our Troy, Michigan; Orlando, Florida; Neckartenzlingen, Germany; Nürnberg, Germany; Fulda, Germany; Shanghai, China and Békéscsaba, Hungary facilities are ISO/TS 16949:2009, ISO 14001:2004 and/or ISO 9001:2008 certified, which requires the monitoring of quality standards in all facets of business.

We are committed to providing product warranties for all of our product lines, which generally range from 90 days up to seven years. The Company also provides warranties for certain vehicle security products for the life of the vehicle for the original owner. To support our warranties, we have independent warranty centers in the United States and Europe. Our customer service group, along with our Company websites, provides product information, answers questions and serves as a technical hotline for installation help for end-users and customers.

Suppliers

We work directly with our suppliers on industrial design, feature sets, product development and testing in order to ensure that our products and component parts meet our design specifications.

We purchase our products and component parts from manufacturers principally located in several Pacific Rim countries, including China, Hong Kong, Indonesia, Malaysia, Thailand, Vietnam, South Korea, Taiwan and Singapore, as well as the United States, Canada, Mexico and Europe. In selecting our manufacturers, we consider quality, price, service, reputation, financial stability, as well as labor practices, disruptions, or shortages. In order to provide coordination and supervision of supplier performance such as price negotiations, delivery and quality control, we maintain buying and inspection offices in China and Hong Kong. We consider relations with our suppliers to be good and alternative sources of supply are generally available within 120 days. We have few long-term contracts with our suppliers and we generally purchase our products under short-term purchase orders. Although we believe that alternative sources of supply are currently available, an unplanned shift to a new supplier could result in product delays and increased cost, which may have a material impact on our operations.

Competition

The electronics industry is highly competitive across all product categories, and we compete with a number of well-established companies that manufacture and sell similar products. Brand name, design, advancement of technology and features as well as price are the major competitive factors within the electronics industry. Our Automotive products compete against factory-supplied products, including those provided by, among others,

Volkswagen, Audi, General Motors, Ford and Chrysler, as well as against major companies in the automotive aftermarket, such as Sony, Panasonic, Kenwood, Directed Electronics, Autopage, Rosen, Myron and Davis, Phillips, Insignia, and Pioneer and other Tier 1 OEM's, such as Laird and Kathrein. Our Premium Audio products compete against major companies such as Polk, Definitive, Bose, Sonos, Sonance, and Bowers and Wilkins. Our Consumer Accessories product lines compete against major companies such as Sony, Phillips, Emerson Radio, Jasco, Belkin and GoPro.

Financial Information about Foreign and Domestic Operations

The amounts of net sales and long-lived assets, attributable to foreign and domestic operations for all periods presented are set forth in Note 14 of the Notes to Consolidated Financial Statements, included herein.

Equity Investment

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We have a 50% non-controlling ownership interest in ASA Electronics, LLC ("ASA") which acts as a distributor of televisions and other automotive sound, security and accessory products to specialized markets for specialized vehicles, such as, but not limited to, RV's; buses; and commercial, heavy duty, agricultural, construction, powersport and marine vehicles.

Employees

As of February 29, 2016, we employed approximately 2,100 people worldwide, of which approximately 370 were covered under collective bargaining agreements. We consider our relations with employees to be good as of February 29, 2016.

Item 1A-Risk Factors

We have identified certain risk factors that apply to us. You should carefully consider each of the following risk factors and all of the other information included or incorporated by reference in this Form 10-K. If any of these risks, or other risks not presently known to us or that we currently believe not to be significant, develop into actual events, then our business, financial condition, liquidity, or results of operations could be adversely affected. If that happens, the market price of our common stock would likely decline, and you may lose all or part of your investment.

The Automotive, Premium Audio and Consumer Accessories businesses are highly competitive and face significant competition from Original Equipment Manufacturers (OEMs) and direct imports by our retail customers.

The market for mobile electronics, premium audio products and consumer accessories is highly competitive across all product lines. We compete against many established companies, some of whom have substantially greater financial and engineering resources than we do. We compete directly with OEMs, including divisions of well-known automobile manufacturers, in the autosound, auto security, mobile video and accessories markets. We believe that OEMs have diversified and improved their product offerings and place increased sales pressure on new car dealers with whom they have close business relationships to purchase OEM-supplied equipment and accessories. To the extent that OEMs succeed in their efforts, this success would have a material adverse effect on our sales of automotive entertainment and security products to new car dealers. In addition, we compete with major retailers who may at any time choose to direct import products that we may currently supply.

We face intense competition from other biometrics solutions providers.

A significant number of established companies have developed or are developing and marketing software and hardware for biometrics products and applications that currently compete with or will compete directly with our iris-based identity authentication solutions. We believe that additional competitors will enter the biometrics market and become significant long-term competitors, and that, as a result, competition will increase. Companies competing with us may introduce solutions that are competitively priced, have increased performance or functionality or incorporate technological advances we have not yet developed or implemented.

We have few long-term sales contracts with our customers that contain guaranteed customer purchase commitments.

Sales of many of our products are made by purchase orders and are terminable at will by either party. We do have long-term sales contracts with certain customers; however, these contracts do not require the customers to guarantee specific levels of product purchases over the term of the contracts. The unexpected loss of all or a significant portion of sales to any one of our large customers could have a material adverse effect on our performance.

Sales in our Automotive, Premium Audio and Consumer Accessories businesses are dependent on new products, product development and consumer acceptance.

Our Automotive, Premium Audio and Consumer Accessories businesses depend, to a large extent, on the introduction and availability of innovative products and technologies. If we are not able to continually introduce new products that achieve consumer acceptance, our sales and profit margins may decline.

The impact of future selling prices and technological advancements may cause price erosion and adversely impact our profitability and inventory value.

Since we do not manufacture all of our products and do not conduct a majority of our own research, we cannot assure you that we will be able to source technologically advanced products in order to remain competitive. Furthermore, the introduction or expected introduction of new products or technologies may depress sales of existing products and technologies. This may result

in declining prices and inventory obsolescence. Since we maintain a substantial investment in product inventory, declining prices and inventory obsolescence could have a material adverse effect on our business and financial results.

Our estimates of excess and obsolete inventory may prove to be inaccurate, in which case the provision required for excess and obsolete inventory may be understated or overstated. Although we make every effort to ensure the accuracy of our forecasts of future product demand, any significant unanticipated changes in demand or technological developments could have a significant impact on the value of our inventory and operating results.

A commercial market for biometrics technology is still developing. There can be no assurance our iris-based identity authentication technology will be successful or achieve market acceptance.

A component of our strategy to grow revenue includes expansion of our iris-based identity authentication solutions into commercial markets. To date, biometrics technology has received only limited acceptance in such markets. Although the recent appearance of biometric readers on popular consumer products, such as smartphones, has increased interest in biometrics as a means of authenticating and/or identifying individuals, commercial markets for biometrics technology are in the process of developing and evolving. Biometrics-based solutions compete with more traditional security methods including keys, cards, personal identification numbers and security personnel. Acceptance of biometrics as an alternative to such traditional methods depends upon a number of factors including:

- the cost, performance and reliability of our products and services and the products and services offered by our competitors;
- the continued growth in demand for biometrics solutions within the government and law enforcement markets as well as the development and growth of demand for biometric solutions in markets outside of government and law enforcement;
- customers' perceptions regarding the benefits of biometrics solutions;
- public perceptions regarding the intrusiveness of these solutions and the manner in which organizations use the biometric information collected;
- public perceptions regarding the confidentiality of private information;
- proposed or enacted legislation related to privacy of information;
- customers' satisfaction with biometrics solutions; and
- marketing efforts and publicity regarding biometrics solutions.

There is no guarantee that patent/royalty rights will be renewed or licensing agreements will be maintained. Certain product development and revenues are dependent on the ownership and or use of various patents, licenses and license agreements. If the Company is not able to successfully renew or renegotiate these rights, we may suffer from a loss of product sales or royalty revenue associated with these rights or incur additional expense to pursue alternative arrangements.

There is no guarantee that our research and development expenses will be reimbursed.

We enter into development and long-term supply agreements with certain of our OEM customers and may be reimbursed for these development services, which offsets a portion of our research and development expense. This reimbursement is based upon achieving certain milestones in the development agreement. We may not always be able to achieve these milestones or control the time-frame in which the milestones are met. As a result, our research and development expenses may not always be offset by these reimbursements, which may materially affect our operating results. For Fiscal 2016, 2015 and 2014, the Company recorded \$8,313, \$7,269 and \$6,879, respectively, of development service reimbursements as a reduction of research and development expense.

We plan to continue to expand the international marketing and distribution of our products, which will subject us to risks associated with international operations, including exposure to foreign currency fluctuations.

As part of our business strategy, we intend to continue to increase our international sales, although we cannot assure you that we will be able to do so. Approximately 32% of our net sales currently originate in markets outside the U.S. While geographic diversity helps to reduce the Company's exposure to risk in any one country or part of the world, it also means that we are subject to the full range of risks associated with significant international operations, including, but not limited to:

- changes in exchange rates for foreign countries, which may reduce the U.S. dollar value of revenues, profits and cash flows we receive from non-U.S. markets or increase our supply costs, as measured in U.S. dollars, in those markets;
- exchange controls and other limits on our ability to import raw materials or finished product or to repatriate earnings from overseas;
- political and economic instability, social or labor unrest or changing macroeconomic conditions in our markets;
- foreign ownership restrictions and the potential for nationalization or expropriation of property or other resources and

other foreign or domestic legal and regulatory requirements, including those resulting in potentially adverse tax consequences or other imposition of onerous trade restrictions, price controls or other government controls.

These risks could have a significant impact on our ability to sell our products on a competitive basis in international markets and may have a material adverse effect on our results of operations, cash flows and financial condition.

In an effort to reduce the impact on earnings of foreign currency rate movements, we engage in a combination of cost-containment measures and selective hedging of foreign currency transactions. However, these measures may not succeed in offsetting any negative impact of foreign currency rate movements on our business and results of operations.

For example, in February 2013, the government of Venezuela devalued its currency, and in both January and March 2014, as well as in February 2015, the government announced further exchange rate adjustments for certain foreign investments and non-essential items, all of which have affected our business and results of operations. Likewise, in 2010, our results of operations were impacted by the designation of Venezuela as hyperinflationary and the subsequent currency devaluations in Venezuela that year. Volume restrictions on the conversion of the Venezuelan Bolivar Fuerte to U.S. Dollar limit purchasing activity for our Venezuelan subsidiary. Going forward, additional government actions, including further currency devaluations or continued worsening import authorization controls, foreign exchange price controls or labor unrest in Venezuela could have further adverse impacts on our business and results of operations.

Substantial political and economic uncertainty in Venezuela puts our local assets at risk.

We currently have a subsidiary in Venezuela, whose operations are currently suspended due to the economic and political climate in that country. We hold fixed assets at this subsidiary totaling \$3,910 and incurred impairment charges related to our long-lived assets in Venezuela of \$9,304 during Fiscal 2015. If conditions continue to deteriorate, we may be at risk of additional losses to our capital assets, including further declines in fair value or government confiscation of certain assets.

Concerns regarding the recent European debt crisis, market perceptions concerning the instability of the Euro and the European economy and concerns surrounding the economic slowdown in China could adversely affect our business, results of operations and financing.

Concerns persist regarding the debt burden of certain Eurozone countries and their ability to meet future financial obligations, the overall stability of the Euro and the suitability of the Euro as a single currency given the diverse economic and political circumstances within individual Eurozone countries. Concerns have also begun to arise regarding the slowing of the Chinese economy. These concerns or market perceptions regarding these and related issues, could adversely affect the value of the Company's Euro-denominated assets and obligations. In addition, concerns over the effect of this financial crisis on financial institutions in Europe, China and globally could have an adverse impact on the economy generally, and more specifically on the consumers' demand for our products.

We are responsible for product warranties and defects.

Whether we outsource manufacturing or manufacture products directly for our customers, we provide warranties for all of our products for which we have provided an estimated liability. Therefore, we are highly dependent on the quality of our suppliers' products.

Our capital resources may not be sufficient to meet our future capital and liquidity requirements.

We believe our current funds and available credit lines would provide sufficient resources to fund our existing operations for the foreseeable future. However, we may need additional capital to operate our business if:

- market conditions change,
- our business plans or assumptions change,
- we make significant acquisitions,
- we need to make significant increases in capital expenditures or working capital, or
- our restrictive covenants do not provide sufficient credit.

Our success will depend on a less diversified line of business.

Currently, we generate substantially all of our sales from the Automotive, Premium Audio and Consumer Accessories businesses. We cannot assure you that we can grow the revenues of our Automotive, Premium Audio and Consumer Accessories

businesses or maintain profitability. As a result, the Company's revenues and profitability will depend on our ability to maintain and generate additional customers and develop new products. A reduction in demand for our existing products and services would have a material adverse effect on our business. The sustainability of current levels of our Automotive, Premium Audio and Consumer Accessories businesses and the future growth of such revenues, if any, will depend on, among other factors:

- the overall performance of the economy and discretionary consumer spending,
- competition within key markets,
- customer acceptance of newly developed products and services, and
- the demand for other products and services.

We cannot assure you that we will maintain or increase our current level of revenues or profits from the Automotive, Premium Audio and Consumer Accessories businesses in future periods.

OEM sales are dependent on the economic success of the automotive industry.

A portion of our OEM sales are to automobile manufacturers. In the past, some domestic OEM manufacturers have reorganized their operations as a result of general economic conditions. There is no guarantee that additional automobile manufacturers will not face similar reorganizations in the future. If additional reorganizations do take place and are not successful, it could have a material adverse effect on a portion of our OEM business.

We depend on a small number of key customers for a large percentage of our sales.

The electronics industry is characterized by a number of key customers. Specifically 31% of our sales were to five customers in both Fiscal 2016 and 2015, and 29% in Fiscal 2014. The loss of one or more of these customers could have a material adverse impact on our business.

If our sales during the holiday season fall below our expectations, our annual results could also fall below expectations.

Seasonal consumer shopping patterns significantly affect our business. We generally make a substantial amount of our sales and net income during September, October and November. We expect this trend to continue. December is also a key month for us, due largely to the increase in promotional activities by our customers during the holiday season. If the economy faltered in these periods, if our customers altered the timing or frequency of their promotional activities or if the effectiveness of these promotional activities declined, particularly around the holiday season, it could have a material adverse effect on our annual financial results.

Our business could be affected by weather-related factors.

Our results of operations may be adversely affected by weather-related factors. Severe winter weather conditions may deter or prevent patrons from reaching facilities where our products are sold. Although our budget assumes certain seasonal fluctuations in our revenues to ensure adequate cash flow during expected periods of lower revenues, we cannot ensure that weather-related factors will not have a material adverse effect on our operations.

A decline in general economic conditions could lead to reduced consumer demand for the discretionary products we sell.

Consumer spending patterns, especially discretionary spending for products such as mobile, consumer and accessory electronics, are affected by, among other things, prevailing economic conditions, energy costs, raw material costs,

wage rates, inflation, consumer confidence and consumer perception of economic conditions. A general slowdown in the U.S. and certain international economies or an uncertain economic outlook could have a material adverse effect on our sales and operating results.

We are increasingly dependent on the continuous and reliable operation of our information technology systems, and a disruption of these systems, resulting from cyber security attacks or other events, could adversely affect our business.

We increasingly depend on our information technology, or IT, infrastructure in order to achieve our business objectives. If we experience a problem that impairs this infrastructure, such as a computer virus, a problem with the functioning of an important IT application, or an intentional disruption of our IT systems by a third party, the resulting disruptions could impede our ability to record or process orders, manufacture and ship in a timely manner, or otherwise carry on our business in the ordinary course. Any such events could cause us to lose customers or revenue and could require us to incur significant expense to eliminate these problems and address related security concerns.

Computer viruses, malware, and other “hacking” programs and devices may cause significant damage, delays or interruptions to our systems and operations or to certain of the products we sell, resulting in damage to our reputation and brand names. They may also attack our infrastructure, industrial machinery, software or hardware causing significant damage, delays or other service interruptions to our systems and operations. “Hacking” involves efforts to gain unauthorized access to information or systems or to cause intentional malfunctions, loss or corruption of data, software, hardware or other computer equipment. In addition, increasingly sophisticated malware may target real-world infrastructure or product components, including certain of the products that we currently or may in the future sell by attacking, disrupting, reconfiguring and/or reprogramming industrial control software. We may incur significant costs to protect our systems and equipment against the threat of, and to repair any damage caused by, computer viruses and hacking. Moreover, if a computer virus or hacking affects our systems or products, our reputation and brand names could be materially damaged and use of our products may decrease.

We are subject to governmental regulations.

We always face the possibility of new governmental regulations which could have a substantial effect on our operations and profitability. The Dodd-Frank Wall Street Reform and Consumer Protection Act contains provisions to improve transparency and accountability concerning the supply of certain minerals, known as “conflict minerals,” originating from the Democratic Republic of Congo and adjoining countries. As a result, in August 2012, the SEC adopted annual disclosure and reporting requirements for those companies who use conflict minerals in their products. Accordingly, we began our reasonable country of origin inquiries in Fiscal 2014, with initial disclosure requirements beginning in May 2014. There are costs associated with complying with these disclosure requirements, including for due diligence to determine the sources of conflict minerals used in our products and other potential changes to products, processes or sources of supply as a consequence of such verification activities. The implementation of these rules could adversely affect the sourcing, supply and pricing of materials used in our products. As there may be only a limited number of suppliers offering “conflict free” conflict minerals, we cannot be sure that we will be able to obtain necessary conflict minerals from such suppliers in sufficient quantities or at competitive prices. Also, we may face reputational challenges if we determine that certain of our products contain minerals not determined to be conflict free or if we are unable to sufficiently verify the origins for all conflict minerals used in our products through the procedures we may implement.

We have debt outstanding and must comply with restrictive covenants in our debt agreements.

Our existing debt agreements contain a number of significant covenants, which limit our ability to, among other things, borrow additional money, make capital expenditures, pay dividends, dispose of assets and acquire new businesses. These covenants also require us to maintain a specified fixed charge coverage ratio. If the Company is unable to comply with these covenants, there would be a default under these debt agreements. Changes in economic or business conditions, results of operations or other factors could cause the Company to default under its debt agreements. A default, if not waived by our lenders, could result in acceleration of our debt and possible bankruptcy.

We provide financial support to one of our subsidiaries through an intercompany loan agreement and may need to secure additional financing for our own operations, but we cannot be sure that additional financing will be available.

We have entered into an intercompany loan agreement with one of our subsidiaries, EyeLock LLC, which is expected to continue to require additional funding beyond one year. In funding the loan to EyeLock LLC, we have less cash flow available to support our domestic operations and other activities. If we are unable to generate sufficient cash flows in the future to support our operations and service our debt as a result of funding our subsidiary, we may be required to refinance all or a portion of our existing debt or to obtain additional financing. There can be no assurance that any refinancing will be possible or that any additional financing could be obtained on acceptable terms. The inability to service or refinance our existing debt or to obtain additional financing would have a material adverse

effect on our financial position, liquidity, and results of operations.

Our inability to timely file audited historical financial statements of EyeLock Inc. and EyeLock Corporation with the SEC may adversely affect our ability to raise, and the cost of raising, future capital.

As a result of our acquisition of substantially all of the assets and certain liabilities of EyeLock Inc. and EyeLock Corporation on September 1, 2015, we are required to file with the SEC certain audited historical financial statements relating to EyeLock Inc. and EyeLock Corporation. These financial statements were not available to be filed by the date on which they were required to be filed, November 18, 2015. Therefore, we are currently ineligible to use Form S-3, a streamlined registration form, to register securities for at least twelve calendar months. During this period of ineligibility, if we determine it to be necessary or advisable to raise additional capital, we would need to use Form S-1 to register securities with the SEC (if and when we become eligible to use Form S-1, as discussed in further detail below) or we would instead need to issue such securities in private placements. These alternatives generally entail greater total costs to us and more time to complete than the use of Form S-3 and any take-down offering associated with an effective registration statement on Form S-3. As a result, our ability to raise, and the cost of raising, future

capital could be adversely affected. Moreover, until we have filed the required audited financial statements of EyeLock Inc. and EyeLock Corporation, we would be unable to use Form S-1 to register securities and would be unable to conduct offerings in private placements under Rule 505 or 506 of Regulation D to any purchasers who are not accredited investors.

We have recorded, or may record in the future, goodwill and other intangible assets as a result of acquisitions, and changes in future business conditions could cause these investments to become impaired, requiring substantial write-downs that would reduce our operating income.

Goodwill and other intangible assets recorded on our balance sheet as of February 29, 2016 was \$289,371. We evaluate the recoverability of recorded goodwill and other intangible asset amounts annually, or when evidence of potential impairment exists. The annual impairment test is based on several factors requiring judgment. Changes in our operating performance, business conditions, or restrictions on our field of use resulted in an impairment of certain intangible assets totaling \$9,070 in Fiscal 2016, as well as the impairment of goodwill and certain other intangible assets in Fiscal 2014 totaling \$57,561 and could result in additional future impairments, which could be material to our results of operations.

A portion of our workforce is represented by labor unions. Collective bargaining agreements can increase our expenses. Labor disruptions could adversely affect our operations.

As of February 29, 2016, approximately 370 of our full-time employees were covered by collective bargaining agreements. While it is unlikely that disruptions to our operations due to labor related problems would have an adverse effect on our business based on the current number of union employees, as the Company continues to pursue selected business acquisitions, it is possible that the number of employees covered by collective bargaining agreements may increase. We cannot predict whether labor unions may be successful in organizing other portions of our workforce or what additional costs we could incur as a result.

We depend on our suppliers to provide us with adequate quantities of high quality competitive products and/or component parts on a timely basis.

We have few long-term contracts with our suppliers. Most of our products and component parts are imported from suppliers under short-term purchase orders. Accordingly, we can give no assurance that:

- our supplier relationships will continue as presently in effect;
- our suppliers will be able to obtain the components necessary to produce high-quality, technologically-advanced products for us;
- we will be able to obtain adequate alternatives to our supply sources, should they be interrupted;
- if obtained, alternatively sourced products of satisfactory quality would be delivered on a timely basis, competitively priced, comparably featured or acceptable to our customers;
- our suppliers have sufficient financial resources to fulfill their obligations;
- our suppliers will be able to obtain raw materials and labor necessary for production;
- shipments from our suppliers will not be affected by labor disputes within the shipping and transportation industries;
- our suppliers could be impacted by natural disasters directly or via their supply chains; and
- as it relates to products we do not manufacture, our suppliers will not become our competitors.

On occasion, our suppliers have not been able to produce the quantities of products or component parts that we desire. Our inability to manufacture and/or supply sufficient quantities of products that are in demand could reduce our profitability and have a material adverse effect on our relationships with our customers. If any of our supplier relationships were terminated or interrupted, we could experience an immediate or long-term supply shortage, which

could have a material adverse effect on our business.

Because we purchase a significant amount of our products from suppliers in Pacific Rim countries, we are subject to the economic risks associated with inherent changes in the social, political, regulatory and economic conditions in these countries.

We import most of our products from suppliers in the Pacific Rim. Countries in the Pacific Rim have experienced significant social, political and economic upheaval over the past several years. Due to the large concentrations of our purchases in Pacific Rim countries, particularly China, Hong Kong, South Korea, Vietnam, Malaysia and Taiwan, any adverse changes in the social, political, regulatory and economic conditions in these countries may materially increase the cost of the products that we buy from our foreign suppliers or delay shipments of products, which could have a material adverse effect on our business. In addition, our dependence on foreign suppliers forces us to order products further in advance than we would if our products were manufactured domestically. This increases the risk that our products will become obsolete or face selling price reductions before we can sell our inventory.

Our products could infringe the intellectual property rights of others and we may be exposed to costly litigation.

The products we sell are continually changing as a result of improved technology. Although we and our suppliers attempt to avoid infringing known proprietary rights of third parties in our products, we may be subject to legal proceedings and claims for alleged infringement by us, our suppliers or our distributors, or of a third party's patents, trade secrets, trademarks or copyrights.

Any claims relating to the infringement of third-party proprietary rights, even if not meritorious, could result in costly litigation, divert management's attention and resources, or require us to either enter into royalty or license agreements which are not advantageous to us or pay material amounts of damages. In addition, parties making these claims may be able to obtain an injunction, which could prevent us from selling our products. We may increasingly be subject to infringement claims as we expand our product offerings.

Our cash and cash equivalents could be adversely affected if the financial institutions in which we hold our cash and cash equivalents fail.

Our cash and cash equivalents consist of demand deposits and highly liquid money market funds with original maturities of three months or less at the time of purchase. We maintain the cash and cash equivalents with major financial institutions. Some deposits with these banks exceed the Federal Deposit Insurance Corporation ("FDIC") insurance limits or similar limits in foreign jurisdictions. While we monitor daily the cash balances in the operating accounts and adjust the balances as appropriate, these balances could be impacted if one or more of the financial institutions with which we deposit fails or is subject to other adverse conditions in the financial or credit markets. To date, we have experienced no loss or lack of access to our invested cash or cash equivalents; however, we can provide no assurance that access to our invested cash and cash equivalents will not be impacted by adverse conditions in the financial and credit markets.

Acquisitions and strategic investments may divert our resources and management attention; results may fall short of expectations.

We intend to continue pursuing selected acquisitions of and investments in businesses, technologies and product lines as a key component of our growth strategy. Any future acquisition or investment may result in the use of significant amounts of cash, potentially dilutive issuances of equity securities, or the incurrence of debt and amortization expenses related to intangible assets. Acquisitions involve numerous risks, including:

- difficulties in the integration and assimilation of the operations, technologies, products and personnel of an acquired business;
- diversion of management's attention from other business concerns;
- increased expenses associated with the acquisition, and
- potential loss of key employees or customers of any acquired business.

We cannot assure you that our acquisitions will be successful and will not adversely affect our business, results of operations or financial condition.

We invest in marketable securities and other investments as part of our investing activities. These investments fluctuate in value based on economic, operational, competitive, political and technological factors. These investments could be subject to loss or impairment based on their performance.

The Company has, in the past, incurred other-than-temporary impairments on its investments and continues to monitor its investments in non-controlled corporations for potential future impairments. In addition, there is no guarantee that

the fair values recorded for other investments will be sustained in the future.

We depend heavily on existing directors, management and key personnel and our ability to recruit and retain qualified personnel.

Our success depends on the continued efforts of our directors, executives and senior vice presidents, many of whom have worked with VOXX International Corporation for over three decades, as well as our other executive officers and key employees. We generally do not have employment contracts with our executive officers or key employees, except our President and Chief Executive Officer, as well as certain executive officers of Voxx Germany, Klipsch, Hirschmann and EyeLock LLC. The loss or interruption of the continued full-time service of certain of our executive officers and key employees could have a material adverse effect on our business.

In addition, to support our continued growth, we must effectively recruit, develop and retain additional qualified personnel both domestically and internationally. Our inability to attract and retain necessary qualified personnel could have a material adverse effect on our business.

Our stock price could fluctuate significantly.

The market price of our common stock could fluctuate significantly in response to various factors and events, including:

- operating results being below market expectations,
- announcements of technological innovations or new products by us or our competitors,
- loss of a major customer or supplier,
- changes in, or our failure to meet, financial estimates by securities analysts,
- industry developments,
- economic and other external factors,
- general downgrading of our industry sector by securities analysts,
- inventory write-downs, and
- ability to integrate acquisitions.

In addition, the securities markets have experienced significant price and volume fluctuations over the past several years that have often been unrelated to the operating performance of particular companies. These market fluctuations may also have a material adverse effect on the market price of our common stock.

John J. Shalam, our Chairman, controls a significant portion of the voting power of our common stock and can exercise control over our affairs.

Mr. Shalam beneficially owns approximately 53% of the combined voting power of both classes of common stock. This will allow him to elect our Board of Directors and, in general, determine the outcome of any other matter submitted to the stockholders for approval. Mr. Shalam's voting power may have the effect of delaying or preventing a change in control of the Company.

We have two classes of common stock: Class A common stock is traded on the Nasdaq Stock Market under the symbol VOXX and Class B common stock, which is not publicly traded and substantially all of which is beneficially owned by Mr. Shalam. Each share of Class A common stock is entitled to one vote per share and each share of Class B common stock is entitled to ten votes per share. Both classes vote together as a single class, except in certain circumstances, for the election and removal of directors and as otherwise may be required by Delaware law. Since our charter permits shareholder action by written consent, Mr. Shalam may be able to take significant corporate actions without prior notice and a shareholder meeting.

We exercise our option for the "controlled company" exemption under NASDAQ rules.

The Company has exercised its right to the "controlled company" exemption under NASDAQ rules which enables us to forego certain NASDAQ requirements which include: (i) maintaining a majority of independent directors; (ii) electing a nominating committee composed solely of independent directors; (iii) ensuring the compensation of our executive officers is determined by a majority of independent directors or a compensation committee composed solely of independent directors; and (iv) selecting, or recommending for the Board's selection, director nominees, either by a majority of the independent directors or a nominating committee composed solely of independent directors. Although we do not maintain a nominating committee and do not have a majority of independent directors, the Company notes that at the present time we do maintain a compensation committee comprised solely of independent directors who

approve executive compensation, and the recommendations for director nominees are governed by a majority of independent directors. However, election of the "controlled company" exemption under NASDAQ rules allows us to modify our position at any time.

Other Risks

Other risks and uncertainties include:

- changes in U.S federal, state and local law,
- our ability to implement operating cost structures that align with revenue growth,
- trade sanctions against or for foreign countries,
- successful integration of business acquisitions and new brands in our distribution network,
- compliance with the Sarbanes-Oxley Act, and
- compliance with complex financial accounting and tax standards.

Item 1B-Unresolved Staff Comments

As of the filing of this annual report on Form 10-K, there were no unresolved comments from the staff of the Securities and Exchange Commission.

Item 2-Properties

Our Corporate headquarters is located at 2351 J. Lawson Blvd. in Orlando, Florida. In addition, as of February 29, 2016, the Company leased a total of 23 operating facilities or offices located in 7 states as well as Germany, China, Canada, Mexico, Hong Kong, and France. The leases have been classified as operating leases. Within the United States, these facilities are located in Florida, Georgia, New York, Ohio, New Jersey, Arkansas and Michigan. The Company also owns 10 of its operating facilities or offices located in New York, Indiana, Florida, and Arkansas in the United States, as well as in Germany, Venezuela and Hungary. These facilities serve as offices, warehouses and distribution centers. Additionally, we utilize public warehouse facilities located in Virginia, Nevada, Indiana, Florida, Mexico, China, the Netherlands, Germany and Canada.

Item 3-Legal Proceedings

The Company is currently, and has in the past, been a party to various routine legal proceedings incident to the ordinary course of business. If management determines, based on the underlying facts and circumstances, that it is probable a loss will result from a litigation contingency and the amount of the loss can be reasonably estimated, the estimated loss is accrued for. The Company believes its outstanding litigation matters will not have a material adverse effect on the Company's financial statements, individually or in the aggregate; however, due to the uncertain outcome of these matters, the Company disclosed these specific matters below.

The products the Company sells are continually changing as a result of improved technology. As a result, although the Company and its suppliers attempt to avoid infringing known proprietary rights, the Company may be subject to legal proceedings and claims for alleged infringement by patent, trademark or other intellectual property owners. Any claims relating to the infringement of third-party proprietary rights, even if not meritorious, could result in costly litigation, divert management's attention and resources, or require the Company to either enter into royalty or license agreements which are not advantageous to the Company, or pay material amounts of damages. As of February 29, 2016, the Company has recorded approximately \$800 related to the infringement or potential infringement of certain trademarks and patents for which the Company