

VOXX International Corp  
Form 10-Q  
July 11, 2016

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 May 31, 2016

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)  
180 Marcus Boulevard  
Hauppauge, NY 11788  
(Former address, if changed since last report)

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 or a smaller reporting company, as defined in Rule 12b-2 of the Exchange Act. (Check one):

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 Exchange Act).

Yes  No

Edgar Filing: VOXX International Corp - Form 10-Q

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

---

Edgar Filing: VOXX International Corp - Form 10-Q

Class	As of July 8, 2016
Class A Common Stock	21,899,370 Shares
Class B Common Stock	2,260,954 Shares

2

---

VOXX International Corporation and Subsidiaries

Table of Contents

	Page
<b>PART I</b>	<b>FINANCIAL INFORMATION</b>
Item 1	FINANCIAL STATEMENTS (unaudited)
	Consolidated Balance Sheets at May 31, 2016 and February 29, 2016
	<u>4</u>
	Consolidated Statements of Operations and Comprehensive Income (Loss) for the Three Months Ended May 31, 2016 and 2015
	<u>6</u>
	Consolidated Statements of Cash Flows for the Three Months Ended May 31, 2016 and 2015
	<u>7</u>
	Notes to Consolidated Financial Statements
	<u>9</u>
Item 2	MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS
	<u>35</u>
Item 3	QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK
	<u>45</u>
Item 4	CONTROLS AND PROCEDURES
	<u>45</u>
<b>PART II</b>	<b>OTHER INFORMATION</b>
Item 1	LEGAL PROCEEDINGS
	<u>46</u>
Item 1A	RISK FACTORS
	<u>46</u>
Item 2	UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS
	<u>46</u>
Item 6	EXHIBITS
	<u>47</u>
SIGNATURES	<u>48</u>

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

VOXX International Corporation and Subsidiaries  
Consolidated Balance Sheets  
(In thousands)

4

---

Edgar Filing: VOXX International Corp - Form 10-Q

	May 31, 2016	February 29, 2016
	(unaudited)	
Assets		
Current assets:		
Cash and cash equivalents	\$ 8,558	\$ 11,767
Accounts receivable, net	78,894	87,055
Inventory, net	150,638	144,028
Receivables from vendors	1,894	2,519
Prepaid expenses and other current assets	16,437	17,256
Income tax receivable	1,605	1,426
Total current assets	258,026	264,051
Investment securities	10,054	10,206
Equity investments	22,221	21,949
Property, plant and equipment, net	79,932	79,422
Goodwill	105,729	104,349
Intangible assets, net	184,020	185,022
Deferred income taxes	23	23
Other assets	2,197	2,168
Total assets	\$ 662,202	\$ 667,190
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 57,848	\$ 55,790
Accrued expenses and other current liabilities	43,446	50,748
Income taxes payable	1,807	4,081
Accrued sales incentives	12,630	12,439
Current portion of long-term debt	10,989	8,826
Total current liabilities	126,720	131,884
Long-term debt, net of debt issuance costs	91,923	88,169
Capital lease obligation	1,301	1,381
Deferred compensation	4,034	4,011
Other tax liabilities	5,092	4,997
Deferred tax liabilities	28,839	30,374
Other long-term liabilities	10,441	10,480
Total liabilities	268,350	271,296
Commitments and contingencies (see Note 22)		
Stockholders' equity:		
Preferred stock:		
No shares issued or outstanding (see Note 19)	—	—
Common stock:		
Class A, \$.01 par value; 60,000,000 shares authorized, 24,067,444 shares issued and 21,899,370 shares outstanding at both May 31, 2016 and February 29, 2016	256	256
Class B Convertible, \$.01 par value, 10,000,000 authorized, 2,260,954 shares issued and outstanding	22	22
Paid-in capital	294,373	294,038
Retained earnings	150,639	154,947
Non-controlling interest	6,813	8,524
Accumulated other comprehensive loss	(37,075)	(40,717)
Treasury stock, at cost, 2,168,074 shares of Class A Common Stock at both May 31, 2016 and February 29, 2016	(21,176)	(21,176)

Edgar Filing: VOXX International Corp - Form 10-Q

Total stockholders' equity	393,852	395,894
Total liabilities and stockholders' equity	\$ 662,202	\$ 667,190
See accompanying notes to consolidated financial statements.		

5

---

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

	Three Months Ended	
	May 31,	
	2016	2015
Net sales	\$155,456	\$164,383
Cost of sales	109,355	116,340
Gross profit	46,101	48,043
Operating expenses:		
Selling	12,664	13,038
General and administrative	27,071	27,691
Engineering and technical support	13,479	8,079
Total operating expenses	53,214	48,808
Operating loss	(7,113)	(765)
Other (expense) income:		
Interest and bank charges	(1,695)	(1,567)
Equity in income of equity investees	1,808	1,618
Other, net	(512)	276
Total other (expense) income, net	(399)	327
Loss before income taxes	(7,512)	(438)
Income tax (benefit) expense	(1,392)	276
Net loss	(6,120)	(714)
Less: net loss attributable to non-controlling interest	(1,812)	—
Net loss attributable to Voxx International Corporation	\$(4,308)	\$(714)
Other comprehensive income (loss):		
Foreign currency translation adjustments	4,196	(2,797)
Derivatives designated for hedging	(491)	(664)
Pension plan adjustments	(58)	52
Unrealized holding loss on available-for-sale investment securities, net of tax	(5)	(4)
Other comprehensive income (loss), net of tax	3,642	(3,413)
Comprehensive loss attributable to Voxx International Corporation	\$(666)	\$(4,127)
Net loss per common share attributable to Voxx International Corporation (basic)	\$(0.18)	\$(0.03)
Net loss per common share attributable to Voxx International Corporation (diluted)	\$(0.18)	\$(0.03)
Weighted-average common shares outstanding (basic)	24,160,324	24,153,859
Weighted-average common shares outstanding (diluted)	24,160,324	24,153,859

See accompanying notes to consolidated financial statements.



VOXX International Corporation and Subsidiaries  
 Consolidated Statements of Cash Flows  
 (In thousands)  
 (unaudited)

	Three Months Ended May 31,	
	2016	2015
Cash flows from operating activities:		
Net loss	(6,120 )	\$(714 )
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:		
Depreciation and amortization	4,549	3,497
Amortization of debt discount	204	279
Bad debt expense	98	97
Bank charges on refinanced debt	13	—
Gain on forward contracts	(324 )	(1,287 )
Loss on interest rate swap unwind	114	—
Equity in income of equity investees	(1,808 )	(1,618 )
Distribution of income from equity investees	1,536	1,235
Deferred income tax (benefit) expense	(1,379 )	101
Non-cash compensation adjustment	288	(258 )
Non-cash stock based compensation expense	175	230
Venezuela currency devaluation on investment securities	—	23
(Gain) loss on sale of property, plant and equipment	(5 )	200
Changes in operating assets and liabilities:		
Accounts receivable	8,715	12,711
Inventory	(5,153 )	855
Receivables from vendors	741	(1,152 )
Prepaid expenses and other	254	3,132
Investment securities-trading	177	433
Accounts payable, accrued expenses, accrued sales incentives and other liabilities	(6,163 )	(17,485)
Income taxes payable	(2,456 )	209
Net cash (used in) provided by operating activities	(6,544 )	488
Cash flows from investing activities:		
Purchases of property, plant and equipment	(2,297 )	(4,455 )
Proceeds from sale of property, plant and equipment	5	13
Proceeds from sale of intangible asset	—	50
Increase in notes receivable	—	(1,250 )
Sale of short term investments	—	251
Net cash used in investing activities	(2,292 )	(5,391 )
Cash flows from financing activities:		
Principal payments on capital lease obligation	(119 )	(81 )
Repayment of bank obligations	(39,368)	(63,049)
Borrowings on bank obligations	44,390	66,265
Proceeds from exercise of stock options	—	225
Net cash provided by financing activities	4,903	3,360
Effect of exchange rate changes on cash	724	150
Net decrease in cash and cash equivalents	(3,209 )	(1,393 )

Edgar Filing: VOXX International Corp - Form 10-Q

Cash and cash equivalents at beginning of period	11,767	8,448
Cash and cash equivalents at end of period	\$8,558	\$7,055

7

---

See accompanying notes to consolidated financial statements.

8

---

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

(1) Basis of Presentation

The accompanying unaudited interim consolidated financial statements of VOXX International Corporation and Subsidiaries ("Voxx" or the "Company") have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission and in accordance with accounting principles generally accepted in the United States of America and include all adjustments (consisting of normal recurring adjustments), which, in the opinion of management, are necessary to present fairly the consolidated financial position, results of operations and cash flows for all periods presented. The results of operations are not necessarily indicative of the results to be expected for the full fiscal year or any interim period. These consolidated financial statements do not include all disclosures associated with consolidated financial statements prepared in accordance with accounting principles generally accepted in the United States of America. Accordingly, these statements should be read in conjunction with the Company's audited consolidated financial statements and notes thereto contained in the Company's Form 10-K for the fiscal year ended February 29, 2016. Certain amounts in the prior year have been reclassified to conform to the current year presentation.

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

(2) Acquisitions

EyeLock

Effective September 1, 2015 ("the Closing Date"), Voxx completed its acquisition of a 54% voting equity interest in substantially all of the assets and certain specified liabilities of Eyelock, Inc. and Eyelock Corporation (collectively the "Seller"), a market leader of iris-based identity authentication solutions, through a newly-formed entity, Eyelock LLC. Eyelock LLC acquired substantially all of the assets and certain specified liabilities of the Seller 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 \$4,676 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. Additionally, units in Eyelock LLC were issued to certain executives of EyeLock LLC. The fair value of these units is recorded as compensation expense over the requisite service period of two years. This acquisition allows the Company to enter into the growing biometrics market. The fair value of the non-controlling interest was determined, with the assistance of a third party valuation expert, by grossing up the consideration transferred for the controlling interest by the voting equity interest percentage (adjusted for certain distribution thresholds required until a return of capital is achieved). The Company considered all the rights and preferences of the different classes of security holders and determined that there was no evidence of any disproportionate allocation of cash flow between the controlling and non-controlling interest at the date of acquisition. The adjusted controlling interest percentage in the fair value calculation amounted to 61%. The non-controlling interest of \$12,900, valued at 39%, did not contain any further discount for lack of control. The Company believes the bargain gain implied in the transaction would eliminate any further discount for lack of control.

In connection with the closing, the Company entered into a Loan Agreement with Eyelock LLC. The terms of the Loan Agreement allow Eyelock LLC to borrow funds, bearing interest at 10%, which can be used for working capital purposes related to new business opportunities. Amounts outstanding under the Loan Agreement are due on September 1, 2017. The Loan Agreement includes customary events of default and is collateralized by all of the property of Eyelock LLC.

Net sales attributable to EyeLock LLC in the Company's consolidated statements of operations for the three months ended May 31, 2016 were approximately \$47.

The following table summarizes the preliminary allocation of the purchase price over the fair values of the assets acquired and liabilities assumed, as of the Closing Date:

9

---

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

	September 1, 2015
Assets acquired:	
Accounts receivable	\$ 77
Inventory	304
Property, plant and equipment	259
Intangible assets	43,780
Total assets acquired	\$ 44,420
Liabilities assumed:	
Accounts payable and accrued expenses	729
Deferred tax liability	2,756
Bridge loans payable to Voxx	3,176
Other long-term liabilities	1,200