

VOXX International Corp
Form 10-Q
July 10, 2017

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

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

For the quarterly period ended May 31, 2017

or

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

Commission file number: 0-28839

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

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

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

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

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

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

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

Edgar Filing: VOXX International Corp - Form 10-Q

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

Class	As of July 7, 2017
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
PART I	FINANCIAL INFORMATION
Item 1	FINANCIAL STATEMENTS (unaudited)
	Consolidated Balance Sheets at May 31, 2017 and February 28, 2017
	<u>4</u>
	Consolidated Statements of Operations and Comprehensive Income (Loss) for the Three Months Ended May 31, 2017 and 2016
	<u>6</u>
	Consolidated Statements of Cash Flows for the Three Months Ended May 31, 2017 and 2016
	<u>7</u>
	Notes to Consolidated Financial Statements
	<u>8</u>
Item 2	MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS
	<u>31</u>
Item 3	QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK
	<u>41</u>
Item 4	CONTROLS AND PROCEDURES
	<u>41</u>
PART II	OTHER INFORMATION
Item 1	LEGAL PROCEEDINGS
	<u>42</u>
Item 1A	RISK FACTORS
	<u>42</u>
Item 2	UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS
	<u>42</u>
Item 6	EXHIBITS
	<u>43</u>
	SIGNATURES
	<u>44</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)

4

Edgar Filing: VOXX International Corp - Form 10-Q

	May 31, 2017 (unaudited)	February 28, 2017
Assets		
Current assets:		
Cash and cash equivalents	\$ 8,060	\$ 7,800
Accounts receivable, net	89,888	90,641
Inventory, net	165,409	153,053
Receivables from vendors	831	665
Prepaid expenses and other current assets	29,181	19,593
Income tax receivable	1,682	1,596
Total current assets	295,051	273,348
Investment securities	9,748	10,388
Equity investments	21,216	21,926
Property, plant and equipment, net	85,182	81,601
Goodwill	105,799	103,212
Intangible assets, net	175,732	176,289
Deferred income taxes	23	23
Other assets	1,624	1,699
Total assets	\$ 694,375	\$ 668,486
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 71,669	\$ 61,143
Accrued expenses and other current liabilities	54,924	42,476
Income taxes payable	1,369	3,077
Accrued sales incentives	12,078	13,154
Current portion of long-term debt	10,420	10,217
Total current liabilities	150,460	130,067
Long-term debt, net of debt issuance costs	102,296	97,747
Capital lease obligation	2,792	1,400
Deferred compensation	3,868	4,224
Deferred income tax liabilities	27,773	30,155
Other tax liabilities	3,244	3,194
Other long-term liabilities	10,946	10,384
Total liabilities	301,379	277,171
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, 2017 and February 28, 2017	256	256
Class B Convertible, \$.01 par value, 10,000,000 shares authorized, 2,260,954 shares issued and outstanding	22	22
Paid-in capital	295,734	295,432
Retained earnings	156,338	159,369
Accumulated other comprehensive loss	(37,715)	(43,898)
Treasury stock, at cost, 2,168,074 shares of Class A Common Stock at both May 31, 2017 and February 28, 2017	(21,176)	(21,176)
Total VOXX International Corporation stockholders' equity	393,459	390,005

Edgar Filing: VOXX International Corp - Form 10-Q

Non-controlling interest	(463) 1,310
Total stockholders' equity	392,996	391,315
Total liabilities and stockholders' equity	\$ 694,375	\$ 668,486

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,	
	2017	2016
Net sales	\$159,103	\$155,456
Cost of sales	115,364	109,355
Gross profit	43,739	46,101
Operating expenses:		
Selling	13,792	12,664
General and administrative	27,192	27,071
Engineering and technical support	10,594	13,479
Total operating expenses	51,578	53,214
Operating loss	(7,839)	(7,113)
Other income (expense):		
Interest and bank charges	(1,913)	(1,695)
Equity in income of equity investees	1,803	1,808
Other, net	(1,020)	(512)
Total other expense, net	(1,130)	(399)
Loss before income taxes	(8,969)	(7,512)
Income tax benefit	(4,063)	(1,392)
Net loss	(4,906)	(6,120)
Less: net loss attributable to non-controlling interest	(1,875)	(1,812)
Net loss attributable to Voxx International Corporation	\$(3,031)	\$(4,308)
Other comprehensive income (loss):		
Foreign currency translation adjustments	7,359	4,196
Derivatives designated for hedging	(1,052)	(491)
Pension plan adjustments	(120)	(58)
Unrealized holding loss on available-for-sale investment securities, net of tax	(4)	(5)
Other comprehensive income, net of tax	6,183	3,642
Comprehensive income (loss) attributable to VOXX International Corporation	\$3,152	\$(666)
Net loss per common share attributable to VOXX International Corporation (basic)	\$(0.13)	\$(0.18)
Net loss per common share attributable to VOXX International Corporation (diluted)	\$(0.13)	\$(0.18)
Weighted-average common shares outstanding (basic)	24,160,324	24,160,324
Weighted-average common shares outstanding (diluted)	24,160,324	24,160,324

See accompanying notes to consolidated financial statements.

VOXX International Corporation and Subsidiaries
Consolidated Statements of Cash Flows
(In thousands, except share and per share data)
(unaudited)

	Three Months Ended May 31,	
	2017	2016
Cash flows from operating activities:		
Net loss	\$(4,906)	\$(6,120)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	4,445	4,549
Amortization of debt discount	205	204
Bad debt expense	96	98
Non-cash bank charges	—	13
Gain on forward contracts	(299)	(324)
Loss on interest rate swap unwind	—	114
Equity in income of equity investees	(1,803)	(1,808)
Distribution of income from equity investees	2,515	1,536
Deferred income tax benefit	(2,181)	(1,379)
Non-cash compensation adjustment	(45)	288
Stock based compensation expense	142	175
Gain on sale of property, plant and equipment	(10)	(5)
Changes in operating assets and liabilities:		
Accounts receivable	2,302	8,715
Inventory	(7,231)	(5,153)
Receivables from vendors	(52)	741
Prepaid expenses and other	(9,588)	254
Investment securities-trading	627	177
Accounts payable, accrued expenses, accrued sales incentives and other liabilities	18,111	(6,163)
Income taxes payable	(1,901)	(2,456)
Net cash provided by (used in) operating activities	427	(6,544)
Cash flows from investing activities:		
Purchases of property, plant and equipment	(2,816)	(2,297)
Proceeds from sale of property, plant and equipment	10	5
Purchase of business	(1,814)	—
Net cash used in investing activities	(4,620)	(2,292)
Cash flows from financing activities:		
Principal payments on capital lease obligation	(172)	(119)
Repayment of bank obligations	(15,330)	(39,368)
Borrowings on bank obligations	19,392	44,390
Net cash provided by financing activities	3,890	4,903
Effect of exchange rate changes on cash	563	724
Net increase (decrease) in cash and cash equivalents	260	(3,209)
Cash and cash equivalents at beginning of period	7,800	11,767
Cash and cash equivalents at end of period	\$8,060	\$8,558

See accompanying notes to consolidated financial statements.

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

(1) Basis of Presentation

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

Rosen Electronics LLC

On April 6, 2017, Voxx acquired the inventory and all intellectual property, including patents and trademarks of Rosen Electronics LLC. As consideration for the Rosen asset purchase, the Company paid \$1,814. In addition, the Company agreed to pay a 2% royalty related to future net sales of Rosen products for three years.

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

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

Assets acquired:

Inventory	\$2,310
Intangible assets including trademarks, customer relationships and patents	604
Total assets acquired	\$2,914

Liabilities assumed:

Warranty accrual	\$500
Other liabilities acquired	600
Total	\$1,100
Total purchase price	\$1,814

Hirschmann Car Communication GmbH

On June 25, 2017, the Company entered into a definitive agreement to sell Hirschmann Car Communication GmbH and its subsidiaries. See Note 24 for more details of this subsequent event.

(3) Net Income (Loss) Per Common Share

Basic net income (loss) per common share is based upon the weighted-average common shares outstanding during the period. Diluted net income (loss) per common share 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.

8

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

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

	Three Months Ended	
	May 31,	
	2017	2016
Weighted-average common shares outstanding	24,160,324	24,160,324
Effect of dilutive securities:		
Stock options, warrants and restricted stock	—	—
Weighted-average common shares and potential common shares outstanding	24,160,324	24,160,324

Restricted stock, stock options and warrants totaling 553,693 and 413,164 for the three months ended May 31, 2017 and 2016, respectively, were not included in the net income (loss) per diluted share calculation because the exercise price of these stock options and warrants was greater than the average market price of the Company's common stock during these periods, or the inclusion of these components would have been anti-dilutive.

(4) Fair Value Measurements and Derivatives

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

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

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

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

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

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

	Total	Fair Value Measurements at Reporting Date Using	
		Level 1	Level 2
Cash and cash equivalents:			
Cash and money market funds	\$8,060	\$8,060	\$—
Derivatives			
Designated for hedging	\$(1,022)	\$—	\$(1,022)
Investment securities:			
Trading securities	\$3,468	\$3,468	\$—

Available-for-sale securities	6	6	—
Other investments at cost (a)	6,274	—	—
Total investment securities	\$9,748	\$3,474	\$—

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

9

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

	Total	Fair Value Measurements at Reporting Date Using	
		Level 1	Level 2
Cash and cash equivalents:			
Cash and money market funds	\$7,800	\$7,800	\$—
Derivatives			
Designated for hedging	\$335	\$—	\$335
Investment securities:			
Trading securities	\$4,094	\$4,094	\$—
Available-for-sale securities	6	6	—
Other investments at cost (a)	6,288	—	—
Total investment securities	\$10,388	\$4,100	\$—

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

The carrying amount of the Company's accounts receivable, short-term debt, accounts payable, accrued expenses, bank obligations and long-term debt approximates fair value because of (i) the short-term nature of the financial instrument; (ii) the interest rate on the financial instrument being reset every quarter to reflect current market rates, and (iii) the stated or implicit interest rate approximates the current market rates or are not materially different than 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, local operating expenses, as well as its general economic exposure to foreign currency fluctuations created in the normal course of business. 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 - 9 months and are classified in the balance sheet according to their terms. The Company also has an interest rate swap agreement as of May 31, 2017 that hedges interest rate exposure related to the forecasted outstanding balance of its Florida Mortgage, with monthly payments due through March 2026. The swap agreement locks the interest rate on the debt at 3.48% (inclusive of credit spread) through the maturity date of the loan. During the first quarter of Fiscal 2017, the Company unwound another interest rate swap agreement that hedged interest rate exposure related to one of its mortgage notes when that mortgage was paid in full. The fair value of that interest rate swap agreement on the date it was unwound was \$(114), and was charged to interest expense in the Company's Consolidated Statements of Operations and Comprehensive Income (Loss) during the three months ended May 31, 2016. Interest rate swap agreements qualifying for hedge accounting are designated as cash flow hedges and valued based on a comparison of the change in fair value of the actual swap contracts designated as the hedging instruments and the change in fair value of a hypothetical swap contract (Level 2). We calculate the fair value of interest rate swap agreements quarterly based on the quoted market price for the same or similar financial instruments. Interest rate swaps are classified in the balance sheet as either assets or liabilities based on the fair value of the instruments at the end of the period.

It is the Company's policy to enter into derivative instrument contracts with terms that coincide with the underlying exposure being hedged. As such, the Company's derivative instruments are expected to be highly effective. Hedge ineffectiveness, if any, is recognized as incurred through Other Income (Expense) in the Company's Consolidated

Statements of Operations and Comprehensive Income (Loss) and amounted to \$(52) for the three months ended May 31, 2017, and \$(50) for the three months ended May 31, 2016.

Financial Statement Classification

The Company holds derivative instruments that are designated as hedging instruments. The following table discloses the fair value as of May 31, 2017 and February 28, 2017 of derivative instruments:

10

Edgar Filing: VOXX International Corp - Form 10-Q

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

Derivative Assets and Liabilities		Fair Value	
Account		May 31, 2017	February 28, 2017
Designated derivative instruments			
Foreign currency contracts	Prepaid expenses and other current assets	\$26	\$ 654
	Accrued expenses and other current liabilities	(706)	(21)
Interest rate swap agreements	Other long-term liabilities	(342)	(298)
Total derivatives		\$(1,022)	\$ 335

Cash flow hedges

During Fiscal 2017, the Company entered into forward foreign currency contracts, which have a current outstanding notional value of \$34,260 and are designated as cash flow hedges at May 31, 2017. The current outstanding notional value of the Company's interest rate swap at May 31, 2017 is \$8,988. 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 recorded during the three months ended May 31, 2017 and 2016 was as follows:

Three months ended May 31, 2017		Three months ended May 31, 2016	
Pretax Gain (Loss)	Reclassified from Accumulated Other Comprehensive Income	Pretax Gain (Loss)	Reclassified from Accumulated Other Comprehensive Income
Gain (Loss) Recognized in Other Comprehensive Income	Gain (Loss) for Ineffectiveness in Other Income	Gain (Loss) Recognized in Other Comprehensive Income	Gain (Loss) for Ineffectiveness in Other Income
Income (a)	Income	Income (a)	Income

Cash flow hedges

Foreign currency contracts	\$(1,208)	\$ 299	\$ (52)	\$(818)	\$ 324	\$ (50)
Interest rate swaps	\$(44)	\$ —	\$ —	\$180	\$ (114)	\$ —

(a) Gains and losses related to foreign currency contracts are reclassified to cost of sales. Gains and losses related to interest rate swaps are reclassified to interest expense.

The net income (loss) recognized in Other Comprehensive Income (Loss) for foreign currency contracts is expected to be recognized in cost of sales within the next twelve months. No amounts were excluded from the assessment of hedge effectiveness during the respective periods. As of May 31, 2017, no foreign currency contracts originally designated for hedge accounting were de-designated or terminated.

(5) Investment Securities

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

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

	May 31, 2017			February 28, 2017		
	Cost Basis	Unrealized Holding Gain/(Loss)	Fair Value	Cost Basis	Unrealized Holding Gain/(Loss)	Fair Value
Investment Securities						
Marketable Securities						
Trading						
Deferred Compensation Available-for-sale	\$3,468	\$ —	\$3,468	\$4,094	\$ —	\$4,094
Cellstar	—	6	6	—	6	6
Total Marketable Securities	3,468	6	3,474	4,094	6	4,100
Other Long-Term Investments	6,274	—	6,274	6,288	—	6,288
Total Investment Securities	\$9,742	\$ 6	\$9,748	\$10,382	\$ 6	\$10,388

Long-Term Investments

Trading Securities

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

Available-For-Sale Securities

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

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

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

Other Long-Term Investments

Other long-term investments include investments in two non-controlled corporations accounted for by the cost method. As of May 31, 2017, the Company's investments in Rx Networks and 360fly, Inc. totaled \$1,821 and \$4,453, respectively, or a total investment balance of \$6,274. We held 10.2% and 4.7% of the outstanding shares of Rx Networks and 360fly, Inc., respectively, at May 31, 2017. No additional investment was made in either of these companies during the three months ended May 31, 2017.

(6) Accumulated Other Comprehensive (Loss) Income

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

12

Edgar Filing: VOXX International Corp - Form 10-Q

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

	Foreign Currency Translation Gains (Losses)	Unrealized gains (losses) on investments, net of tax	Pension plan adjustments, net of tax	Derivatives designated in a hedging relationship, net of tax	Total
Balance at February 28, 2017	\$(41,831)	\$ (98)	\$ (2,282)	\$ 313	\$(43,898)
Other comprehensive income (loss) before reclassifications	7,359	(4)	(120)	(845)	6,390
Reclassified from accumulated other comprehensive income (loss)	—	—	—	(207)	(207)
Net current-period other comprehensive income (loss)	7,359	(4)	(120)	(1,052)	6,183
Balance at May 31, 2017	\$(34,472)	\$ (102)	\$ (2,402)	\$ (739)	\$(37,715)

During the three months ended May 31, 2017, the Company recorded tax expense (benefit) related to unrealized losses on investments of \$0, pension plan adjustments of \$0, and derivatives designated in a hedging relationship of \$(466).

Included in foreign currency translation gains of \$7,359 for the three months ended May 31, 2017, was \$1,677 of net gains resulting 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, as well as approximately \$4,511 of gains resulting from the re-measurement of an intercompany loan, payable in Euros, which is of a long-term investment nature. Remaining gains or losses pertain to the re-measurement of intercompany transactions of a long-term investment nature, with certain subsidiaries whose functional currency is not the U.S. dollar. Intercompany loans and transactions that are of a long-term investment nature are remeasured, and resulting gains and losses are reported in the same manner as translation adjustments. Within foreign exchange gains and losses in Other Comprehensive Income (Loss) for the three months ended May 31, 2017, the Company recorded gains of \$7,258 related to the Euro, which was caused by the weakening of the U.S. dollar against the Euro by approximately 5%, and a net gain of \$101 related to various other currencies.

(7) Supplemental Cash Flow Information

The following is supplemental information relating to the consolidated statements of cash flows:

	Three Months Ended May 31, 2017 2016	
Non-cash investing and financing activities:		
Capital expenditures funded by long-term obligations	\$1,917	\$—
Mortgage settlement funded by long-term obligations	—	5,590
Deferred financing costs funded by long-term obligations	—	1,753
Cash paid during the period:		
Interest (excluding bank charges)	\$1,142	\$1,102
Income taxes (net of refunds)	\$53	\$2,288

(8) Accounting for Stock-Based Compensation

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

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

13

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

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life
Outstanding at February 28, 2017	116,250	\$ 7.76	
Granted	—	—	
Exercised	—	—	
Forfeited/expired	—	—	
Outstanding and exercisable at May 31, 2017	116,250	\$ 7.76	0.38

A restricted stock award is an award of common stock that is subject to certain restrictions during a specified period. Restricted stock awards are independent of option grants and are subject to forfeiture if employment terminates for a reason other than death, disability or retirement, prior to the release of the restrictions. The Company has a Supplemental Executive Retirement Plan (SERP), which was established in Fiscal 2014. Shares are granted based on certain performance criteria and vest on the later of three years from the date of grant (or three years from the date of participation in the SERP with respect to grants made when the plan was established in Fiscal 2014), or the grantee reaching the age of 65 years. The shares will also vest upon termination of the grantee's employment by the Company without cause, provided that the grantee, at the time of termination, has been employed by the Company for at least 10 years. 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. The Company expenses the cost of the restricted stock awards on a straight-line basis over the requisite service period of each employee or a maximum, which is 12.75 years. 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 following table presents a summary of the Company's restricted stock activity for the three months ended May 31, 2017:

	Number of Shares	Weighted Average Grant Date Fair Value
Balance at February 28, 2017	437,443	\$ 6.99
Granted	—	—
Forfeited	—	—
Balance at May 31, 2017	437,443	\$ 6.99
Vested and unissued at May 31, 2017	56,181	\$ 13.62

During the three months ended May 31, 2017, the Company recorded \$142 in stock-based compensation related to restricted stock awards. As of May 31, 2017, there was \$1,200 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 months ended May 31, 2017, net of discounts, were \$60,290, compared to \$59,044 for the three months ended May 31, 2016.

(10) Research and Development

Expenditures for research and development are charged to expense as incurred. Such expenditures amounted to \$7,810 for the three months ended May 31, 2017, compared to \$10,256 for the three months ended May 31, 2016, net of customer

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

reimbursements, and are included within Engineering and Technical Support Expenses on the Consolidated Statements of Operations and Comprehensive Income (Loss).

The Company enters into development and long-term supply agreements with certain of its OEM ("Original Equipment Manufacturer") customers. Reimbursements of the development services are recorded based upon the milestone method of revenue recognition provided certain criteria are met. Amounts due from OEM customers for development services are reflected as a reduction of research and development expense because the performance of contract development services is not central to the Company's operations. For the three months ended May 31, 2017, the Company recorded \$1,489 of development service reimbursements as a reduction of research and development expense based upon the achievement of a milestone, as compared to \$460 for the three months ended May 31, 2016.

(11) Goodwill and Intangible Assets

The change in goodwill by segment is as follows:

Automotive:	Amount
Beginning balance at March 1, 2017	\$56,680
Currency translation	2,586
Balance at May 31, 2017	\$59,266
Gross carrying amount at May 31, 2017	\$59,266
Accumulated impairment charge	—
Net carrying amount at May 31, 2017	\$59,266
Premium Audio:	
Beginning balance at March 1, 2017	\$46,533
Activity during the period	—
Balance at May 31, 2017	\$46,533
Gross carrying amount at May 31, 2017	\$78,696
Accumulated impairment charge	(32,163)
Net carrying amount at May 31, 2017	\$46,533
Total Goodwill, net	\$105,799

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