VOXX International Corp
Form 10-Q
July 10, 2012

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

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

For the quarterly period ended May 31, 2012

or

o 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.)
180 Marcus Blvd., Hauppauge, New York (Address of principal executive offices)	11788 (Zip Code)

(631) 231-7750
(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 x No o

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 o Accelerated filer x Non-accelerated filer o Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes o No x

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

Class	As of July 9, 2012	
Class A Common Stock	21,136,795	Shares
Class B Common Stock	2,260,954	Shares

VOXX International Corporation

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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

Assets	May 31, 2012 (unaudited)	February 29, 2012
Current assets:		
Cash and cash equivalents	$21,277	$13,606
Accounts receivable, net	139,174	142,585
Inventory, net	152,781	129,514
Receivables from vendors	3,840	4,011
Prepaid expenses and other current assets	12,524	13,549
Income tax receivable	—	698
Deferred income taxes	5,033	3,149
Total current assets	334,629	307,112
Investment securities	13,004	13,102
Equity investments	15,860	14,893
Property, plant and equipment, net	60,841	31,779
Goodwill	158,230	87,366
Intangible assets, net	196,431	175,349
Deferred income taxes	756	796
Other assets	8,457	3,782
Total assets	$788,208	$634,179
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$59,448	$43,755
Accrued expenses and other current liabilities	63,750	52,679
Income taxes payable	5,139	5,432
Accrued sales incentives	18,075	18,154
Deferred income taxes	301	515
Current portion of long-term debt	18,201	3,592
Total current liabilities	164,914	124,127
Long-term debt	145,505	34,860
Capital lease obligation	5,984	5,196
Deferred compensation	3,593	3,196
Other tax liabilities	2,921	2,943
Deferred tax liabilities	39,237	34,220
Other long-term liabilities	11,741	7,840
Total liabilities	373,895	212,382
Commitments and contingencies		
Stockholders' equity:		
Preferred stock	—	—
Common stock	252	250
Paid-in capital	282,753	281,213
Retained earnings	157,976	162,676
Accumulated other comprehensive loss	(8,299)	(3,973)
Treasury stock	(18,369)	(18,369)
Total stockholders' equity	414,313	421,797
Total liabilities and stockholders' equity	$788,208	$634,179

See accompanying notes to consolidated financial statements.

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,	
	2012	2011
Net sales	$194,036	$165,325
Cost of sales	143,540	121,637
Gross profit	50,496	43,688
Operating expenses:		
Selling	13,205	11,904
General and administrative	25,225	22,653
Engineering and technical support	7,411	3,811
Acquisition-related costs	1,596	1,343
Total operating expenses	47,437	39,711
Operating income	3,059	3,977
Other (expense) income:		
Interest and bank charges	(2,244)	(1,483)
Equity in income of equity investees	1,357	1,129
Other, net	(9,656)	481
Total other (expense) income, net	(10,543)	127
(Loss) income before income taxes	(7,484)	4,104
Income tax (benefit) expense	(2,784)	1,617
Net (loss) income	$(4,700)	$2,487
Other comprehensive (loss) income:		
Foreign currency translation adjustments	(4,622)	1,327
Derivatives designated for hedging	296	(704)
Other-than-temporary impairment loss on available for sale investment	—	300
Unrealized holding loss on available-for-sale investment securities arising during the period, net of tax	—	(12)
Other comprehensive (loss) income, net of tax	(4,326)	911
Comprehensive (loss) income	$(9,026)	$3,398
Net (loss) income per common share (basic)	$(0.20)	$0.11
Net (loss) income per common share (diluted)	$(0.20)	$0.11
Weighted-average common shares outstanding (basic)	23,301,464	23,079,394
Weighted-average common shares outstanding (diluted)	23,301,464	23,287,621

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,	
	2012	2011
Cash flows from operating activities:		
Net (loss) income	$(4,700)	$2,487
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Depreciation and amortization	2,784	2,541
Bad debt (recovery) expense	(51)	293
Equity in income of equity investees	(1,357)	(1,129)
Distribution of income from equity investees	391	279
Deferred income tax (benefit) expense	(2,020)	358
Non-cash compensation adjustment	113	(36)
Non-cash stock based compensation expense	63	250
(Gain) loss on sale of property, plant and equipment	(12)	11
Impairment loss on marketable securities	—	300
Changes in operating assets and liabilities (net of assets and liabilities acquired):		
Accounts receivable	25,565	19,038
Inventory	(6,497)	6,029
Receivables from vendors	267	618
Prepaid expenses and other	2,825	(973)
Investment securities-trading	316	(27)
Accounts payable, accrued expenses, accrued sales incentives and other current liabilities	6,607	(249)
Income taxes payable	(4,139)	(1,042)
Net cash provided by operating activities	20,155	28,748
Cash flows from investing activities:		
Purchases of property, plant and equipment	(8,439)	(484)
Purchase of long-term investments	(261)	—
Increase in notes receivable	40	59
Purchase of acquired business (net of cash acquired)	(107,628)	(167,250)
Net cash used in investing activities	(116,288)	(167,675)
Cash flows from financing activities:		
Repayment of short-term debt	—	(268)
Principal payments on capital lease obligation	(75)	(22)
Repayment of bank obligations	(41,364)	(29,439)
Borrowings on bank obligations	147,817	89,100
Deferred financing costs	(3,445)	(3,000)
Proceeds from exercise of stock options	1,539	—
Net cash provided by financing activities	104,472	56,371
Effect of exchange rate changes on cash	(668)	163
Net increase (decrease) in cash and cash equivalents	7,671	(82,393)
Cash and cash equivalents at beginning of period	13,606	98,630
Cash and cash equivalents at end of period	$21,277	$16,237

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)

(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, 2012.

We have determined that we operate in one reportable segment, the Electronics Group, based on review of ASC 280 "Segment Reporting".

(2) Acquisitions

Hirschmann

On March 14, 2012 (the "Closing Date"), VOXX International, through its wholly-owned subsidiary VOXX International (Germany) GmbH ("Voxx Germany"), purchased the stock of Car Communication Holding GmbH ("Hirschmann"), a recognized tier-1 supplier of communications and infotainment solutions, primarily to the automotive industry, pursuant to the Sale and Purchase Agreement for €87,571 ($114,397 based upon the rate of exchange as of the close of business on the Closing Date) subject to an adjustment for working capital plus related transaction fees and expenses.

On the Closing Date, the Company, certain of its directly and indirectly wholly-owned domestic subsidiaries, and Voxx Germany (collectively, the "Borrowers") entered into an Amended and Restated Credit Agreement (the "Amended Facility") with Wells Fargo Bank, National Association ("Wells Fargo"), as Agent, and the other lenders party thereto. The Company borrowed $148,000 under the Amended Credit Agreement on the Closing Date and used a portion of the proceeds from such borrowing to fund Voxx Germany's acquisition of Hirschmann. On the Closing Date, the Company also repaid and terminated its existing asset-based loan facility with Wells Fargo Capital Finance, LLC.

In order to hedge the fluctuation in the exchange rate before closing, the Company entered into two forward contracts totaling $63,750, both due in March 2012. The forward contracts were not designated for hedging, and as such, were marked to market at February 29, 2012 and when they were settled in the first quarter of Fiscal 2013. A foreign currency gain of $1,581 was recorded in the fourth quarter of Fiscal 2012 when the contracts were marked to market at year-end and a foreign currency loss of $2,670 was recorded for the three months ended May 31, 2012 reflecting the loss on settlement of these contracts.

As the Hirschmann acquisition occurred on March 14, 2012, the consolidated financial statements presented for the three months ended May 31, 2012 include the operations of Hirschmann beginning on the Closing Date.

The Company is currently in the process of performing a formal valuation of the assets and liabilities acquired to determine appropriate fair values. Management has estimated the fair value of tangible assets acquired and liabilities assumed based on preliminary estimates and assumptions. These preliminary estimates and assumptions could change during the purchase price measurement period as the Company finalizes the valuations of the net tangible and intangible assets.

The following table summarizes the preliminary fair values of the assets acquired and liabilities assumed, as of the date of the acquisition, and the estimated amounts assigned to goodwill and intangible asset classifications:

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

	As of March 14, 2012
Cash	$ 6,769
Accounts receivable	25,921
Inventory	20,178
Prepaid expenses and other current assets	2,281
Property, plant and equipment, net	18,659
Goodwill	70,864
Intangible assets	22,433
Other assets	940
Total assets acquired	168,045
Accounts payable and accrued expenses	26,953
Income taxes payable	2,848
Deferred taxes, net	5,639
Bank obligations	11,430
Capital lease obligations	911
Pension and deferred compensation	5,867
Net tangible and intangible assets acquired	$ 114,397

The preliminary amounts assigned to goodwill and intangible assets for the acquisition are as follows:

	March 14, 2012	Amortization Period (Years)
Goodwill (non-deductible)	$ 70,864	N/A
Tradenames (non-deductible)	6,761	Indefinite
Customer relationships	9,376	10
Patents	6,296	10
	$ 93,297	

Acquisition related costs relating to this acquisition of $1,131 and $1,596 were expensed as incurred during the year ended February 29, 2012 and during the three months ended May 31, 2012, respectively, and are included in acquisition-related costs for these respective periods in the consolidated statements of operations and comprehensive income (loss).

Hirschmann has an employer financed defined benefit pension plan, which covers eligible Hirschmann regular full-time employees. The plan provides for retirement and disability benefits for participating employees, and are only granted if the participating employee has completed ten years of service after reaching the age of 25. The retirement age as it pertains to the defined pension plan is 65. Benefits available under the pension plan are generally determined by years of service and the levels of compensation during those years. In October 1994, the benefits under Hirschmann's defined benefit pension plan were closed to new participants, and as of the acquisition date, pension benefits continue to accrue only for previously existing plan members still employed by Hirschmann. Based on actuarial data provided as of the acquisition date, the Hirschmann defined benefit pension plan was under-funded by approximately $5,300, which is included as a liability in the March 14, 2012 opening balance sheet. The under-funded status of the plan at May 31, 2012 is $5,046 and is included in other liabilities in the accompanying consolidated balance sheet.

Pro Forma Information

The following unaudited pro forma information illustrates the effect on net sales and net income for the three months ended May 31, 2012 and May 31, 2011, assuming that the acquisition had taken place on March 1, 2011.

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

	Three Months Ended May 31, 2012	May 31, 2011
Net sales:		
As reported	$194,036	$165,325
Pro forma	201,550	212,758
Net income:		
As reported	$(4,700)	$2,487
Pro forma	(745)	5,349
Basic earnings per share:		
As reported	$(0.20)	$0.11
Pro forma	(0.03)	0.23
Diluted earnings per share:		
As reported	$(0.20)	$0.11
Pro forma	(0.03)	0.23
Average shares - basic	23,301,464	23,079,394
Average shares - diluted	23,301,464	23,287,621

The above pro-forma results include certain adjustments for the periods presented to adjust the financial results and give consideration to the assumption that the acquisition occurred on the first day of Fiscal 2012. These adjustments include costs such as an estimate for amortization associated with intangible assets acquired, additional financing costs as a result of the acquisition, and the movement of expenses specific to the acquisition from Fiscal 2013 to Fiscal 2012. These pro-forma results of operations have been estimated for comparative purposes only and may not reflect the actual results of operations that would have been achieved had the transaction occurred on the date presented or be indicative of results to be achieved in the future.

(3) Net Income Per Common Share

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

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

	Three Months Ended May 31, 2012	2011
Weighted-average common shares outstanding	23,301,464	23,079,394
Effect of dilutive securities:		
Stock options, warrants and restricted stock	—	208,227
Weighted-average common shares and potential common shares outstanding	23,301,464	23,287,621

Stock options and warrants totaling 921,019 and 14,606 for the three months ended May 31, 2012 and 2011, respectively, were not included in the net income (loss) per diluted share calculation because the exercise price of these options and warrants was greater than the average market price of the Company’s common stock during these periods or their inclusion would have been anti-dilutive.

(4) Fair Value Measurements and Derivatives

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

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, 2012:

		Fair Value Measurements at Reporting Date Using		
		Level 1	Level 2	Level 3
Cash and cash equivalents:				
Cash and money market funds	$21,277	$21,277	$—	$—
Derivatives				
Designated for hedging	$654	$—	$654	$—
Not designated	148	—	148	—
Total derivatives	$802	$—	$802	$—
Long-term investment securities:				
Marketable securities at fair value				
Trading securities	$3,130	$3,130	$—	$—
Available-for-sale securities	3	3	—	—
Total marketable securities at fair value	3,133	3,133	—	—
Other investments at amortized cost (a)	9,871	—	—	—
Total long-term investment securities	$13,004	$3,133	$—	$—

The following table presents assets measured at fair value on a recurring basis at February 29, 2012:

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

		Fair Value Measurements at Reporting Date Using		
		Level 1	Level 2	Level 3
Cash and cash equivalents:				
Cash and money market funds	$13,606	$13,606	$—	$—
Derivatives				
Designated for hedging	$(103)	$—	$(103)	$—
Not designated	1,581	—	1,581	—
Total derivatives	$1,478	$—	$1,478	$—
Long-term investment securities:				
Marketable securities at fair value				
Trading securities	$3,447	$3,447	$—	$—
Available-for-sale securities	3	3	—	—
Total marketable securities at fair value	3,450	3,450	—	—
Other investments at amortized cost (a)	9,652	—	—	—
Total long-term investment securities	$13,102	$3,450	$—	$—

(a) Other investments at amortized cost include the Company's held-to-maturity investment. There were no events or changes in circumstances that occurred to indicate a significant adverse effect on the cost of these investments.

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 as well as its general economic exposure to foreign currency fluctuations created in the normal course of business. The 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). Forward foreign currency contracts not designated under hedged transactions were valued at spot rates or forward rates for the same or similar instruments (Level 2). The duration of open forward foreign currency contracts designated for hedging range from 1 - 3 months and are classified in the balance sheet according to their terms.

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 Statement of Operations and Comprehensive Income (Loss) and amounted to $179 and $(90) for the three months ended May 31, 2012 and 2011, respectively.

Financial Statement Classification

The Company holds derivative instruments that are designated as hedging instruments, and holds certain instruments not so designated. The following table discloses the fair value as of May 31, 2012 and February 29, 2012 for both types of derivative instruments:

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

	Derivative Assets and Liabilities		
		Fair Value	
	Account	May 31, 2012	February 29, 2012
Designated derivative instruments			
Foreign currency contracts	Prepaid expenses and other current assets	$654	$—
	Accrued expenses	—	(103)
Derivatives not designated			
Foreign currency contracts	Prepaid expenses and other current assets	148	1,581
Total derivatives		$802	$1,478

During the three months ended May 31, 2012, the Company settled two foreign currency contracts for derivatives not designated in a hedged transaction. In connection with the acquisition of Hirschmann on March 14, 2012, the Company acquired 36 foreign currency contracts which were unable to qualify for hedge accounting for the quarter ended May 31, 2012. There were 28 contracts of this nature outstanding at May 31, 2012, with a current notional value of approximately $7,000. During the three months ended May 31, 2011, the Company settled one foreign currency contract for a derivative not designated in a hedged transaction. There were no contracts of this nature outstanding at May 31, 2011.

Cash flow hedges

In February 2012, the Company entered into forward foreign currency contracts, which have a current outstanding notional value of $5,275, and are designated as cash flow hedges. For cash flow hedges, the effective portion of the gain or loss is reported as a component of other comprehensive (loss) income and reclassified into earnings in the same period or periods during which the hedged transactions affect earnings.

Activity related to cash flow hedges recorded during the three months ended May 31, 2012 and 2011 was as follows:

	For The Three Months Ended May 31, 2012			For The Three Months Ended May 31, 2011		
	Gain (Loss) Recognized in Other Comprehensive Income	Gain (Loss) Reclassified into Cost of Sales	Gain (Loss) for Ineffectiveness in Other Income	Gain (Loss) Recognized in Other Comprehensive Income	Gain (Loss) Reclassified into Cost of Sales	Gain (Loss) for Ineffectiveness in Other Income
Cash flow hedges						
Foreign currency contracts	$475	$(171)	$179	$(466)	$8	$(90)

The net gain recognized in other comprehensive income for foreign currency contracts is expected to be recognized in cost of sales within the next six months. No amounts were excluded from the assessment of hedge effectiveness during the respective periods. As of May 31, 2012, no contracts originally designated for hedge accounting were de-designated or terminated.

(5) Investment Securities

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

In accordance with the Company's investment policy, all long and short-term investment securities are invested in "investment grade" rated securities. As of May 31, 2012 and February 29, 2012, the Company had the following investments:

	May 31, 2012			February 29, 2012		
	Cost Basis	Unrealized holding gain/(loss)	Fair Value	Cost Basis	Unrealized holding gain/(loss)	Fair Value
Long-Term Investments						
Marketable Securities						
Trading						
Deferred Compensation	$3,130	$—	$3,130	$3,447	$—	$3,447
Available-for-sale						
Cellstar	—	3	3	—	3	3
Bliss-tel	—	—	—	—	—	—
Held-to-maturity Investment	7,556	—	7,556	7,545	—	7,545
Total Marketable Securities	10,686	3	10,689	10,992	3	10,995
Other Long-Term Investment	2,315	—	2,315	2,107	—	2,107
Total Long-Term Investments	$13,001	$3	$13,004	$13,099	$3	$13,102

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 offset those associated with 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”) and Bliss-tel Public Company Limited (“Bliss-tel”).

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.

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. The Company considers numerous factors, on a case-by-case basis, in evaluating whether the decline in market value of an available-for-sale security below cost is other-than-temporary. Such factors include, but are not limited to, (i) the length of time and the extent to which the market value has been less than cost; (ii) the financial condition and the near-term prospects of the issuer of the investment; and (iii) whether the Company's intent to retain the investment for the period of time is sufficient to allow for any anticipated recovery in market value. During Fiscal 2010, Fiscal 2011 and Fiscal 2012, the Company monitored the performance of its Bliss-tel investment and determined that its investment in the company was other than temporarily impaired based on factors, such as its market price (which has consistently remained below cost in excess of twelve months), Bliss-tel's continued losses, its deteriorating financial position, and conditions in the local and global economy, as well as the political environment in Thailand. During Fiscal 2010 and Fiscal 2011, the Company recorded other than temporary impairment losses of $1,000 and $1,600, respectively. During Fiscal 2012, Bliss-tel stopped trading on the Thai stock exchange and has remained suspended from trading through May 31, 2012. As a result of this suspension, and the continued presence of the factors discussed above, management estimated the value of the investment to be $0 at February 29, 2012 and recorded total impairment charges of $1,225 for the fiscal year ended February 29, 2012. As of May 31, 2012, the Company owns 36,250,000 shares and 22,500,000 warrants in Bliss-tel, with the warrants due to expire in July 2012. As all of the above factors remain present and the company remains

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

suspended from trading, management's estimate of the value of this investment remains $0 at May 31, 2012.

Held-to-Maturity Investment

Long-term investments include an investment in U.S. dollar-denominated bonds issued by the Venezuelan government, which is classified as held-to-maturity and accounted for under the amortized cost method.
Other Long-Term Investments

Other long-term investments include an investment in a non-controlled corporation of $2,315 accounted for by the cost method. During the three months ended May 31, 2012, Voxx loaned an additional $250 in the Company and as of May 31, 2012, held approximately 16% of its outstanding shares.

(6) Accumulated Other Comprehensive Loss

The Company’s accumulated other comprehensive losses consist of the following:

	May 31, 2012		February 29, 2012	
Accumulated other comprehensive losses:				
Foreign exchange losses	$(8,681	)	$(4,059	)
Unrealized losses on investments, net of tax	(21	)	(21	)
Derivatives designated in hedging relationship	403		107	
Total accumulated other comprehensive losses	$(8,299	)	$(3,973	)

(7) Supplemental Cash Flow Information

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

	Three Months Ended May 31,	
	2012	2011
Non-cash investing activities:		
Capital expenditures funded by mortgage notes	7,810	—
Cash paid during the period:		
Interest (excluding bank charges)	$1,636	$932
Income taxes (net of refunds)	$1,876	$254

(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 29, 2012.

The Company granted 246,250 options during May of 2011, which vested on February 29, 2012, expire two years from date of vesting (February 28, 2014), have an exercise price equal to $7.75, $.25 above the sales price of the Company’s stock on the day prior to the date of grant, have a contractual term of 2.75 years and a grant date fair value of $3.08 per share determined based upon a Black-Scholes valuation model.

In addition, the Company issued 22,500 warrants during May of 2011 to purchase the Company's common stock with the same terms as those of the options above as consideration for future legal and professional services. These warrants are included in the outstanding options and warrants table below and considered exercisable at May 31, 2012.

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As of May 31, 2012, all outstanding options were fully vested and the Company had no unrecognized compensation costs related to stock options.

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

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life
Outstanding and exercisable at February 29, 2012	1,070,625	$6.72	
Granted	—	—	
Exercised	(241,927)	6.37	
Forfeited/expired	—	—	
Outstanding and exercisable at May 31, 2012	828,698	$6.81	1.24

In May of 2011, the Company granted 100,000 shares of restricted stock. 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 prior to the release of the restrictions. Shares under the above grant will not be issued to the grantee before they vest. The grantee cannot transfer the rights to receive shares before the restricted shares vest. One-third of the restricted stock awards vested on February 29, 2012, one-third will vest on February 28, 2013 and one-third will vest on February 28, 2014. The Company expenses the cost of the restricted stock awards on a straight-line basis over the period during which the restrictions lapse. For these purposes, the fair market value of the restricted stock, $7.60, was determined based on the closing price of the Company's common stock on the grant date.

The following table presents a summary of the Company's restricted stock activity for the three months ended May 31, 2012:

	Number of shares (in thousands)	Weighted Average Grant Date Fair Value
Balance at February 29, 2012	66,667	$7.60
Granted	—	—
Vested	—	—
Forfeited	—	—
Balance at May 31, 2012	66,667	$7.60

During the three months ended May 31, 2012, the Company recorded $63 in stock-based compensation related to restricted stock awards. As of May 31, 2012, there was $443 of unrecognized stock-based compensation expense related to unvested restricted stock awards. This expense is expected to be fully recognized by February 28, 2014.

(9) Goodwill and Intangible Assets

The change in goodwill is as follows:

Balance at February 29, 2012	$87,366
Goodwill related to Hirschmann acquisition	70,864

Balance at May 31, 2012	$158,230

At May 31, 2012, intangible assets consisted of the following:

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	Gross Carrying Value	Accumulated Amortization	Total Net Book Value
Trademarks/Tradenames not subject to amortization	$136,526	$—	$136,526
Customer relationships subject to amortization (5-20 years)	59,490	8,484	51,006
Trademarks/Tradenames subject to amortization (3-12 years)	1,237	744	493
Patents subject to amortization (5-10 years)	9,238	1,190	8,048
License subject to amortization (5 years)	1,400	1,283	117
Contract subject to amortization (5 years)	1,556	1,315	241
Total	$209,447	$13,016	$196,431

At February 29, 2012, intangible assets consisted of the following:

	Gross Carrying Value	Accumulated Amortization	Total Net Book Value
Trademarks/Tradenames/Licenses not subject to amortization	$129,765	$—	$129,765
Customer relationships subject to amortization (5-20 years)	50,113	7,432	42,681
Trademarks/Tradenames subject to amortization (3-12 years)	1,237	722	515
Patents subject to amortization (5-10 years)	2,942	1,005	1,937
License subject to amortization (5 years)	1,400	1,213	187
Contract subject to amortization (5 years)	1,556	1,292	264
Total	$187,013	$11,664	$175,349

The Company recorded amortization expense of $1,336 and $1,045 for the three months ended May 31, 2012 and 2011, respectively. The estimated aggregate amortization expense for the cumulative five years ending May 31, 2017 amounts to $26,798.

We evaluate the carrying value of long-lived assets, including intangible assets subject to amortization, when events and circumstances warrant such a review. The carrying value of long-lived assets is considered impaired when the estimated undiscounted cash flows from such assets are less than their carrying value. In that event, a loss is recognized equal to the amount by which the carrying value exceeds the fair value of the long-lived assets. Fair value is determined primarily by using a discounted cash flow methodology that requires considerable management judgment and long-term assumptions. There were no impairment triggering events during the three months ended May 31, 2012, therefore, management believes the current carrying value of its intangible assets is not impaired. Our estimate of net future cash flows is based on historical experience and assumptions of future trends, which may be different from actual results. We periodically review the appropriateness of the estimated useful lives of our long-lived assets.

(10) Equity Investments

As of May 31, 2012 and February 29, 2012, the Company had a 50% non-controlling ownership interest in ASA Electronics, LLC and Subsidiary (“ASA”), which acts as a distributor of televisions and other automotive sound, security and accessory products for specialized vehicles, such as RV’s and van conversions.

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

Company.

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	May 31, 2012	February 29, 2012
Current assets	$31,018	$28,934
Non-current assets	5,263	5,068
Current liabilities	4,561	4,216
Members' equity	31,720	29,786
	Three Months Ended May 31,	
	2012	2011
Net sales	$23,415	$20,673
Gross profit	6,515	6,054
Operating income	2,703	2,249
Net income	2,714	2,257

The Company's share of income from ASA for the three months ended May 31, 2012 and 2011 was $1,357 and $1,129, respectively.

(11) Income Taxes

The Company’s provision for income taxes consists of U.S. and foreign taxes in amounts necessary to align the Company’s year-to-date provision for income taxes with the effective tax rate that the Company expects to achieve for the full year. The Company’s annual effective tax rate for Fiscal 2013, excluding discrete items is estimated to be 37.4% (which includes U.S., state and local and foreign taxes) based upon the Company’s anticipated earnings both in the U.S. and in its foreign subsidiaries.

For the three months ended May 31, 2012 the Company recorded a benefit for income taxes of $2,784, which consisted of U.S., state and local and foreign taxes, including discrete items related to the accrual of interest for uncertain tax positions under ASC 740, "Income Taxes." For the three months ended May 31, 2011, the Company recorded a provision for income taxes of $1,617 which consisted of U. S., state, local and foreign taxes, including discrete items related to the accrual of interest for uncertain tax positions under ASC 740 and a change in the tax rates.

In connection with the Hirschmann business combination, the Company recorded a net deferred tax liability of approximately $6,800 related to the basis difference between the financial reporting value and the tax value of Hirschmann's assets and liabilities.

(12) Inventory

Inventories by major category are as follows:

	May 31, 2012	February 29, 2012
Raw materials	$27,709	$18,495
Work in process	5,104	1,888
Finished goods	119,968	109,131
Inventory, net	$152,781	$129,514

(13) Accrued Sales Incentives

A summary of the activity with respect to sales incentives is provided below:

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	Three Months Ended May 31,	
	2012	2011
Opening balance	$18,154	$11,981
Liabilities acquired during acquisition	—	7,149
Accruals	7,613	7,496
Payments and credits	(7,333)	(8,009)
Reversals for unearned sales incentive	(320)	(28)
Reversals for unclaimed sales incentives	(39)	(294)
Ending balance	$18,075	$18,295

(14) Product Warranties and Product Repair Costs

The following table provides a summary of the activity with respect to product warranties and product repair costs:

	Three Months Ended May 31,	
	2012	2011
Opening balance		