VOXX International Corp
Form 10-Q
January 09, 2013

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 November 30, 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

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 x No o

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

Class	As of January 8, 2013	
Class A Common Stock	21,261,045	Shares
Class B Common Stock	2,260,954	Shares

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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)

	November 30, 2012	February 29, 2012
Assets	(unaudited)	
Current assets:		
Cash and cash equivalents	$18,193	$13,606
Accounts receivable, net	184,621	142,585
Inventory, net	170,252	129,514
Receivables from vendors	1,573	4,011
Prepaid expenses and other current assets	12,162	13,549
Income tax receivable	—	698
Deferred income taxes	5,192	3,149
Total current assets	391,993	307,112
Investment securities	13,566	13,102
Equity investments	16,958	14,893
Property, plant and equipment, net	65,871	31,779
Goodwill	158,340	87,366
Intangible assets, net	193,614	175,349
Deferred income taxes	806	796
Other assets	9,154	3,782
Total assets	$850,302	$634,179
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$67,359	$43,755
Accrued expenses and other current liabilities	57,963	52,679
Income taxes payable	3,014	5,432
Accrued sales incentives	21,907	18,154
Deferred income taxes	378	515
Current portion of long-term debt	25,633	3,592
Total current liabilities	176,254	124,127
Long-term debt	167,987	34,860
Capital lease obligation	5,849	5,196
Deferred compensation	4,687	3,196
Other tax liabilities	4,739	2,943
Deferred tax liabilities	41,858	34,220
Other long-term liabilities	13,732	7,840
Total liabilities	415,106	212,382
Commitments and contingencies		
Stockholders' equity:		
Preferred stock	—	—
Common stock	249	250
Paid-in capital	286,092	281,213
Retained earnings	174,898	162,676
Accumulated other comprehensive loss	(7,683)	(3,973)

Treasury stock	(18,360)	(18,369)
Total stockholders' equity	435,196	421,797
Total liabilities and stockholders' equity	$850,302	$634,179

See accompanying notes to consolidated financial statements.

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

	Three Months Ended November 30,		Nine Months Ended November 30,	
	2012	2011	2012	2011
Net sales	$243,036	$206,803	$628,787	$530,465
Cost of sales	173,087	146,960	453,656	383,072
Gross profit	69,949	59,843	175,131	147,393
Operating expenses:				
Selling	13,515	12,620	38,227	35,723
General and administrative	29,650	24,740	84,466	68,159
Engineering and technical support	6,938	4,021	21,042	11,839
Acquisition-related costs	56	25	1,707	1,607
Total operating expenses	50,159	41,406	145,442	117,328
Operating income	19,790	18,437	29,689	30,065
Other (expense) income:				
Interest and bank charges	(2,286)	(1,371)	(6,223)	(4,246)
Equity in income of equity investees	1,180	1,236	3,730	3,255
Other, net	776	(3,308)	(9,223)	(4,054)
Total other (expense) income, net	(330)	(3,443)	(11,716)	(5,045)
Income before income taxes	19,460	14,994	17,973	25,020
Income tax expense	6,258	6,136	5,751	10,237
Net income	$13,202	$8,858	$12,222	$14,783
Other comprehensive income (loss):				
Foreign currency translation adjustments	1,469	(2,408)	(3,723)	(1,696)
Derivatives designated for hedging	(93)	806	7	81
Reclassificaton adjustment of other-than-temporary impairment loss (gain) on available-for-sale investment into net income	—	(8)	—	1,177
Unrealized holding gain (loss) on available-for-sale investment securities arising during the period, net of tax	—	(3)	6	(14)
Other comprehensive income (loss), net of tax	1,376	(1,613)	(3,710)	(452)
Comprehensive income	$14,578	$7,245	$8,512	$14,331
Net income per common share (basic)	$0.56	$0.38	$0.52	$0.64
Net income per common share (diluted)	$0.56	$0.38	$0.52	$0.64
Weighted-average common shares outstanding (basic)	23,434,965	23,074,030	23,377,859	23,073,983
Weighted-average common shares outstanding (diluted)	23,536,140	23,074,030	23,593,040	23,203,504

See accompanying notes to consolidated financial statements.

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

	Nine Months Ended November 30,	
	2012	2011
Cash flows from operating activities:		
Net income	$12,222	$14,783
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Depreciation and amortization	12,173	7,936
Amortization of deferred financing costs	907	510
Bad debt expense	1,061	1,323
Equity in income of equity investees	(3,730)	(3,255)
Distribution of income from equity investees	1,665	1,288
Deferred income tax expense	114	2,257
Non-cash compensation adjustment	378	121
Non-cash stock based compensation expense	190	436
(Gain) loss on sale of property, plant and equipment	(16)	16
Impairment loss on marketable securities	—	1,225
Changes in operating assets and liabilities (net of assets and liabilities acquired):		
Accounts receivable	(18,508)	(29,850)
Inventory	(21,399)	(5,203)
Receivables from vendors	2,543	4,159
Prepaid expenses and other	1,527	2,143
Investment securities-trading	(131)	395
Accounts payable, accrued expenses, accrued sales incentives and other current liabilities	6,403	29,293
Income taxes payable	(1,796)	3,444
Net cash (used in) provided by operating activities	(6,397)	31,021
Cash flows from investing activities:		
Purchases of property, plant and equipment	(15,793)	(2,155)
Purchase of long-term investments	(261)	—
(Increase) decrease in notes receivable	(181)	175
Purchase of acquired business (net of cash acquired)	(105,560)	(167,271)
Net cash used in investing activities	(121,795)	(169,251)
Cash flows from financing activities:		
Repayment of short-term debt	(98)	(660)
Principal payments on capital lease obligation	(242)	(66)
Repayment of bank obligations	(10,904)	(27,225)
Borrowings on bank obligations	147,397	89,702
Deferred financing costs	(3,445)	(3,283)
Proceeds from exercise of stock options	2,025	—
Net cash provided by financing activities	134,733	58,468
Effect of exchange rate changes on cash	(1,954)	(32)
Net increase (decrease) in cash and cash equivalents	4,587	(79,794)
Cash and cash equivalents at beginning of period	13,606	98,630
Cash and cash equivalents at end of period	$18,193	$18,836

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, 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 million under the Amended Facility 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 during the three months ended May 31, 2012, when the contracts were settled, reflecting the loss on settlement.

As the Hirschmann acquisition occurred on March 14, 2012, the consolidated financial statements presented for the three and nine months ended November 30, 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 Closing Date, 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	22,892
Inventory	20,178
Prepaid expenses and other current assets	2,054
Property, plant and equipment	18,659
Goodwill	70,974
Intangible assets	22,433
Other assets	939
Total assets acquired	164,898
Accounts payable and accrued expenses	22,175
Income taxes payable	2,848
Deferred taxes, net	5,521
Bank obligations	11,430
Capital lease obligations	911
Other long-term liabilities	7,616
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)	$70,974	N/A
Tradenames (non-deductible)	6,761	Indefinite
Customer relationships	9,376	10
Patents	6,296	10
	$93,407	

Acquisition related costs relating to this acquisition of $1,131, $56 and $1,707 were expensed as incurred during the latter half of the year ended February 29, 2012 and during the three and nine months ended November 30, 2012, respectively, and are included in acquisition-related costs for these respective periods in the consolidated statements of operations and comprehensive income.

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 is at least 25 years of age and has subsequently completed ten years of service. 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 Closing Date, pension benefits continue to accrue only for previously existing plan members still employed by Hirschmann. Based on actuarial data provided as of the Closing Date, the Hirschmann defined benefit pension plan was under-funded by approximately $5,300, which is included in Other long-term liabilities in the March 14, 2012 opening balance sheet. The under-funded status of the plan at November 30, 2012 is $5,294 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 nine months ended November 30, 2012 and November 30, 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)

	Nine Months Ended November 30,	
	2012	2011
Net sales:		
As reported	$628,787	$530,465
Pro forma	636,301	671,177
Net income:		
As reported	$12,222	$14,783
Pro forma	16,276	18,589
Basic income per share:		
As reported	$0.52	$0.64
Pro forma	0.70	0.81
Diluted income per share:		
As reported	$0.52	$0.64
Pro forma	0.70	0.80
Average shares - basic	23,377,859	23,073,983
Average shares - diluted	23,593,040	23,203,504

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 interest and 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 November 30,		Nine Months Ended November 30,	
	2012	2011	2012	2011
Weighted-average common shares outstanding	23,434,965	23,074,030	23,377,859	23,073,983
Effect of dilutive securities:				
Stock options, warrants and restricted stock	101,175	—	215,181	129,521
Weighted-average common shares and potential common shares outstanding	23,536,140	23,074,030	23,593,040	23,203,504

Stock options and warrants totaling 268,650 and 1,142,500 for the three months ended November 30, 2012 and 2011, respectively, and 89,550 and 481,952 for the nine months ended November 30, 2012 and 2011, respectively, were not included in the net income 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.

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

(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 November 30, 2012:

		Fair Value Measurements at Reporting Date Using	
		Level 1	Level 2
Cash and cash equivalents:			
Cash and money market funds	$18,193	$18,193	$—
Derivatives			
Designated for hedging	$62	$—	$62
Not designated	56	—	56
Total derivatives	$118	$—	$118
Long-term investment securities:			
Trading securities	$3,577	$3,577	$—
Available-for-sale securities	9	9	—
Other investments at amortized cost (a)	9,980	—	—
Total long-term investment securities	$13,566	$3,586	$—

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
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:			
Trading securities	$3,447	$3,447	$—
Available-for-sale securities	3	3	—
Other investments at amortized cost (a)	9,652	—	—
Total long-term investment securities	$13,102	$3,450	$—

(a) 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 for the same or similar instruments (Level 2). The duration of open forward foreign currency contracts range from 1 - 14 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 Statements of Operations and Comprehensive Income and amounted to $(101) and $51 for the three and nine months ended November 30, 2012, respectively, and $77 and $(4) for the three and nine months ended November 30, 2011, respectively.

Financial Statement Classification

The Company holds derivative instruments that are designated as hedging instruments and has held certain instruments not so designated. The following table discloses the fair value as of November 30, 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		
	Account	Fair Value November 30, 2012	February 29, 2012
Designated derivative instruments			
Foreign currency contracts	Accrued expenses and other current liabilities	$(84)	$(103)
	Prepaid expenses and other current assets	146	—
Derivatives not designated			
Foreign currency contracts	Prepaid expenses and other current assets	56	1,581
Total derivatives		$118	$1,478

In March 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 quarters ended May 31, August 31 and November 30, 2012. There were 9 contracts of this nature outstanding at November 30, 2012, with a current notional value of approximately $2,000. 9 and 27 of these contracts settled during the three and nine months ended November 30, 2012, respectively, for gains of $22 and $82, respectively. The change in fair value of the open contracts not designated for hedge accounting for the three and nine months ended November 30, 2012 was a gain of $21 and $76, respectively. There were no current contracts of this nature outstanding at November 30, 2011.

Cash flow hedges

During the third quarter of Fiscal 2013, the Company entered into forward foreign currency contracts, which have a current outstanding notional value of $26,500 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 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 and nine months ended November 30, 2012 and 2011 was as follows:

	For the three months ended November 30, 2012			For the nine months ended November 30, 2012		
	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	$(11)	$(212)	$ (101)	$418	$ (226)	$ 51

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

	For the three months ended November 30, 2011			For the nine months ended November 30, 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	$720	$(52)	$ 77	$(149)	$(186)	$ (4)

The net loss recognized in other comprehensive income for foreign currency contracts is expected to be recognized in cost of sales within the next seventeen months. No amounts were excluded from the assessment of hedge effectiveness during the respective periods. As of November 30, 2012, no contracts originally designated for hedge accounting were de-designated or terminated.

(5) Investment Securities

In accordance with the Company's investment policy, all long and short-term investment securities are invested in "investment grade" rated securities. As of November 30, 2012 and February 29, 2012, the Company had the following investments:

	November 30, 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	$3,577	$—	$3,577	$3,447	$—	$3,447
Available-for-sale						
Cellstar	—	9	9	—	3	3
Bliss-tel	—	—	—	—	—	—
Held-to-maturity Investment	7,614	—	7,614	7,545	—	7,545
Total Marketable Securities	11,191	9	11,200	10,992	3	10,995
Other Long-Term Investment	2,366	—	2,366	2,107	—	2,107
Total Long-Term Investments	$13,557	$9	$13,566	$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").

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

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 November 30, 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 November 30, 2012, the Company owns 36,250,000 shares in Bliss-tel. 22,500,000 warrants expired unexercised in July 2012. As all of the above factors remain present and the company remains suspended from trading, management's estimate of the value of this investment remains $0 at November 30, 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 $2,366 accounted for by the cost method. During the nine months ended November 30, 2012, Voxx loaned an additional $250 in the company and as of November 30, 2012, the Company held approximately 16% of the outstanding shares of this company.

(6) Accumulated Other Comprehensive Income (Loss)

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

	November 30, 2012	February 29, 2012
Accumulated other comprehensive loss:		
Foreign exchange losses	$(7,782)	$(4,059)
Unrealized losses on investments, net of tax	(15)	(21)
Derivatives designated in hedging relationship	114	107
Total accumulated other comprehensive loss	$(7,683)	$(3,973)

(7) Supplemental Cash Flow Information

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

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	Nine Months Ended November 30,	
	2012	2011
Non-cash investing activities:		
Capital expenditures funded by assumption of mortgage notes	$7,810	$—
Cash paid during the period:		
Interest (excluding bank charges)	$4,672	$2,633
Income taxes (net of refunds)	$4,184	$899

(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, $0.25 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 warrant table below and considered exercisable at November 30, 2012.

As of November 30, 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	365,177	6.37	
Forfeited/expired	26,250	6.37	
Outstanding and exercisable at November 30, 2012	679,198	$6.92	0.80

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 nine months ended November 30, 2012:

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	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 November 30, 2012	66,667	$7.60

During the three and nine months ended November 30, 2012, the Company recorded $63 and $190, respectively, in stock-based compensation related to restricted stock awards. As of November 30, 2012, there was $317 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) Research and Development

Expenditures for research and development are charged to expense as incurred. Such expenditures amount to $3,894 and $157 for the three months ended November 30, 2012 and 2011, respectively and $12,821 and $253 for the nine months ended November 30, 2012 and 2011, respectively, and are included within engineering and technical support expenses on the Consolidated Statements of Operations and Comprehensive Income.

(10) Goodwill and Intangible Assets

The change in goodwill is as follows:

Balance at February 29, 2012	$87,366
Goodwill related to Hirschmann acquisition	70,974
Balance at November 30, 2012	$158,340

At November 30, 2012, intangible assets consisted of the following:

	Gross Carrying Value	Accumulated Amortization	Total Net Book Value
Finite-lived intangible assets:			
Customer relationships (5-20 years)	$59,490	$10,674	$48,816
Trademarks/Tradenames (3-12 years)	1,237	788	449
Patents (5-10 years)	9,238	1,611	7,627
License (5 years)	1,400	1,400	—
Contract (5 years)	1,556	1,360	196
Total finite-lived intangible assets	$72,921	$15,833	57,088
Indefinite-lived intangible assets			
Trademarks			136,526
Total net intangible assets			$193,614

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

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	Gross Carrying Value	Accumulated Amortization	Total Net Book Value
Finite-lived intangible assets:			
Customer relationships (5-20 years)	$50,113	$7,432	$42,681
Trademarks/Tradenames (3-12 years)	1,237	722	515
Patents (5-10 years)	2,942	1,005	1,937
License (5 years)	1,400	1,213	187
Contract (5 years)	1,556	1,292	264
Total finite-lived intangible assets	$57,248	$11,664	45,584
Indefinite-lived intangible assets			
Trademarks			129,765
Total net intangible assets			$175,349

The Company recorded amortization expense of $1,331 and $1,018 for the three months ended November 30, 2012 and 2011, respectively, and $4,099 and $3,059 for the nine months ended November 30, 2012 and 2011, respectively. The estimated aggregate amortization expense for the cumulative five years ending August 31, 2017 amounts to $26,607.

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 by primarily using a discounted cash flow methodology that requires considerable management judgment and long-term assumptions. There were no impairment triggering events during the three and nine months ended November 30, 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.

(11) Equity Investments

As of November 30, 2012 and February 29, 2012, the Company had 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 for specialized vehicles, such as RV's and van conversions.

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

	November 30, 2012	February 29, 2012
Current assets	$34,617	$28,934
Non-current assets	4,764	5,068
Current liabilities	5,465	4,216
Members' equity	33,916	29,786

Nine Months Ended November 30,

	2012	2011
Net sales	$67,066	$55,817
Gross profit	19,343	16,686
Operating income	7,434	6,487
Net income	7,460	6,509

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The Company's share of income from ASA was $1,180 and $1,236 for the three months ended November 30, 2012 and 2011, respectively and $3,730 and $3,255 for the nine months ended November 30, 2012 and 2011, respectively.

(12) 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 38.68% (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 November 30, 2012 the Company recorded a provision for income taxes of $6,258, 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 and a change in the tax rates. For the three months ended November 30, 2011, the Company recorded a provision for income taxes of $6,136 which consisted of tax benefits related to discrete items including recently enacted state tax legislation impacting the recognition of certain tax positions under ASC 740 and the tax effects of certain foreign tax matters, offset by a tax provision related to U.S., state and local and foreign taxes.

In connection with the Hirschmann business combination, the Company recorded a net credit to deferred taxes of approximately $6,700 related to the basis difference between the financial reporting value and the tax value of Hirschmann's assets and liabilities.

The effective tax rate for the three and nine months ended November 30, 2012 was a provision for income taxes of 32.2% and 32.0% compared to a provision for income taxes of 40.9% in both of the comparable prior periods. The effective tax rate for the nine months ended November 30, 2012 is different than the statutory rate primarily due to state and local taxes, differences between the U.S. and foreign tax rates, Section 199 deductions and transaction costs associated with Hirschmann.

(13) Inventory

Inventories by major category are as follows:

	November 30, 2012	February 29, 2012
Raw materials	$34,784	$18,495
Work in process	4,936	1,888
Finished goods	130,532	109,131
Inventory, net	$170,252	$129,514

(14) Accrued Sales Incentives

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

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	Three Months Ended November 30,		Nine Months Ended November 30,	
	2012	2011	2012	2011
Opening balance	$18,967	$17,876	$18,154	$11,981
Liabilities acquired during acquisition	—	—	—	7,149
Accruals	11,253	12,556	27,570	30,554
Payments and credits	(8,297)	(8,465)	(23,115)	(26,353)
Reversals for unearned sales incentives	—	(405)	(602)	(449)
Reversals for unclaimed sales incentives	(16)	(336)	(100)	(1,656)
Ending balance	$21,907	$21,226	$21,907	$21,226

(15) Product Warranties and Product Repair Costs

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

	Three Months Ended November 30,		Nine Months Ended November 30,	
	2012	2011	2012	2011
Opening balance	$10,389	$9,743	$8,795	$9,051
Liabilities acquired during acquisitions	—	—	1,799	1,480
Liabilities accrued for warranties issued during the period	4,249	3,097	7,535	7,706
Warranty claims paid during the period	(3,083)	(2,879)	(6,574)	(8,276)
Ending balance	$11,555	$9,961	$11,555	$9,961

(16) Financing Arrangements

The Company has the following financing arrangements:

	November 30, 2012	February 29, 2012
Debt		
Domestic bank obligations (a)	$180,685	$31,510
Foreign bank obligations (b)	1,856	1,818
Euro term loan agreement (c)	653	2,024
Other (d)	10,426	3,100
Total debt	193,620	38,452
Less: current portion of long-term debt	25,633	3,592
	$167,987	$34,860

(a) Domestic Bank Obligations

From March 1, 2012 through March 13, 2012, we had a revolving credit facility (the "Credit Facility"). Funds from the Credit Facility were used to complete the acquisition of Klipsch in March 2011, as well as to fund the temporary short-term working capital needs of the Company. The Credit Facility had an aggregated committed availability of up to $175 million, which could be increased at the option of the Company up to a maximum of $200 million. The Credit

Facility included a $25 million sublimit for issuances of letters of credit and a $20 million sublimit for Swing Loans.

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The Credit Agreement contained covenants that limited the ability of certain entities of the Company to, among other things: (i) incur additional indebtedness: (ii) incur liens; (iii) merge, consolidate or exit a substantial portion of their business; (iv) transfer or dispose of assets; (v) change their names, organizational identification number, state or province of organization or organizational identity; (vi) make any material change in their nature of business; (vii) prepay or otherwise acquire indebtedness; (viii) cause any Change of Control; (ix) make any Restricted Junior Payment; (x) change their fiscal year or method of accounting; (xi) make advances, loans or investments; (xii) enter into or permit any transactions with an Affiliate of certain entities of the Company; (xiii) use proceeds for certain items; (xiv) issue or sell any of their stock; and/or (xv) consign or sell any of their inventory on certain terms.

As a result of the addition of the Credit Facility, the Company incurred debt financing costs of approximately $3.3 million which are recorded as deferred financing costs and are included in other assets and amortized through interest and bank charges over the term of the Credit Facility.

On March 14, 2012, the Company amended and restated its $175 million Credit Facility (the "Amended Facility"). The Amended Facility provides for senior secured credit facilities in an aggregate principal amount of $205 million, consisting of a U.S. revolving credit facility of $80 million; a $50 million multicurrency revolving facility, of which up to the equivalent of $50 million is available only to VOXX International (Germany) GmbH in euros and the euro equivalent of $15 million available to domestic borrowers; and a five year term loan facility in the aggregate principal amount of $75 million. The Amended Facility includes a $25 million sublimit for issuers of letters of credit for domestic borrowings and a $10 million sublimit for Swing Loans.

$60 million of the U. S. revolving credit facility is available on a revolving basis for five years from the closing date. An additional $20 million is available during the periods from September 1, 2012 through January 31, 2013 and from September 1, 2013 through November 30, 2013.

Generally, the Company may designate specific borrowings under the Amended Facility as either Alternate Base Rate Loans or LIBOR Rate Loans, except that Swing Loans may only be designated as Alternate Base Rate Loans. VOXX International (Germany) GmbH may only borrow euros, and only as LIBOR rate loans. Loans designated as LIBOR Rate Loans shall bear interest at a rate equal to the then applicable LIBOR rate plus a range of 1.25 - 2.25% based on excess availability in the borrowing base. Loans designated as Alternate Base Rate loans shall bear interest at a rate equal to the base rate plus an applicable margin ranging from 0.25 - 1.25% based on excess availability in the borrowing base. As of November 30, 2012, the interest rate on the facility was 2.61%.

The $75 million five year term loan facility is payable in twenty quarterly installments of principal commencing May 31, 2012, each in the amount of $3,750. All other amounts outstanding under the Amended Facility will mature and become due on March 13, 2017. The Company may prepay any amounts outstanding at any time, subject to payment of certain breakage and redeployment costs relating to LIBOR Rate Loans. The commitments under the Amended Facility may be irrevocably reduced at any time without premium or penalty.

The Amended Facility requires compliance with financial covenants calculated as of the last day of each fiscal quarter, consisting of a Total Leverage Ratio and a Consolidated EBIT to Consolidated Interest Expense Ratio.

The Amended Facility contains covenants that limit the ability of certain entities of the Company to, among other things: (i) incur additional indebtedness; (ii) incur liens; (iii) merge, consolidate or exit a substantial portion of their respective businesses; (iv) make any material change in the nature of their business; (v) prepay or otherwise acquire indebtedness; (vi) cause any Change of Control; (vii) make any Restricted Payments; (viii) change their fiscal year or method of accounting; (ix) make advances, loans or investments; (x) enter into or permit any transaction with an Affiliate of certain entities of the Company; or (xi) use proceeds for certain items (including capital expenditures). As of November 30, 2012, the Company was in compliance with all debt covenants.

The Amended Facility contains customary events of default, including, without limitation: failure to pay principal thereunder when due; failure to pay any interest or other amounts thereunder for a period of three (3) business days after becoming due; failure to comply with certain agreements or covenants contained in the Amended Facility; failure to satisfy certain judgments against a Loan Party or any of its Subsidiaries (other than Immaterial

Subsidiaries); certain insolvency and bankruptcy events; and failure to pay when due certain other indebtedness in an amount in excess of $5 million.

The Obligations under the Amended Facility are secured by a general lien on and security interest in the assets of certain entities of the Company, including accounts receivable, equipment, substantially all of the real estate, general intangibles and inventory provided that the assets of Hirschmann Car Communication GmbH and the foreign guarantors will only secure the Foreign Obligations. All Guarantors other than subsidiaries of Hirschmann Car Communication GmbH have jointly and severally guaranteed (or will jointly and severally guarantee) the obligations of any and all Credit Party Obligations, and each Foreign Guarantor will jointly and severally guarantee the obligations of Hirschmann Car Communications GmbH under the Credit Agreement (i.e., the Foreign Obligations).

On March 14, 2012, the Company borrowed approximately $148 million under this amended credit facility as a result of its stock purchase agreement related to Hirschmann. As of November 30, 2012, approximately $181 million was outstanding under the line.
As a result of the amendment to the Credit Facility, the Company incurred additional debt financing costs of approximately $3.4 million which are recorded as deferred financing costs. The Company has accounted for the amendment as a modification of debt and has added these costs to the remaining financing costs related to the original Credit Facility. These deferred financing costs have been included in other assets on the accompanying consolidated balance sheet and are being amortized through interest and bank charges over the five year term of the Amended Facility. During the three and nine months ended November 30, 2012, the Company amortized $302 and $907 of these costs, respectively, compared to $170 and $510 during the three and nine months ended November 30, 2011, respectively.
(b) Euro Asset-Based Lending Obligation

Foreign bank obligations include a financing arrangement entered into in October 2000, totaling €16,000 and consisting of a Euro accounts receivable factoring arrangement and a Euro Asset-Based Lending ("ABL") (up to 60% of eligible non-factored accounts receivable) credit facility for the Company's subsidiary, Audiovox Germany, which expires on November 1, 2013. Selected accounts receivable are purchased from the Company on a non-recourse basis at 85% of face value and payment of the remaining 15% upon receipt from the customer of the balance of the receivable purchased. The activity under the factoring agreement is accounted for as a sale of accounts receivable. The rate of interest is the three month Euribor plus 1.9% (2.09% at November 30, 2012), and the Company pays 0.22% of its gross sales as a fee for the accounts receivable factoring arrangement. As of November 30, 2012, the amount of accounts receivable available for factoring exceeded the amounts outstanding under this obligation.

(c) Euro Term Loan Agreement

On March 30, 2008, Audiovox Germany entered into a new €5,000 term loan agreement. This agreement is for a five year term with a financial institution and was used to repay the Audiovox Germany intercompany debt to VOXX International Corporation. Payments under the term loan are to be made in two semi-annual installments of €500 beginning on September 30, 2008 and ending on March 30, 2013. Interest accrues at a fixed rate of 4.82%. Any amount repaid cannot be reborrowed. The term loan is secured by a pledge of the stock of Audiovox Germany and the Magnat brand name, prohibits the distribution of dividends, and takes precedence to all other intercompany loans with VOXX International Corporation.

(d) Other Debt

This amount includes an assumed liability in connection with the Company's Invision acquisition, which was repaid in the fourth quarter of Fiscal 2012, as well as a note payable on a facility acquired in connection with the Company's Klipsch acquisition and a mortgage note on a building purchased by the Company's Schwaiger subsidiary. Additionally, on April 20, 2012, the Company purchased the building housing Klipsch's headquarters in Indianapolis, IN for $10.9 million. The Company paid $3.1 million cash at closing, plus $106 in closing costs, and assumed the mortgage held by the seller, Woodview LLC, in the amount of $7.8 million. The mortgage is

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due in June 2013 and bears interest at 5.85%. Woodview LLC is a related party, as certain partners are executives of Klipsch.

On July 15, 2012, Hirschmann entered into an agreement for a €6,000 working capital line of credit with a financial institution. The agreement is payable on demand and is mutually cancelable. The rate of interest is the three month Euribor plus 2% (2.19% at November 30, 2012) and the line of credit is guaranteed by VOXX International Corporation. There was no outstanding balance on the line of credit at November 30, 2012.

(17) Other Income (Expense)

Other income (expense) is comprised of the following:

	Three Months Ended November 30,		Nine Months Ended November 30,	
	2012	2011	2012	2011
Loss on foreign currency contracts related to Hirschmann acquisition	$—	$—	$(2,670)	$—
Net settlement charges related to patent lawsuit	—	(2,596)	(8,365)	(2,596)
Interest income	156	277	527	562
Rental income	320	130	793	398
Miscellaneous	300	(1,119)	492	(2,418)
Total other, net	$776	$(3,308)	$(9,223)	$(4,054)

Included in Miscellaneous for the three and nine months ended November 30, 2012 is income related to a legal settlement received by Klipsch of $215 and $1,015, respectively. Included in Miscellaneous for the three and nine months ended November 30, 2011 were impairment charges of $48 and $1,177, respectively, related to the Company's Bliss-tel investment as well as contingent consideration adjustments of approximately $500 and $2,000, respectively, related to a previous acquisition.

(18) Foreign Currency

The Company has certain operations in Venezuela. Venezuela has been operating in a difficult economic environment, which has been troubled with local political issues and various foreign currency and price controls. The country has experienced high rates of inflation over the last several years. The President of Venezuela has the authority to legislate certain areas by decree, which allows the government to nationalize certain industries or expropriate certain companies and property. These factors may have a negative impact on our business and our financial condition. In 2003, Venezuela created the Commission of Administration of Foreign Currency (“CADIVI”) which establishes and administers currency controls and their associated rules and regulations. These controls include creating a fixed exchange rate between the Bolivar and the U.S. Dollar, and the ability to restrict the exchange of Bolivar Fuertes for U.S. Dollars and vice versa.

Effective January 1, 2010, according to the guidelines in ASC 830, "Foreign Currency," Venezuela had been designated as a hyper-inflationary economy. A hyper-inflationary economy designation occurs when a country has experienced cumulative inflation of approximately 100 percent or more over a 3 year period. The hyper-inflationary designation requires the local subsidiary in Venezuela to record all transactions as if they were denominated in U.S. dollars. The Company transitioned to hyper-inflationary accounting on March 1, 2010 and continues to account for operation in Venezuela under this method.

On June 9, 2010, the Venezuelan government introduced a newly regulated foreign currency exchange system, Sistema de Transacciones con Titulos en Moneda Extranjera (“SITME”), which is controlled by the Central Bank of Venezuela (“BCV”). The SITME imposes volume restrictions on the conversion of Venezuelan Bolivar Fuertes to U.S. Dollars, currently limiting such activity to a maximum equivalent of $350 per month. As a result of this restriction, we have limited new U.S. dollar purchases to remain within the guidelines imposed by SITME.

(19) Lease Obligations

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During 1996, the Company entered into a 30-year capital lease for a building with its principal stockholder and current chairman, which was the headquarters of the discontinued Cellular operation. This lease was restructured in December 2006 and expires on November 30, 2026. The Company currently subleases the building to Airtyme Communications LLC for monthly payments of $60 for a term of three years, terminating on October 15, 2015. The Company also leases another facility from its principal stockholder which expires on November 30, 2016.

Total lease payments required under all related party leases for the five-year period ending November 30, 2017 are $6,167.

At November 30, 2012, the Company was obligated under non-cancellable capital and operating leases for equipment and warehouse facilities for minimum annual rental payments as follows:

	Capital Lease	Operating Leases
2013	$574	$5,330
2014	574	8,069
2015	574	3,222
2016	574	2,136
2017	1,404	886
Thereafter	5,995	880
Total minimum lease payments	9,695	$20,523
Less: minimum sublease income	2,150	
Net	7,545	
Less: amount representing interest	1,535	
Present value of net minimum lease payments	6,010	
Less: current installments included in accrued expenses and other current liabilities	161	
Long-term capital obligation	$5,849	

The Company leases certain facilities from its principal stockholder. At November 30, 2012, minimum annual rental payments on these related party leases, including the capital lease payments, which are included in the above table, are as follows:

2013	$1,348
2014	1,372
2015	1,396
2016	1,420
2017	631
Thereafter	5,995
Total	$12,162

(20) Capital Structure

The Company's capital structure is as follows:

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		Shares Authorized		Shares Outstanding			
Security	Par Value	November 30, 2012	February 29, 2012	November 30, 2012	February 29, 2012	Voting Rights per Share	Liquidation Rights
Preferred Stock	$50.00	50,000	50,000	—	—	—	$50 per share
Series Preferred Stock	$0.01	1,500,000	1,500,000	—	—	—	
Class A Common Stock	$0.01	60,000,000	60,000,000	21,214,195	20,875,600	1	Ratably with Class B
Class B Common Stock	$0.01	10,000,000	10,000,000	2,260,954	2,260,954	10	Ratably with Class A
Treasury Stock at cost	at cost	1,816,132	1,817,112	N/A	N/A	N/A	

(21) Contingencies

Contingencies

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 disclosed below 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 its suppliers or distributors, of third party 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 the Company to either enter into royalty or license agreements which are not advantageous to the Company, or pay material amounts of damages.

The Company has been party to a breach of license agreement lawsuit brought against it by MPEG LA, LLC ("MPEG"). During the third quarter of Fiscal 2012, the Company's claim for summary judgment was denied and the case was tried in the New York Supreme Court, Suffolk County. In December 2011, the Company received advisory judgment in the case, concluding that the Company owed MPEG penalties related to license agreement obligations arising from the manufacture and sale of its products. The Company recorded a charge of approximately $3.6 million in Fiscal 2012 and, based on the advisory jury's verdict, remitted payment of $2.6 million to MPEG in December 2011 in order to resolve this matter. On May 29, 2012, the Company received notice that the advisory judgment was overturned by the presiding Judge in the case. The Judge's ruling gave the Company and MPEG the option to (a) reach an agreement on the balance still owed; (b) allow the Judge to determine the balance; or (c) proceed to another trial and have a new jury determine the balance owed. On June 29, 2012, the Company reached a settlement agreement with MPEG and agreed to pay an additional $10.5 million in final resolution of the matter. The payment is in addition to the funds paid in December 2011, bringing the total settlement to $13.1 million. As a result of this settlement, the Company recorded a charge of $9.5 million during the first quarter of Fiscal 2013. The charge has been recorded in "Other (Expense) Income" in the Consolidated Statement of Operations and Comprehensive Income. The Company continues seeking indemnification from its suppliers for royalty payments previously paid to them that it maintains they were responsible to remit to MPEG and plans to vigorously pursue its option under its indemnification agreements. The Company completed negotiations with one vendor for an amount of $1.1 million, which was recorded as an offset to the settlement expense as a recovery in "Other (Expense)Income" on the Consolidated Statement of Operations and Comprehensive Income, for a net charge of $8.4 million during the first quarter of Fiscal 2013. At this time, we cannot determine the success of any additional efforts, nor quantify a range of amounts. Management will continue to evaluate the developments associated with the negotiations with its suppliers.

(22) New Accounting Pronouncements

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

In January 2010, the FASB issued authoritative guidance in ASC 820 "Fair Value Measurements and Disclosures" that improves disclosures around fair value measurements. This pronouncement requires additional disclosures regarding transfers between Levels 1, 2 and 3 of the fair value hierarchy of this pronouncement as well as a more detailed reconciliation of recurring Level 3 measurements. Certain disclosure requirements of this pronouncement were effective and adopted by the Company on March 1, 2010. The remaining disclosure requirements of this pronouncement were effective for the Company’s first quarter in Fiscal 2012. The adoption of this pronouncement did not have a material impact on the Company’s financial statements. In May 2011, ASC 820 was further amended to clarify certain disclosure requirements and improve consistency with international financial reporting standards. This amendment is to be applied prospectively and was effective for the Company's first quarter of Fiscal 2013. The adoption has not had a material effect on the Company's financial statements.

In June 2011, the FASB issued authoritative guidance included in ASC 220 "Comprehensive Income" related to the presentation of comprehensive income. Specifically, the new guidance allows an entity to present components of net income and other comprehensive income in one continuous statement, referred to as the statement of comprehensive income, or in two separate, but consecutive statements. The new guidance eliminates the current option to report other comprehensive income and its components in the statement of changes in equity. While the new guidance changes the presentation of comprehensive income, there are no changes to the components that are recognized in net income or other comprehensive income under current accounting guidance. The adoption of this disclosure-only guidance did not have an impact on the Company's consolidated financial results and has been adopted by the Company beginning in the first quarter of Fiscal 2013.

In September 2011, the FASB issued authoritative guidance in ASC 350 "Intangibles - Goodwill and Other" intended to simplify goodwill impairment testing. Entities will be allowed to perform a qualitative assessment on goodwill impairment to determine whether it is more likely than not (defined as having a likelihood of more than 50 percent) that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test. This guidance is effective for goodwill impairment tests performed in interim and annual periods for fiscal years beginning after December 15, 2011, or the Company's first quarter of Fiscal 2013. The Company has adopted this guidance as of March 1, 2012 and does not expect the guidance to have a material impact on its financial statements.

(23) Subsequent Events

Klipsch Settlement

During Fiscal 2012, Klipsch filed suit against twenty-three third parties for producing and reselling counterfeit Klipsch brand headphone products. Klipsch settled with one of the defendants in March 2012 for $800 and received payment during the first quarter of Fiscal 2013 and is recorded within Other, net on the Consolidated Statement of Operations and Comprehensive Income. This lawsuit is completed. During the second quarter of Fiscal 2013, Klipsch filed a second lawsuit against 16 additional companies for selling counterfeit Klipsch headphones. Klipsch reached settlements with two of the defendants in October 2012 and two other defendants in December 2012 for a total of $215 and $135, respectively. Payment of the $215 was received during the third quarter of Fiscal 2013 and is recorded within Other, net on the Consolidated Statement of Operations and Comprehensive Income. The remaining $135 was received in January 2013. The proceedings against the remaining twelve defendants continues.

Grant of Options and Warrants

In December of 2012, the Company granted 256,250 options and 17,500 warrants, which vest on July 2, 2013, expire 2 years from date of vesting and have an exercise price of $6.79, $0.25 above the sales price of the Company's stock on the day before the date of grant.

ITEM 2. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Forward-Looking Statements

Certain information in this Quarterly Report on Form 10-Q would constitute forward-looking statements, including but not limited to, information relating to the future performance and financial condition of the Company, the plans and objectives of the Company’s management and the Company’s assumptions regarding such performance and plans that are forward-looking in nature and involve certain risks and uncertainties. Actual results could differ materially from such forward-looking information.

We begin Management’s Discussion and Analysis of Financial Condition and Results of Operations (“MD&A”) with an overview of the business. This is followed by a discussion of the Critical Accounting Policies and Estimates that we believe are important to understanding the assumptions and judgments incorporated in our reported financial results. In the next section, we discuss our results of operations for the three and nine months ended November 30, 2012 compared to the three and nine months ended November 30, 2011. Next, we present adjusted EBITDA and diluted adjusted EBITDA per common share for the three and nine months ended November 30, 2012 compared to the three and nine months ended November 30, 2011 in order to provide a useful and appropriate supplemental measure of our performance. We then provide an analysis of changes in our balance sheets and cash flows, and discuss our financial commitments in the sections entitled “Liquidity and Capital Resources.” We conclude this MD&A with a discussion of “Related Party Transactions” and “Recent Accounting Pronouncements.”

Unless specifically indicated otherwise, all amounts and percentages presented in our MD&A below are in thousands, except share and per share data.

Business Overview

Effective December 1, 2011, Audiovox Corporation changed its name to VOXX International Corporation ("Voxx," "We," "Our," "Us" or the "Company"). The Company believes that the name VOXX International would be a name that better represents the widely diversified interests of the Company, and the more than 30 global brands 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. Voxx is a leading international distributor in the accessory, mobile and consumer electronics industries. On March 14, 2012, the Company acquired Car Communication Holding GmbH and its worldwide subsidiaries, a recognized tier-1 supplier of communications and infotainment solutions, primarily to the automotive industry. We conduct our business through nineteen wholly-owned subsidiaries: American Radio Corp., Audiovox Electronics Corporation (“AEC”), VOXX Accessories Corp., Audiovox Consumer Electronics, Inc. (“ACE”), Audiovox German Holdings GmbH (“Audiovox Germany”), Audiovox Venezuela, C.A., Audiovox Canada Limited, Audiovox Hong Kong Ltd., Audiovox International Corp., Audiovox Mexico, S. de R.L. de C.V. (“Audiovox Mexico”), Technuity, Inc., 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. We market our products under the Audiovox® brand name, other brand names and licensed brands, such as Acoustic Research®, Advent®, Car Link®, Code-Alarm®, Energy®, Excalibur®, Heco®, Hirschmann Car Communication®, Incaar™, Invision®, Jamo®, Jensen®, Klipsch®, Mac Audio™, Magnat®, Mirage®, Oehlbach®, Prestige®, RCA®, Schwaiger®, and Terk®, 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 and presently have one reportable segment (the "Electronics Group"), which is organized by product category.

The Company currently reports s