VOXX International Corp
Form 10-Q
January 09, 2019

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, 2018

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

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

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files).
Yes x No o

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

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

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

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

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Class	As of January 8, 2019	
Class A Common Stock	21,938,100	Shares
Class B Common Stock	2,260,954	Shares

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VOXX International Corporation and Subsidiaries

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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

	November 30, 2018 (unaudited)	February 28, 2018
Assets		
Current assets:		
Cash and cash equivalents	$ 48,718	$ 51,740
Accounts receivable, net	84,639	81,116
Inventory, net	118,816	117,992
Receivables from vendors	463	493
Prepaid expenses and other current assets	28,598	14,007
Income tax receivable	499	511
Total current assets	281,733	265,859
Investment securities	3,243	4,167
Equity investment	22,108	21,857
Property, plant and equipment, net	61,200	65,259
Goodwill	54,785	54,785
Intangible assets, net	135,041	150,320
Deferred income tax assets	24	24
Other assets	2,590	13,373
Total assets	$ 560,724	$ 575,644
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 37,097	$ 34,700
Accrued expenses and other current liabilities	33,776	36,350
Income taxes payable	1,371	2,587
Accrued sales incentives	16,606	14,020
Current portion of long-term debt	10,417	7,730
Total current liabilities	99,267	95,387
Long-term debt, net of debt issuance costs	5,754	8,476
Capital lease obligation	628	699
Deferred compensation	2,529	3,369
Deferred income tax liabilities	14,853	12,217
Other tax liabilities	1,377	2,191
Other long-term liabilities	3,014	3,187
Total liabilities	127,422	125,526
Commitments and contingencies		
Stockholders' equity:		
Preferred stock:		
No shares issued or outstanding (see Note 20)	—	—
Common stock:		
Class A, $.01 par value, 60,000,000 shares authorized, 24,106,194 shares issued and 21,938,100 shares outstanding at both November 30, 2018 and February 28, 2018	242	256
	22	22

Class B Convertible, $.01 par value, 10,000,000 shares authorized, 2,260,954 shares issued and outstanding at both November 30, 2018 and February 28, 2018		
Paid-in capital	296,788	296,395
Retained earnings	185,142	194,673
Accumulated other comprehensive loss	(16,932)	(14,222)
Treasury stock, at cost, 2,168,094 shares of Class A Common Stock at both November 30, 2018 and February 28, 2018	(21,176)	(21,176)
Total VOXX International Corporation stockholders' equity	444,086	455,948
Non-controlling interest	(10,784)	(5,830)
Total stockholders' equity	433,302	450,118
Total liabilities and stockholders' equity	$ 560,724	$ 575,644

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See accompanying notes to unaudited consolidated financial statements.

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

	Three Months Ended November 30,		Nine Months Ended November 30,	
	2018	2017	2018	2017
Net sales	$129,637	$156,563	$339,359	$384,856
Cost of sales	90,714	115,044	241,696	284,772
Gross profit	38,923	41,519	97,663	100,084
Operating expenses:				
Selling	10,363	11,357	30,661	34,805
General and administrative	16,482	18,258	49,632	59,095
Engineering and technical support	6,368	6,261	18,349	20,298
Intangible asset impairment charges (see Note 11)	—	—	9,814	—
Total operating expenses	33,213	35,876	108,456	114,198
Operating income (loss)	5,710	5,643	(10,793)	(14,114)
Other income (expense):				
Interest and bank charges	(1,174)	(1,215)	(3,391)	(4,850)
Equity in income of equity investee	1,695	2,004	5,146	5,734
Investment gain (see Note 4)	—	—	—	1,416
Impairment of Venezuela investment properties (see Note 18)	—	—	(3,473)	—
Other, net	260	477	1,173	(7,772)
Total other income (expense), net	781	1,266	(545)	(5,472)
Income (loss) from continuing operations before income taxes	6,491	6,909	(11,338)	(19,586)
Income tax (benefit) expense from continuing operations	(4,078)	(568)	3,147	(4,531)
Net income (loss) from continuing operations	10,569	7,477	(14,485)	(15,055)
Net (loss) income from discontinued operations, net of tax (see Note 2)	—	(368)	—	32,342
Net income (loss)	10,569	7,109	(14,485)	17,287
Less: net loss attributable to non-controlling interest	(1,642)	(1,535)	(4,954)	(5,433)
Net income (loss) attributable to VOXX International Corporation	$12,211	$8,644	$(9,531)	$22,720
Other comprehensive (loss) income:				
Foreign currency translation adjustments	(1,263)	(170)	(3,333)	27,669
Derivatives designated for hedging	50	226	542	(960)
Pension plan adjustments	20	(2)	57	1,688
Unrealized holding (loss) gain on available-for-sale investment securities, net of tax	—	(3)	24	74
Other comprehensive (loss) income, net of tax	(1,193)	51	(2,710)	28,471
Comprehensive income (loss) attributable to VOXX International Corporation	$11,018	$8,695	$(12,241)	$51,191
Income (loss) income per share - basic:				
Continuing operations attributable to VOXX International Corporation	$0.50	$0.37	$(0.39)	$(0.40)
Discontinued operations attributable to VOXX International Corporation	$—	$(0.02)	$—	$1.34

Attributable to VOXX International Corporation	$0.50	$0.36	$(0.39)	$0.94
Income (loss) income per share - diluted:				
Continuing operations attributable to VOXX International Corporation	$0.50	$0.37	$(0.39)	$(0.40)
Discontinued operations attributable to VOXX International Corporation	$—	$(0.02)	$—	$1.34
Attributable to VOXX International Corporation	$0.50	$0.35	$(0.39)	$0.94

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Weighted-average common shares outstanding (basic)	24,355,791	24,238,493	24,355,791	24,222,973
Weighted-average common shares outstanding (diluted)	24,628,836	24,498,144	24,355,791	24,222,973

See accompanying notes to unaudited consolidated financial statements.

VOXX International Corporation and Subsidiaries
Unaudited Consolidated Statements of Cash Flows

	Nine Months Ended November 30,	
	2018	2017
Cash flows from operating activities:		
Net loss from continuing operations	$(14,485)	$(15,055)
Net income from discontinued operations	—	32,342
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	8,811	12,087
Amortization of debt discount	616	616
Intangible asset impairment charges	9,814	—
Bad debt expense	372	260
Loss on forward contracts	132	6,602
Equity in income of equity investees	(5,146)	(5,734)
Distribution of income from equity investees	4,899	5,245
Deferred income tax expense	2,606	1,157
Non-cash compensation adjustment	(840)	786
Stock based compensation expense	393	445
Impairment of Venezuela investment properties	3,473	—
(Gain) loss on sale of property, plant and equipment	15	(10)
Gain on sale of RxNetworks	—	(1,416)
Gain on sale of Hirschmann	—	(36,118)
Changes in operating assets and liabilities:		
Accounts receivable	(5,709)	(10,862)
Inventory	(2,648)	(831)
Receivables from vendors	24	396
Prepaid expenses and other	4,549	(12,275)
Investment securities-trading	903	52
Accounts payable, accrued expenses, accrued sales incentives and other liabilities	4,159	(14,975)
Income taxes payable	(1,833)	(1,660)
Net cash provided by (used in) operating activities	10,105	(38,948)
Cash flows (used in) provided by investing activities:		
Purchases of property, plant and equipment	(4,084)	(5,932)
Proceeds from sale of property, plant and equipment	47	10
Issuance of notes receivable	(4,931)	(3,000)
Proceeds from sale of long-term investment	—	2,660
Purchase of business	—	(1,814)
Proceeds from sale of Hirschmann, net of settlement of forward contracts	—	170,020
Net cash (used in) provided by investing activities	(8,968)	161,944
Cash flows used in financing activities:		
Principal payments on capital lease obligation	(295)	(489)
Repayment of bank obligations	(1,870)	(128,591)
Borrowings on bank obligations	1,974	37,114
Proceeds from exercise of stock options	—	303
Net cash used in financing activities	(191)	(91,663)
Effect of exchange rate changes on cash	(3,968)	(1,619)
Net (decrease) increase in cash and cash equivalents	(3,022)	29,714

Cash and cash equivalents at beginning of period	(a) 51,740	(a) 7,800
Cash and cash equivalents at end of period	$48,718	(a) $37,514

(a) Cash and cash equivalents at February 28, 2017 included $6,844 in current assets held for sale for Hirschmann.

See accompanying notes to unaudited consolidated financial statements.

VOXX International Corporation and Subsidiaries
Notes to Unaudited 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 unaudited consolidated financial statements do not include all disclosures associated with consolidated financial statements prepared in accordance with accounting principles generally accepted in the United States of America. Accordingly, these statements should be read in conjunction with the Company's audited consolidated financial statements and notes thereto contained in the Company's Form 10-K for the fiscal year ended February 28, 2018. The Company's financial statements for the prior periods presented herein have been recast to reflect a certain business that was classified as discontinued operations during the second quarter of Fiscal 2018. See Note 2 for additional information. Net income (loss) per share amounts for continuing and discontinued operations are computed independently. As a result, the sum of the per share amounts may not equal the total.

We operate in three reportable segments, Automotive, Premium Audio and Consumer Accessories. See Note 22 for the Company's segment reporting disclosures.

(2) Dispositions

Hirschmann Car Communication GmbH
On August 31, 2017 (the "Closing Date"), the Company completed its sale of Hirschmann Car Communication GmbH and its subsidiaries (collectively, “Hirschmann”) to a subsidiary of TE Connectivity Ltd ("TE"). The consideration received by the Company was €148,500. The purchase price, at the exchange rate as of the close of business on the Closing Date approximated $177,000, and is subject to adjustment based upon the final working capital. VOXX International (Germany) GmbH, the Company's German wholly-owned subsidiary, was the selling entity in this transaction.

The Hirschmann subsidiary group, which was included within the Automotive segment, qualified to be presented as a discontinued operation in accordance with ASC 205-20 beginning in the Company's Fiscal 2018 second quarter ending August 31, 2017. Voxx has not had any continuing involvement in the Hirschmann business subsequent to the Closing Date. Hirschmann and TE are not related parties of the Company subsequent to the deconsolidation of Hirschmann.

In order to hedge the fluctuation in the exchange rate before closing, the Company entered into forward contracts totaling €148,500, which could be settled on dates ranging from August 31, 2017 through September 6, 2017. As the sale of Hirschmann closed on August 31, 2017, the Company settled all of the forward contracts on this date. The forward contracts were not designated for hedging and a total foreign currency loss of $(6,618) was recorded when the contracts were settled, within continuing operations for the nine months ended November 30, 2017.

The following table presents a reconciliation of the major financial lines constituting the results of operations for discontinued operations to the net income from discontinued operations, net of tax, presented separately in the

Unaudited Consolidated Statements of Operations and Comprehensive Income (Loss):

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

	Three Months Ended November 30, 2017	Nine Months Ended November 30, 2017
Net sales	$ —	$ 91,824
Cost of sales	—	63,610
Gross profit	—	28,214
Operating expenses:		
Selling	—	2,778
General and administrative	12	14,688
Engineering and technical support	—	7,920
Total operating expenses	12	25,386
Operating (loss) income of discontinued operations	(12)	2,828
Other (expense) income:		
Interest and bank charges (a)	—	(279)
Other, net	7	145
Total other expense (income) of discontinued operations, net	7	(134)
Gain on sale of discontinued operations before taxes	—	36,118
Total (loss) income from discontinued operations before taxes	(5)	38,812
Income tax expense on discontinued operations (b)	363	6,470
(Loss) income from discontinued operations, net of taxes	$ (368)	$ 32,342
(Loss) income per share - basic	$ (0.02)	$ 1.34
(Loss) income per share - diluted	$ (0.02)	$ 1.34

(a) Includes an allocation of consolidated interest expense and interest expense directly related to debt assumed by the buyer. The allocation of consolidated interest expense was based upon the ratio of net assets of the discontinued operations to that of the consolidated Company.

(b) The income tax expense on discontinued operations for the three and nine months ended November 30, 2017 was positively impacted by an income tax benefit related to the partial reversal of the Company's valuation allowance as the Company utilized a significant portion of its tax attributes to offset the U.S. tax gain related to the sale of Hirschmann.

The following table presents supplemental cash flow information of the discontinued operation:

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

	Nine Months Ended November 30, 2017
Operating activities:	
Depreciation and amortization expense	$ 2,939
Stock-based compensation expense	50
Investing activities:	
Capital expenditures	$ 2,652
Non-cash investing and financing activities:	
Capital expenditures funded by long-term obligations	$ 1,916

(3) Net Income (Loss) Per Common Share

Basic net income (loss) per common share from continuing operations, net of non-controlling interest, is based upon the weighted-average common shares outstanding during the period. Diluted net income (loss) per common share from continuing operations, net of non-controlling interest 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 (loss) common share. A reconciliation between the denominator of basic and diluted net income (loss) per common share is as follows:

	Three Months Ended November 30,		Nine Months Ended November 30,	
	2018	2017	2018	2017
Weighted-average common shares outstanding (basic)	24,355,791	24,238,493	24,355,791	24,222,973
Effect of dilutive securities:				
Restricted stock	273,045	259,651	—	—
Weighted-average common shares and potential common shares outstanding (diluted)	24,628,836	24,498,144	24,355,791	24,222,973

Restricted stock totaling 0, and restricted stock, options and warrants totaling 55,918 for the three months ended November 30, 2018 and 2017, respectively, and 531,375 and 545,102 for the nine months ended November 30, 2018 and 2017, respectively, were not included in the net income (loss) per diluted share calculation because the exercise price of the restricted stock was greater than the average market price of the Company's common stock during these periods, or the inclusion of these components would have been anti-dilutive.

(4) Investment Securities

As of November 30, 2018, and February 28, 2018, the Company had the following investments:

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

	November 30, 2018 Carrying Value
Investment Securities	
Marketable Equity Securities	
Mutual funds	$ 2,718
Total Marketable Equity Securities	2,718
Investment Held at Cost, Less Impairment	525
Total Investment Securities	$ 3,243

	February 28, 2018		
	Cost Basis	Unrealized Holding Gain/(Loss)	Fair Value
Investment Securities			
Marketable Equity Securities			
Trading			
Mutual funds	$3,620	$ —	$ 3,620
Total Marketable Securities	3,620	—	3,620
Other Long-Term Investment at Cost	547	—	547
Total Investment Securities	$4,167	$ —	$ 4,167

Equity Securities

As required, in the first quarter of Fiscal 2019 the Company adopted ASU 2016-01, “Recognition and Measurement of Financial Assets and Financial Liabilities” ("ASU 2016-01"), which requires changes to the accounting for financial instruments that affect the Company’s equity investments and the presentation and disclosure for such instruments. Marketable equity securities previously classified as available-for-sale equity investments are now measured and recorded at fair value with changes in fair value recorded in the Unaudited Consolidated Statements of Operations and Comprehensive Income (Loss). The impact of adopting ASU 2016-01 resulted in a cumulative effect adjustment of $24, which was recorded in other income (expense) in the Unaudited Consolidated Statements of Operations and Comprehensive Income (Loss) for the nine months ended November 30, 2018, rather than in retained earnings, as it was not considered material to the Company's consolidated financial statements for the period.

Mutual Funds

The Company’s mutual funds are held in connection with its deferred compensation plan. Changes in the carrying value of these securities are offset by changes in the corresponding deferred compensation liability.

Upon the adoption of ASU 2016-01, changes in fair value of equity securities are now recorded within the Unaudited Consolidated Statements of Operations and Comprehensive Income (Loss), and as such, other than temporary impairment ("OTTI") considerations are no longer made with respect to equity securities. Prior to the adoption of ASU 2016-01, in determining whether equity securities were other than temporarily impaired, the Company considered its intent and ability to hold a security for a period of time sufficient to allow for the recovery of cost, along with factors including the length of time each security had been in an unrealized loss position, the extent of the decline and the near-term prospect for recovery. Additionally, on a quarterly basis, the Company was required to make a qualitative assessment of whether the investment was impaired. No OTTI losses were incurred by the Company during the three and nine months ended November 30, 2017.

Investment Held at Cost, Less Impairment

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

The Company's investment held at cost, less impairment, represents an investment in Fathom Systems Inc. ("Fathom"), a non-controlled corporation. On July 31, 2017, RxNetworks, a Canadian company in which Voxx held a cost method investment consisting of shares of the investee's preferred stock, was sold to a third party. In consideration for its holdings in RxNetworks on July 31, 2017, Voxx received cash, as well as a proportionate share of the value (consisting of preferred stock) in Fathom, a newly formed Canadian entity, formerly a subsidiary of RxNetworks. As a result of this transaction, Voxx recognized a gain of $1,416 for the nine months ended November 30, 2017. The cash proceeds were subject to a hold-back provision, which was not included in the calculation of the gain recognized. On March 1, 2018, the Company adopted ASU No. 2016-01. This guidance requires equity investments to be measured at fair value with changes in fair value recognized in net income. Since it does not have a readily determinable market value, the Company has elected to measure its investment in Fathom at cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or similar investment. No adjustments have been made to the value of the Company’s investment in Fathom for the three and nine months ended November 30, 2018 either due to impairment or based on observable price changes. The variance in the balance of this investment is attributable solely to foreign currency adjustments. The Company monitors any events or changes in circumstances that may have a significant adverse effect on the fair value of this investment and makes any necessary adjustments. As of November 30, 2018, the Company's investment in Fathom totaled $525, or 8.7% of the outstanding shares of this company.

The Company holds various notes receivable from 360fly, Inc., designers and creators of 360° cameras and technology. These notes receivable, which aggregate $15,588 principal amount, are recorded in the Company's Consolidated Balance Sheet at November 30, 2018 under the caption Prepaid expenses and other current assets. Of the $15,588 notes receivable, $12,453 are convertible into preferred stock of 360fly, Inc. At November 30, 2018, all of the notes receivable were due on August 31, 2019. On December 12, 2018, one of the notes was amended to increase the available amount under the note by $1,100 and amend the due date to January 7, 2019. Of the notes receivable outstanding at November 30, 2018, a $5,000 aggregate principal amount then became payable on January 7, 2019, and a $10,588 aggregate principal balance will be payable on August 31, 2019. These notes receivable are senior secured notes that are collateralized by the intangible and tangible assets of 360fly, Inc. The notes bear interest at 8% per annum. Each month, the interest (to the extent not paid in cash) is added to the principal balance due. Prior to close of business on January 7, 2019, the Company amended the note receivable that was due on January 7, 2019 increasing the amount available under the note by an additional $500 and extending the payment terms to January 19, 2019. Subsequent to November 30, 2018, the Company lent additional funds of $595 to 360fly, Inc., and secured a cash advance of $231, both of which were originally due to be repaid on January 7, 2019. These additional funds were drawn under the note for which the due date was extended to January 19, 2019. As of this filing, the total amount due from 360fly, Inc., net of reserves of $2,134, is $15,681.

As all of the currently outstanding notes receivable are due from the same debtor, all the notes are deemed to have the same credit quality. The notes receivable were on a non-accrual status during the three and nine months ended November 30, 2018, and during the fiscal year ended February 28, 2018, as payment of interest was not reasonably assured. The credit quality of the notes receivable was previously deemed to not present a significant risk of loss or default of the principal payments based upon on-going business developments. During the fourth quarter of Fiscal 2019, the credit quality of the debtor has deteriorated.

The Company is currently having on-going negotiations with the other secured lenders of 360fly, Inc. with respect to a potential filing by 360fly, Inc. of a voluntary petition under Chapter 11 of the Bankruptcy Code with the Company providing the debtor-in-possession financing. Additionally, the Company is discussing future purchase commitments with 360fly, Inc.'s customers (one of which is also a secured lender). If the Company and the other secured lenders were the successful bidder, they would own all of the equity in the newly reorganized entity, which in turn would own all of the assets of 360fly, Inc. including its intellectual property. There can be no assurance that the Company's negotiations will be successful, that 360fly, Inc. will file a Chapter 11 reorganization plan, or that the plan will be successfully consummated. If the Company is unsuccessful in completing its negotiations with the other secured lenders and customers, or if 360fly, Inc. is unsuccessful in completing a Chapter 11 reorganization, the Company may record an impairment charge in the future. As a result of these uncertainties, any estimate of such charge is inherently subjective as it is susceptible to significant revision as more information and developments become available.

The Company has not recorded an impairment charge for the three or nine months ended November 30, 2018. Given that the credit quality of the notes receivable has deteriorated subsequent to November 30, 2018, the Company has begun performing an impairment analysis. As the notes are collateral dependent notes, the estimated fair value of the collateral

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

is being developed for comparison to the carrying value of the notes. The Company will record an impairment charge in the future if the carrying value of the notes receivable exceeds the estimated fair value of the underlying collateral.

(5) 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 financial assets measured at fair value on a recurring basis at November 30, 2018:

		Fair Value Measurements at Reporting Date Using	
	Total	Level 1	Level 2
Cash and cash equivalents:			
Cash and money market funds	$48,718	$48,718	$—
Derivatives:			
Designated for hedging	$158	$—	$158
Investment securities:			
Mutual funds	$2,718	$2,718	$—
Investment held at cost, less impairment (a)	525	—	—
Total investment securities	$3,243	$2,718	$—

The following table presents financial assets and liabilities measured at fair value on a recurring basis at February 28, 2018:

		Fair Value Measurements at Reporting Date Using	
	Total	Level 1	Level 2
Cash and cash equivalents:			
Cash and money market funds	$51,740	$51,740	$—
Derivatives:			

Designated for hedging	$(262)	$—	$(262)
Investment securities:			
Trading securities	$3,620	$3,620	$—
Other investment at cost (a)	547	—	—
Total investment securities	$4,167	$3,620	$—

(a) This balance represents an investment in a non-controlled corporation held at cost, less impairment (see Note 4). The fair value of this investment would be based upon Level 3 inputs and is not considered material to the Company's consolidated financial statements.

VOXX International Corporation and Subsidiaries
Notes to Unaudited Consolidated Financial Statements, continued
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At November 30, 2018, the carrying amount of the Company's accounts receivable, notes 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; or (iii) the stated or implicit interest rate approximates the current market rates or are not materially different from 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. The forward foreign currency derivatives qualifying for hedge accounting are designated as cash flow hedges and valued using observable forward rates for the same or similar instruments (Level 2). The duration of open forward foreign currency contracts ranges from 1 month - 3 months and are classified in the balance sheet according to their terms. The Company also has an interest rate swap agreement as of November 30, 2018 that hedges interest rate exposure related to the forecasted outstanding balance of its Florida Mortgage, with monthly payments due through March 2026. The swap agreement locks the interest rate on the debt at 3.48% (inclusive of credit spread) through the maturity date of the loan. Interest rate swap agreements qualifying for hedge accounting are designated as cash flow hedges and valued based on a comparison of the change in fair value of the actual swap contracts designated as the hedging instruments and the change in fair value of a hypothetical swap contract (Level 2). We calculate the fair value of interest rate swap agreements quarterly based on the quoted market price for the same or similar financial instruments. Interest rate swaps are classified in the balance sheet as either assets or liabilities based on the fair value of the instruments at the end of the period.

It is the Company's policy to enter into derivative instrument contracts with terms that coincide with the underlying exposure being hedged. As such, the Company's derivative instruments are expected to be highly effective. Hedge ineffectiveness, if any, is recognized as incurred through other income (expense) in the Company's Unaudited Consolidated Statements of Operations and Comprehensive Income (Loss) and amounted to $20 and $45 for the three and nine months ended November 30, 2018, respectively, and $46 and $(49) for the three and nine months ended November 30, 2017, respectively.

Financial Statement Classification

The following table discloses the fair value as of November 30, 2018 and February 28, 2018 of derivative instruments:

	Derivative Assets and Liabilities		
		Fair Value	
	Account	November 30, 2018	February 28, 2018
Designated derivative instruments			
Foreign currency contracts	Prepaid expenses and other current assets	$ 127	$ —
	Accrued expenses and other current liabilities	—	(227)
Interest rate swap agreements	Other assets	31	—
	Other long-term liabilities	—	(35)
Total derivatives		$ 158	$ (262)

Cash flow hedges

During Fiscal 2018, the Company entered into forward foreign currency contracts, which have a current outstanding notional value of $2,400 and are designated as cash flow hedges at November 30, 2018. The current outstanding notional value of the Company's interest rate swap at November 30, 2018 is $8,236. 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 pertaining to continuing operations recorded during the three and nine months ended November 30, 2018 and 2017 was as follows:

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	Three months ended November 30, 2018			Nine months ended November 30, 2018		
	Pretax Gain(Loss) Recognized in Other Comprehensive Income	Pretax Gain (Loss) Reclassified from Accumulated Other Comprehensive Income	(Loss) Gain for Ineffectiveness in Other Income	Pretax Gain (Loss) Recognized in Other Comprehensive Income	Pretax (Loss) Gain Reclassified from Accumulated Other Comprehensive Income	Gain (Loss) for Ineffectiveness in Other Income
Cash flow hedges						
Foreign currency contracts	$116	$ 80	$ 20	$538	$ (134)	$ 45
Interest rate swaps	28	—	—	66	—	—

	Three months ended November 30, 2017			Nine months ended November 30, 2017		
	Pretax (Loss) Gain Recognized in Other Comprehensive Income	Pretax Gain (Loss) Reclassified from Accumulated Other Comprehensive Income	(Loss) Gain for Ineffectiveness in Other Income	Pretax (Loss) Gain Recognized in Other Comprehensive Income	Pretax Gain (Loss) Reclassified from Accumulated Other Comprehensive Income	(Loss) Gain for Ineffectiveness in Other Income
Cash flow hedges						
Foreign currency contracts	$(103)	$ (218)	$ 46	$(1,369)	$ 99	$ (49)
Interest rate swaps	148	—	—	79	—	—

The net (loss) income recognized in Other Comprehensive Income (Loss) 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 November 30, 2018, no foreign currency contracts originally designated for hedge accounting were de-designated or terminated.

(6) Accumulated Other Comprehensive (Loss) Income

The Company’s accumulated other comprehensive (loss) income consists of the following:

	Foreign Currency Translation (Losses) Gains	Unrealized (losses) gains on investments, net of tax (a)	Pension plan adjustments, net of tax	Derivatives designated in a hedging relationship, net of tax	Total
Balance at February 28, 2018	$(13,027)	$ (24)	$ (786)	$ (385)	$(14,222)
Other comprehensive (loss) income before reclassifications	(3,333)	—	57	450	(2,826)
Reclassified from accumulated other comprehensive income (loss)	—	24	—	92	116

Net current-period other comprehensive (loss) income	(3,333)	24	57	542	(2,710)
Balance at November 30, 2018	$(16,360)	$ —	$ (729)	$ 157	$(16,932)

(a) Pursuant to ASU 2016-01 adopted by the Company (see Note 4), beginning on March 1, 2018, changes in fair value of the Company's investments in equity investments are recorded in earnings.

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During the three and nine months ended November 30, 2018, the Company recorded tax expense related to derivatives designated in a hedging relationship of $11 and $202, respectively, and pension plan adjustments of $0 in both periods.

The other comprehensive (loss) income before reclassification of $(3,333) includes the remeasurement of intercompany transactions of a long-term investment nature of $(1,000) with certain subsidiaries whose functional currency is not the U.S. dollar, and $(2,333) from translating the financial statements of the Company's non-U.S. dollar functional currency subsidiaries into our reporting currency, which is the U.S. dollar.

(7) Supplemental Cash Flow Information

The following is supplemental information relating to the Unaudited Consolidated Statements of Cash Flows, including continuing and discontinued operations:

	Nine Months Ended November 30,	
	2018	2017
Non-cash investing and financing activities:		
Capital expenditures funded by long-term obligations	$—	$1,993
Cash paid during the period:		
Interest (excluding bank charges)	$1,322	$2,675
Income taxes (net of refunds)	2,290	2,359

See Note 2 for additional supplemental cash flow information pertaining to discontinued operations.

(8) Accounting for Stock-Based Compensation

The Company has various stock-based compensation plans, which are more fully described in Note 1 of the Company’s Form 10-K for the fiscal year ended February 28, 2018.

A restricted stock award is an award of common stock that is subject to certain restrictions during a specified period. Restricted stock awards are independent of option grants and are subject to forfeiture if employment terminates for a reason other than death, disability or retirement, prior to the release of the restrictions. The Company has a Supplemental Executive Retirement Plan (SERP), which was established in Fiscal 2014. Shares are granted based on certain performance criteria and vest on the later of three years from the date of grant, or the grantee reaching the age of 65 years. The shares will also vest upon termination of the grantee's employment by the Company without cause, provided that the grantee, at the time of termination, has been employed by the Company for at least 10 years, or as a result of the sale of all of the issued and outstanding stock, or all, or substantially all, of the assets of the subsidiary of which the grantee serves as CEO and/or President. When vested shares are issued to the grantee, the awards will be settled in shares or in cash, at the Company's sole option. The grantee cannot transfer the rights to receive shares before the restricted shares vest. There are no market conditions inherent in the award, only an employee performance requirement, and the service requirement that the respective employee continues employment with the Company through the vesting date. During July 2018, the Company granted 188,245 shares of restricted stock under the SERP. The Company expenses the cost of the restricted stock awards on a straight-line basis over the requisite service period of each employee. For these purposes, the fair market value of the restricted stock is determined based on the mean of the high and low price of the Company's common stock on the grant dates. The fair market value of the restricted stock granted in July 2018 was $5.50 per share.

The following table presents a summary of the Company's restricted stock activity for the nine months ended November 30, 2018:

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	Number of Shares	Weighted Average Grant Date Fair Value
Balance at February 28, 2018	439,299	$ 7.08
Granted	188,245	5.50
Forfeited	—	—
Balance at November 30, 2018	627,544	$ 6.60
Vested and unissued at November 30, 2018	156,737	$ 9.96

During the three and nine months ended November 30, 2018, the Company recorded $159 and $393, respectively, and during the three and nine months ended November 30, 2017, the Company recorded $146 and $396, respectively, in stock-based compensation related to restricted stock awards for continuing operations. As of November 30, 2018, there was approximately $1,684 of unrecognized stock-based compensation expense related to unvested restricted stock awards.

(9) Supply Chain Financing

The Company has supply chain financing agreements and factoring agreements that were entered into for the purpose of accelerating receivable collection and better managing cash flow. The balances under the agreements are sold without recourse and are accounted for as sales of accounts receivable. Total receivable balances sold for the three and nine months ended November 30, 2018, net of discounts, were $35,047 and $82,971, respectively, compared to $46,309 and $110,024, for the three and nine months ended November 30, 2017, respectively.

(10) Research and Development

Expenditures for research and development are charged to expense as incurred. Such expenditures amounted to $2,309 and $6,869 for the three and nine months ended November 30, 2018, respectively, compared to $2,340 and $8,526 for the three and nine months ended November 30, 2017, respectively, net of customer reimbursements, and are included in continuing operations within engineering and technical support expenses on the Unaudited Consolidated Statements of Operations and Comprehensive Income (Loss).

(11) Goodwill and Intangible Assets

The change in goodwill pertaining to continuing operations by segment is as follows:

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Automotive:	Amount
Beginning balance at March 1, 2018	$8,252
Activity during the period	—
Balance at November 30, 2018	$8,252
Gross carrying amount at November 30, 2018	$8,252
Accumulated impairment charge	—
Net carrying amount at November 30, 2018	$8,252
Premium Audio:	
Beginning balance at March 1, 2018	$46,533
Activity during the period	—
Balance at November 30, 2018	$46,533
Gross carrying amount at November 30, 2018	$78,696
Accumulated impairment charge	(32,163)
Net carrying amount at November 30, 2018	$46,533
Total Goodwill, net	$54,785

Note: The Company's Consumer Accessories segment did not carry a goodwill balance at November 30, 2018 or February 28, 2018.

At November 30, 2018, intangible assets consisted of the following:

	Gross Carrying Value	Accumulated Amortization	Total Net Book Value
Finite-lived intangible assets:			
Customer relationships	$49,721	$ 28,896	$20,825
Trademarks/Tradenames	485	405	80
Developed technology	31,290	8,843	22,447
Patents	2,789	2,219	570
License	1,400	1,400	—
Contract	2,141	1,936	205
Total finite-lived intangible assets	$87,826	$ 43,699	44,127
Indefinite-lived intangible assets			
Trademarks			90,914
Total net intangible assets			$135,041

At February 28, 2018, 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	$50,249	$ 26,807	$23,442
Trademarks/Tradenames	415	400	15
Developed technology	31,290	6,802	24,488
Patents	2,830	2,138	692
License	1,400	1,400	—
Contract	2,141	1,849	292
Total finite-lived intangible assets	$88,325	$ 39,396	48,929
Indefinite-lived intangible assets			
Trademarks			101,391
Total net intangible assets			$150,320

During the second quarter of Fiscal 2019, the Company re-evaluated its projections for several brands in its Consumer Accessory and Automotive segments based on lower than anticipated results due to lower product load-ins, increased competition for certain product lines, a streamlining of SKU's, and its marketing strategy for one of its brands. Accordingly, these were considered indicators of impairment requiring the Company to test the related indefinite-lived tradenames for impairment at the lowest level for which there are separately identifiable cash flows.

The Company tested these indefinite-lived intangible assets as of August 31, 2018, the end of the Company's Fiscal 2019 second quarter. The respective fair values were estimated using a Relief-from-Royalty Method, applying royalty rates of 0.5% to 5.5% for the trademarks after reviewing comparable market rates, the profitability of the products associated with relative intangible assets, and other qualitative factors. We determined that risk-adjusted discount rates ranging from 12.6% to 13.1% were appropriate (developed using a weighted average cost of capital analysis). The long-term growth rates ranged from 0% to 2.0%. As a result of this analysis, it was determined that several of the Company's Consumer Accessory trademarks and one Automotive trademark were impaired at August 31, 2018. The Company recorded an impairment charge of $9,814 for the nine months ended November 30, 2018, with $9,654 related to the Consumer Accessories segment and $160 related to the Automotive segment. Approximately 46% ($42,189) of the carrying value of the Company's indefinite lived tradenames are close to fair value and sensitive to changes and assumptions. There can be no assurance that the estimates and assumptions made for purposes of impairment testing as of August 31, 2018 will prove to be accurate predictions of the future. Reduced demand for our existing product offerings, less than anticipated results for the holiday season, lack of acceptance of new products, or unfavorable changes in assumptions used in the discounted cash flow model such as discount rates, royalty rates or projected long-term growth rates could result in additional impairment charges in the future. After further evaluation, no additional impairments of long-lived assets were recorded for the three months ended November 30, 2018.
The Company recorded amortization expense for continuing operations of $1,582 and $4,745 for the three and nine months ended November 30, 2018, respectively, and $1,612 and $4,867 for the three and nine months ended November 30, 2017, respectively. The estimated aggregate amortization expense for continuing operations for all amortizable intangibles for November 30 of each of the succeeding years is as follows:

Year	Amount
2019	$ 6,293
2020	6,130
2021	5,962
2022	5,756

2023 5,455

(12) Equity Investment

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As of November 30, 2018 and February 28, 2018, the Company had a 50% non-controlling ownership interest in ASA Electronics, LLC and Subsidiary (“ASA") which acts as a distributor of mobile electronics specifically designed for niche markets within the automotive industry, including RV's; buses; and commercial, heavy duty, agricultural, construction, powersport, and marine vehicles.

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, 2018	February 28, 2018
Current assets	$46,733	$ 42,318
Non-current assets	6,072	7,095
Liabilities	8,590	5,699
Members' equity	44,214	43,714

	Nine Months Ended November 30,	
	2018	2017
Net sales	$76,753	$ 72,434
Gross profit	24,753	24,397
Operating income	10,148	11,359
Net income	10,292	11,467

The Company's share of income from ASA was $1,695 and $5,146 for the three and nine months ended November 30, 2018, respectively, and $2,004 and $5,734 for the three and nine months ended November 30, 2017, respectively.

(13) Income Taxes

For the three months ended November 30, 2018, the Company recorded an income tax benefit from continuing operations of $4,078, which includes a discrete income tax benefit of $57, related primarily to the reversal of unrecognized tax benefits resulting from a lapse of the applicable statute of limitations, offset by an income tax provision related to finalization of our federal, state and foreign tax filings during the quarter ended November 30, 2018. For the three months ended November 30, 2017, the Company recorded an income tax benefit from continuing operations of $568, which includes a discrete income tax benefit of $1,309, related primarily to the reversal of unrecognized tax benefits resulting from a lapse of the applicable statute of limitations.

The effective tax rates for the three months ended November 30, 2018 and November 30, 2017 were an income tax benefit from continuing operations of 62.8% on pre-tax income of $6,491 and an income tax benefit of 8.2% on a pre-tax income of $6,909, respectively. The effective tax rate for the three months ended November 30, 2018 differs from the U.S. statutory rate of 21% primarily due to the non-controlling interest related to EyeLock LLC, state and local income taxes, nondeductible permanent differences, and income taxed in foreign jurisdictions at varying tax rates. In addition, our valuation allowance increased for U.S. tax credits and losses in certain foreign jurisdictions for which a limited tax benefit can be recognized.

For the nine months ended November 30, 2018, the Company recorded an income tax provision from continuing operations of $3,147, which includes a discrete income tax benefit of $256, related primarily to the reversal of unrecognized tax benefits resulting from a lapse of the applicable statute of limitations, offset by an income tax provision related to finalization of our federal, state and foreign tax filings during the quarter ended November 30, 2018. For the nine months ended November 30, 2017, the Company recorded an income tax benefit from continuing operations of $4,531, which includes a discrete income tax benefit of $1,244, related primarily to the reversal of unrecognized tax benefits resulting from a lapse of the applicable statute of limitations.

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The effective tax rates for the nine months ended November 30, 2018 and November 30, 2017 were an income tax provision from continuing operations of 27.8% on a pre-tax loss of $(11,338) and an income tax benefit of 23.1% on a pre-tax loss of $(19,586), respectively. The effective tax rate for the nine months ended November 30, 2018 differs from the U.S. statutory rate of 21% primarily due to the non-controlling interest related to EyeLock LLC, state and local income taxes, nondeductible permanent differences, and income taxed in foreign jurisdictions at varying tax rates. In addition, the valuation allowance increased for tax credits and losses in certain foreign jurisdictions for which a limited tax benefit can be recognized.

At November 30, 2018, the Company had an uncertain tax position liability from continuing operations of $1,377, including interest and penalties. The unrecognized tax benefits include amounts related to various U.S. federal, state and local, and foreign tax issues.

On December 22, 2017, the SEC staff issued Staff Accounting Bulletin No. 118 (“SAB No. 118”), which provides guidance on accounting for the tax effects of the Tax Cuts and Jobs Act ("TCJA"). The purpose of SAB No. 118 was to address any uncertainty or diversity of view in applying ASC Topic 740, Income Taxes in the reporting period in which the TCJA was enacted. SAB No. 118 addresses situations in which the accounting is incomplete for certain income tax effects of the TCJA upon issuance of a company’s financial statements for the reporting period that includes the enactment date. SAB No. 118 allows for a provisional amount to be recorded if it is a reasonable estimate of the impact of the TCJA. Additionally, SAB No. 118 allows for a measurement period to finalize the impacts of the TCJA, not to extend beyond one year from the date of enactment.

The Company’s accounting for certain elements of the TCJA was incomplete as of the fiscal year ended February 28, 2018, some of which remains incomplete at November 30, 2018. As of the quarter ended November 30, 2018, the Company completed its accounting for the mandatory one-time transition tax and the remeasurement of its deferred tax assets and liabilities at the reduced U.S. federal rate of 21%. There are no significant differences from our provisional estimates recorded at February 28, 2018. The Company has also made a policy election to account for income taxes for global intangible low taxed income (GILTI) as a period expense.

Pursuant to SAB 118, the Company continues to assess the impact of the TCJA on certain elements of its financial statements, including its indefinite reinvestment assertion. The Company is evaluating making certain basis elections under IRC Section 965. As of November 30, 2018, the Company has not made any adjustments to its indefinite reinvestment assertion.

(14) Inventory

Inventories by major category are as follows:

	November 30, 2018	February 28, 2018
Raw materials	$ 26,835	$ 28,071
Work in process	3,004	2,485
Finished goods	88,977	87,436
Inventory, net	$ 118,816	$ 117,992

(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.

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	Three Months Ended November 30,		Nine Months Ended November 30,	
	2018	2017	2018	2017
Opening balance	$4,855	$5,966	$6,233	$5,608
Liabilities acquired during acquisition	—	—	—	500
Liabilities for warranties accrued during the period	1,729	1,512	4,595	5,621
Balances transferred (a)	—	—	(832)	—
Warranties paid during the period	(1,699)	(1,783)	(5,111)	(6,034)
Ending balance	$4,885	$5,695	$4,885	$5,695

(a) In conjunction with the implementation of ASC Topic 606, Revenue from Contracts with Customers (see Note 23), the Company recorded a refund liability, representing the amount of consideration received for products sold that the Company expects to refund to customers, as well as a corresponding return asset that reflects the Company's right to receive goods back from customers. The return asset is calculated as the carrying amount of goods at the time of sale, less any expected costs to recover the goods and any expected reduction in value and is included in prepaid expenses and other current assets on the Unaudited Consolidated Balance Sheet at November 30, 2018. The balance above represents amounts that would reduce the value of inventory returned to the Company and has been reclassified to the return asset in order to properly reflect the value of the inventory the Company expects to receive back from customers.

(16) Financing Arrangements

The Company has the following financing arrangements:

	November 30, 2018	February 28, 2018
Debt		
Domestic credit facility (a)	$ —	$ —
Florida mortgage (b)	8,236	8,613
Euro asset-based lending obligation (c)	6,907	6,119
Schwaiger mortgage (d)	294	468
Voxx Germany mortgage (e)	2,777	3,665
Total debt	18,214	18,865
Less: current portion of long-term debt	10,417	7,730
Long-term debt	7,797	11,135
Less: debt issuance costs	2,043	2,659
Total long-term debt, net of debt issuance costs	$ 5,754	$ 8,476

(a) Domestic Credit Facility

The Company has a senior secured credit facility (the "Credit Facility") that provides for a revolving credit facility with committed availability of up to $140,000, which may be increased, at the option of the Company, up to a maximum of $175,000, and a term loan in the amount of $15,000. The Credit Facility also includes a $15,000 sublimit for letters of credit and a $15,000 sublimit for swingline loans. The availability under the revolving credit line within the Credit Facility is subject to a borrowing base, which is based on eligible accounts receivable, eligible inventory and certain real estate, subject to reserves as determined by the lender, and is also limited by amounts outstanding under the Florida Mortgage (see Note 16(b)). In conjunction with the sale of Hirschmann on August 31, 2017 (see Note 2), the Company paid down substantially all of the outstanding balance of the revolving credit facility, as well as the entire outstanding balance of the term loan, which is not renewable. As of November 30, 2018, there was no balance outstanding under the revolving credit facility. The availability under the revolving credit line of the Credit Facility was $101,773 as of November 30, 2018.

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All amounts outstanding under the Credit Facility will mature and become due on April 26, 2021; however, it is subject to acceleration upon the occurrence of an Event of Default (as defined in the Credit Agreement). 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 Credit Facility may be irrevocably reduced at any time, without premium or penalty as set forth in the agreement.

Generally, the Company may designate specific borrowings under the Credit Facility as either Base Rate Loans or LIBOR Rate Loans, except that swingline loans may only be designated as Base Rate Loans. Loans designated as LIBOR Rate Loans bear interest at a rate equal to the then applicable LIBOR rate plus a range of 1.75 - 2.25%. Loans designated as Base Rate loans bear interest at a rate equal to the applicable margin for Base Rate Loans of 0.75 - 1.25% as defined in the agreement. As of November 30, 2018, the weighted average interest rate on the facility was 6.00%.

The Credit Facility requires compliance with a financial covenant calculated as of the last day of each month, consisting of a Fixed Charge Coverage Ratio. The Credit Facility also contains covenants that limit the ability of the loan parties and certain of their subsidiaries which are not loan parties to, among other things: (i) incur additional indebtedness; (ii) incur liens; (iii) merge, consolidate or dispose of a substantial portion of their business; (iv) transfer or dispose of assets; (v) change their name, 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 transaction with an affiliate of any borrower or any of their subsidiaries; (xiii) use proceeds for certain items; (xiv) issue or sell any of their stock; or (xv) consign or sell any of their inventory on certain terms. In addition, if excess availability under the Credit Facility were to fall below certain specified levels, as defined in the agreement, the lenders would have the right to assume dominion and control over the Company's cash. As of November 30, 2018, the Company was in compliance with all debt covenants, including cash dominion.

The obligations under the loan documents are secured by a general lien on and security interest in substantially all of the assets of the borrowers and certain of the guarantors, including accounts receivable, equipment, real estate, general intangibles and inventory. The Company has guaranteed the obligations of the borrowers under the Credit Agreement.

Charges incurred on the unused portion of the Credit Facility during the three and nine months ended November 30, 2018 totaled $124 and $396, respectively, compared to $123 and $241 during the three and nine months ended November 30, 2017, respectively. These charges are included within interest and bank charges on the Unaudited Consolidated Statements of Operations and Comprehensive Income (Loss).

The Company has deferred financing costs related to the Credit Facility and a previous amendment and modification of the Credit Facility. These deferred financing costs are included in long-term debt on the accompanying Consolidated Balance Sheets as a contra-liability balance and are amortized through interest and bank charges in the Unaudited Consolidated Statements of Operations and Comprehensive Income (Loss) over the five-year term of the Credit Facility. During both the three and nine months ended November 30, 2018 and 2017, the Company amortized $198 and $593 of these costs, respectively. The net unamortized balance of these deferred financing costs as of November 30, 2018 is $1,817.

(b) Florida Mortgage

On July 6, 2015, VOXX HQ LLC, the Company’s wholly owned subsidiary, closed on a $9,995 industrial development revenue tax exempt bond under a loan agreement in favor of the Orange County Industrial Development Authority (the “Authority”) to finance the construction of the Company's manufacturing facility and executive offices in Lake Nona, Florida. Wells Fargo Bank, N.A. ("Wells Fargo") was the purchaser of the bond and U.S. Bank National Association is the trustee under an Indenture of Trust with the Authority. Voxx borrowed the proceeds of the bond purchase from the Authority during construction as a revolving loan, which converted to a permanent mortgage upon completion of the facility in January 2016 (the "Florida Mortgage").

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The Company makes principal and interest payments to Wells Fargo, which began March 1, 2016 and will continue through March of 2026. The Florida Mortgage bears interest at 70% of 1-month LIBOR plus 1.54% (3.18% at November 30, 2018) and is secured by a first mortgage on the property, a collateral assignment of leases and rents and a guaranty by the Company. The financial covenants of the Florida Mortgage are as defined in the Company's Credit Facility with Wells Fargo dated April 26, 2016.

The Company incurred debt financing costs totaling approximately $332 as a result of obtaining the Florida Mortgage, which are recorded as deferred financing costs and included in Long-term Debt as a contra-liability balance on the accompanying Consolidated Balance Sheets and are being amortized through interest and bank charges in the Unaudited Consolidated Statements of Operations and Comprehensive Income (Loss) over the ten-year term of the Florida Mortgage. The Company amortized $8 and $23 of these costs during both the three and nine months ended November 30, 2018 and 2017, respectively. The net unamortized balance of these deferred financing costs as of November 30, 2018 is $225.

On July 20, 2015, the Company entered into an interest rate swap agreement in order to hedge interest rate exposure related to the Florida Mortgage and pays a fixed rate of 3.48% under the swap agreement (See Note 4).

(c) Euro Asset-Based Lending Obligation

Foreign bank obligations include a Euro accounts receivable factoring arrangement, which has a credit limit of up to 60% of eligible non-factored accounts receivable (see Note 9), and a Euro Asset-Based Lending ("ABL") credit facility, which has a credit limit of €8,000 and expires on July 31, 2020 for the Company's subsidiary, VOXX Germany. The rate of interest for the factoring arrangement is the three-month Euribor plus 1.6% (1.24% at November 30, 2018) and the rate of interest for the ABL is the three-month Euribor plus 2.3% (1.94% at November 30, 2018). As of November 30, 2018, the amounts outstanding under these credit facilities, which are payable on demand, do not exceed their respective credit limits.

(d) Schwaiger Mortgage

In January 2012, the Company's Schwaiger subsidiary purchased a building, entering into a mortgage note payable. The mortgage note bears interest at 3.75% and will be fully paid by December 2019.

(e) Voxx Germany Mortgage

This balance represents a mortgage on the land and building housing Voxx Germany's headquarters in Pulheim, Germany, which was entered into in January 2013. The mortgage bears interest at 2.85%, payable in twenty-six quarterly installments through September 2019.

(17) Other Income (Expense)

Other income (expense) is comprised of the following:

	Three Months Ended November 30,	Nine Months Ended November 30,

	2018	2017	2018	2017
Foreign currency (loss) gain	$(41)	$(77)	$164	$(8,296)
Interest income	312	51	788	82
Rental income	133	140	386	415
Miscellaneous	(144)	363	(165)	27
Total other, net	$260	$477	$1,173	$(7,772)

Included within the foreign currency loss for the nine months ended November 30, 2017 is a loss on forward contracts totaling $(6,618) incurred in conjunction with the sale of Hirschmann (see Note 2).

(Amounts in thousands, except share and per share data)

(18) Foreign Currency

The Company has a subsidiary in Venezuela. Venezuela is currently experiencing significant political and civil unrest and economic instability and has implemented various foreign currency and price controls. The country has also 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 have had a negative impact on our business and our financial condition. On March 1, 2010, the Company transitioned to hyper-inflationary accounting for Venezuela in accordance with the guidelines in ASC 830, "Foreign Currency." 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.

Since January 2014, the Venezuelan government has created multiple alternative exchange rates designated to be used for the purchase of goods and services deemed non-essential. In January 2018, the Venezuelan government eliminated the official government DIPRO exchange rate, stating that all currency transactions would be carried out at the DICOM rate, which was the floating exchange rate previously used only for non-essential imports and was allowed to float to meet market needs. On August 20, 2018, the government further devalued the Bolivar Fuerte in an attempt to address continuing hyperinflation, also renaming it the Sovereign Bolivar. As of November 30, 2018, the DICOM rate for the Sovereign Bolivar was approximately 86 bolivars to the U.S. dollar. Total net currency exchange (losses) of \$(1) and \$(6) were recorded for the three and nine months ended November 30, 2018, respectively, for Venezuela, as compared to \$(1) and \$(106) for the three and nine months ended November 30, 2017, respectively, and are included in other income (expense) on the Unaudited Consolidated Statements of Operations and Comprehensive Income (Loss).

The Company has certain long-lived assets in Venezuela, which are held for investment purposes. During the second quarter of Fiscal 2019, the Company made an assessment of the recoverability of these properties as a result of the country's continued economic deterioration, which included the significant currency devaluation in August of 2018. The Company estimated the future undiscounted cash flows expected to be received from these properties. The estimate of the future undiscounted cash flows considered the Company’s financial condition and its intent and ability to retain its investments for a period of time sufficient to allow for the recovery of the carrying value. The future undiscounted cash flows did not exceed the net carrying value for the long-lived assets. The estimated fair value of the properties, which also considered the current conditions of the economy in Venezuela, the volatility of the real estate market, and the significant political unrest, resulted in a full non-cash impairment charge of \$3,473 for the nine months ended November 30, 2018. The non-cash impairment charge is included in Other Income (Expense) on the Unaudited Consolidated Statements of Operations and Comprehensive Income (Loss).

(19) Lease Obligations

At November 30, 2018, the Company was obligated under non-cancelable operating leases for equipment, as well as warehouse and office facilities for minimum annual rental payments for continuing operations, for each of the succeeding years, as follows:

	Operating Leases
2019	$ 1,097

2020	545
2021	398
2022	293
2023	192
Thereafter	188
Total minimum lease payments	$ 2,713

The Company has capital leases with a total lease liability of $1,064 at November 30, 2018. These leases have maturities through Fiscal 2021.

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

(20) Capital Structure

The Company's capital structure is as follows:

		Shares Authorized		Shares Outstanding			
Security	Par Value	November 30, 2018	February 28, 2018	November 30, 2018	February 28, 2018	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					