

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended August 31, 2017

or

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

Commission file number: 0-28839

VOXX International Corporation

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

13-1964841

(IRS Employer Identification No.)

2351 J Lawson Blvd., Orlando, Florida
(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 No

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

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

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

Class	As of October 6, 2017
Class A Common Stock	21,920,011 Shares
Class B Common Stock	2,260,954 Shares

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)

	August 31, 2017	February 28, 2017
	<i>(unaudited)</i>	
Assets		
Current assets:		
Cash and cash equivalents	\$ 45,821	\$ 956
Accounts receivable, net	70,956	79,971
Inventory, net	142,053	122,352
Receivables from vendors	617	634
Prepaid expenses and other current assets	23,543	12,332
Income tax receivable	1,644	1,596
Assets held for sale, current	—	55,507
Total current assets	284,634	273,348
Investment securities	8,763	10,388
Equity investments	21,340	21,926
Property, plant and equipment, net	66,197	65,589
Goodwill	53,916	53,905
Intangible assets, net	153,403	154,939
Deferred income taxes	23	23
Other assets	6,541	1,699
Assets held for sale, non-current	—	86,669
Total assets	\$ 594,817	\$ 668,486
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 44,146	\$ 46,244
Accrued expenses and other current liabilities	49,227	32,110
Income taxes payable	2,320	703
Accrued sales incentives	13,033	13,154
Current portion of long-term debt	6,770	9,215
Liabilities held for sale, current	—	28,641
Total current liabilities	115,496	130,067
Long-term debt, net of debt issuance costs	8,842	97,747
Capital lease obligation	849	926
Deferred compensation	3,624	3,844
Deferred income tax liabilities	28,757	27,627
Other tax liabilities	3,328	3,194
Other long-term liabilities	3,389	2,125
Liabilities held for sale, non-current	—	11,641
Total liabilities	164,285	277,171
Commitments and contingencies		
Stockholders' equity:		
Preferred stock:		
No shares issued or outstanding (see Note 19)	—	—
Common stock:		
Class A, \$.01 par value, 60,000,000 shares authorized, 24,068,105 and 24,067,444 shares issued and 21,900,011 and 21,899,370 shares outstanding at August 31, 2017 and February 28, 2017, respectively	256	256

Class B Convertible, \$.01 par value, 10,000,000 shares authorized, 2,260,954 shares issued and outstanding	22	22
Paid-in capital	295,847	295,432
Retained earnings	173,445	159,369
Accumulated other comprehensive loss	(15,478)	(43,898)
Treasury stock, at cost, 2,168,094 and 2,168,074 shares of Class A Common Stock at August 31, 2017 and February 28, 2017, respectively	(21,176)	(21,176)
Total VOXX International Corporation stockholders' equity	432,916	390,005
Non-controlling interest	(2,384)	1,310
Total stockholders' equity	430,532	391,315
Total liabilities and stockholders' equity	\$ 594,817	\$ 668,486

See accompanying notes to unaudited consolidated financial statements.

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

	Three Months Ended August 31,		Six Months Ended August 31,	
	2017	2016	2017	2016
Net sales	\$ 113,470	\$ 118,325	\$ 228,293	\$ 232,225
Cost of sales	85,049	85,882	169,728	167,809
Gross profit	<u>28,421</u>	<u>32,443</u>	<u>58,565</u>	<u>64,416</u>
Operating expenses:				
Selling	10,652	9,924	23,061	21,306
General and administrative	20,640	18,021	40,837	38,148
Engineering and technical support	7,383	6,609	14,037	14,655
Total operating expenses	<u>38,675</u>	<u>34,554</u>	<u>77,935</u>	<u>74,109</u>
Operating loss	<u>(10,254)</u>	<u>(2,111)</u>	<u>(19,370)</u>	<u>(9,693)</u>
Other (expense) income:				
Interest and bank charges	(1,843)	(1,729)	(3,635)	(3,293)
Equity in income of equity investees	1,927	1,545	3,730	3,353
Investment gain	1,416	—	1,416	—
Other, net	(7,629)	223	(8,636)	(257)
Total other (expense) income, net	<u>(6,129)</u>	<u>39</u>	<u>(7,125)</u>	<u>(197)</u>
Loss from continuing operations before income taxes	(16,383)	(2,072)	(26,495)	(9,890)
Income tax expense (benefit) from continuing operations	3,465	(5,543)	(3,963)	(6,940)
Net (loss) income from continuing operations	<u>(19,848)</u>	<u>3,471</u>	<u>(22,532)</u>	<u>(2,950)</u>
Net income (loss) from discontinued operations, net of tax (Note 2)	<u>34,931</u>	<u>(2,167)</u>	<u>32,710</u>	<u>(1,866)</u>
Net income (loss)	15,083	1,304	10,178	(4,816)
Less: net loss attributable to non-controlling interest	(2,023)	(1,716)	(3,898)	(3,528)
Net income (loss) attributable to VOXX International Corporation	<u>\$ 17,106</u>	<u>\$ 3,020</u>	<u>\$ 14,076</u>	<u>\$ (1,288)</u>
Other comprehensive income (loss):				
Foreign currency translation adjustments	20,480	(680)	27,839	3,516
Derivatives designated for hedging	(134)	(21)	(1,186)	(512)
Pension plan adjustments	1,810	6	1,690	(52)
Unrealized holding gain (loss) on available-for-sale investment securities, net of tax	81	(3)	77	(8)
Other comprehensive income (loss), net of tax	<u>22,237</u>	<u>(698)</u>	<u>28,420</u>	<u>2,944</u>
Comprehensive income attributable to VOXX International Corporation	<u>\$ 39,343</u>	<u>\$ 2,322</u>	<u>\$ 42,496</u>	<u>\$ 1,656</u>
Earnings (loss) per share - basic:				
Continuing operations	<u>\$ (0.74)</u>	<u>\$ 0.21</u>	<u>\$ (0.77)</u>	<u>\$ 0.02</u>
Discontinued operations	<u>\$ 1.45</u>	<u>\$ (0.09)</u>	<u>\$ 1.35</u>	<u>\$ (0.08)</u>
Attributable to VOXX International Corporation	<u>\$ 0.71</u>	<u>\$ 0.12</u>	<u>\$ 0.58</u>	<u>\$ (0.05)</u>

Earnings (loss) per share - diluted:				
Continuing operations	\$ (0.74)	\$ 0.21	\$ (0.77)	\$ 0.02
Discontinued operations	\$ 1.45	\$ (0.09)	\$ 1.35	\$ (0.08)
Attributable to VOXX International Corporation	\$ 0.71	\$ 0.12	\$ 0.58	\$ (0.05)
Weighted-average common shares outstanding (basic)	24,160,680	24,160,324	24,160,502	24,160,324
Weighted-average common shares outstanding (diluted)	24,160,680	24,242,447	24,160,502	24,255,341

See accompanying notes to unaudited consolidated financial statements.

VOXX International Corporation and Subsidiaries
Unaudited Consolidated Statements of Cash Flows

	Six Months Ended	
	August 31,	
	2017	2016
Cash flows from operating activities:		
Net loss from continuing operations	\$ (22,532)	\$ (2,950)
Net income (loss) from discontinued operations	32,710	(1,866)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	9,093	9,104
Amortization of debt discount	411	410
Bad debt expense	179	20
Non-cash bank charges	—	76
Non-cash interest on borrowings	—	1,053
Gain (loss) on forward contracts	6,389	(424)
Loss on interest rate swap unwind	—	114
Equity in income of equity investees	(3,730)	(3,353)
Distribution of income from equity investees	4,316	3,344
Deferred income tax benefit	1,347	(1,421)
Non-cash compensation adjustment	370	727
Stock based compensation expense	299	363
Gain on sale of property, plant and equipment	(10)	(5)
Gain on sale of RxNetworks	(1,416)	—
Gain on sale of Hirschmann	(36,118)	—
Changes in operating assets and liabilities:		
Accounts receivable	11,331	6,497
Inventory	(16,783)	(15,517)
Receivables from vendors	240	943
Prepaid expenses and other	(18,032)	(1,172)
Investment securities-trading	345	(91)
Accounts payable, accrued expenses, accrued sales incentives and other liabilities	480	2,478
Income taxes payable	(1,096)	(5,347)
Net cash used in operating activities	<u>(32,207)</u>	<u>(7,017)</u>
Cash flows provided by (used in) investing activities:		
Purchases of property, plant and equipment	(4,842)	(5,098)
Proceeds from sale of property, plant and equipment	10	9
Issuance of notes receivable	(2,000)	—
Proceeds from sale of long-term investment	2,617	—
Purchase of business	(1,814)	—
Proceeds from sale of Hirschmann, net of settlement of forward contracts	170,020	—
Net cash provided by (used in) investing activities	<u>163,991</u>	<u>(5,089)</u>
Cash flows provided by (used in) financing activities:		
Principal payments on capital lease obligation	(419)	(237)
Repayment of bank obligations	(127,915)	(27,946)
Borrowings on bank obligations	36,057	32,767
Proceeds from exercise of stock options	5	—
Net cash (used in) provided by financing activities	<u>(92,272)</u>	<u>4,584</u>
Effect of exchange rate changes on cash	<u>(1,491)</u>	<u>606</u>

Net increase (decrease) in cash and cash equivalents		38,021		(6,916)
Cash and cash equivalents at beginning of period	(a)	<u>7,800</u>	(a)	<u>11,767</u>
Cash and cash equivalents at end of period		<u>\$ 45,821</u>	(a)	<u>\$ 4,851</u>

(a) Cash and cash equivalents at February 28, 2017, February 29, 2016 and August 31, 2016 include \$6,844, \$6,789, and \$3,403, respectively, 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 consolidated financial statements do not include all disclosures associated with consolidated financial statements prepared in accordance with accounting principles generally accepted in the United States of America. Accordingly, these statements should be read in conjunction with the Company's audited consolidated financial statements and notes thereto contained in the Company's Form 10-K for the fiscal year ended February 28, 2017. 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.

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

(2) Acquisitions and Dispositions

Rosen Electronics LLC

On April 18, 2017, Voxx acquired certain assets and assumed certain liabilities of Rosen Electronics LLC. As consideration for the Rosen asset purchase, the Company paid \$1,814. In addition, the Company agreed to pay a 2% fee related to future net sales of Rosen products for three years.

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

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

Assets acquired:	
Inventory	\$ 2,314
Goodwill	10
Intangible assets including trademarks and customer relationships	520
Total assets acquired	\$ 2,844
Liabilities assumed:	
Warranty accrual	\$ 500
Other liabilities acquired	530
Total	\$ 1,030
Total purchase price	\$ 1,814

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.

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

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 second quarter ending August 31, 2017. Voxx will not have any continuing involvement in the Hirschmann business subsequent to the Closing Date.

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 in continuing operations for the three and six months ended August 31, 2017 when the contracts were settled.

The following table presents a reconciliation of the carrying amounts of major classes of assets and liabilities of the discontinued operation to the amounts presented separately in the Company's Consolidated Balance Sheet:

	February 28, 2017
Cash and cash equivalents	\$ 6,844
Accounts receivable, net	10,670
Inventory, net	30,701
Receivables from vendors	31
Prepaid expenses and other current assets	7,261
Assets held for sale, current	\$ 55,507
Property, plant and equipment, net	16,012
Goodwill	49,307
Intangible assets, net	21,350
Assets held for sale, non-current	\$ 86,669
Accounts payable	14,899
Accrued expenses and other current liabilities	10,366
Income taxes payable	2,374
Current portion of long-term debt	1,002
Liabilities held for sale, current	\$ 28,641
Capital lease obligation	474
Deferred compensation	380
Deferred income tax liabilities	2,528
Other long-term liabilities	8,259
Liabilities held for sale, non-current	\$ 11,641
Net assets held for sale	\$ 101,894

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 Consolidated Statements of Operations and Comprehensive Income (Loss):

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

	Three Months Ended August 31,		Six Months Ended August 31,	
	2017	2016	2017	2016
Net sales	\$ 47,545	\$ 40,937	\$ 91,824	\$ 82,492
Cost of sales	32,925	26,887	63,610	54,314
Gross profit	14,620	14,050	28,214	28,178
Operating expenses:				
Selling	1,396	1,190	2,778	2,473
General and administrative	7,680	6,882	14,676	13,826
Engineering and technical support	3,982	4,682	7,920	10,115
Total operating expenses	13,058	12,754	25,374	26,414
Operating income of discontinued operations	1,562	1,296	2,840	1,764
Other (expense) income:				
Interest and bank charges (a)	(157)	(140)	(279)	(271)
Other, net	150	(41)	138	(73)
Total other expense of discontinued operations, net	(7)	(181)	(141)	(344)
Gain on sale of discontinued operation before taxes	36,118	—	36,118	—
Total income from discontinued operation before taxes	37,673	1,115	38,817	1,420
Income tax expense on discontinued operation (b)	2,742	3,282	6,107	3,286
Income from discontinued operation, net of taxes	\$ 34,931	\$ (2,167)	\$ 32,710	\$ (1,866)
Income per share - basic	\$ 1.45	\$ (0.09)	\$ 1.35	\$ (0.08)
Income per share - diluted	\$ 1.45	\$ (0.09)	\$ 1.35	\$ (0.08)

(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 operation to that of the Consolidated Company.

(b) The income tax expense on discontinued operations for the three and six months ended August 31, 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 sale of Hirschmann sale.

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

	Six Months Ended August 31,	
	2017	2016
Operating activities:		
Depreciation and amortization expense	\$ 2,939	\$ 3,020
Stock-based compensation expense	50	37
Investing activities:		
Capital expenditures	\$ 2,652	\$ 3,088
Non-cash investing an financing activities:		
Capital expenditures funded by long-term obligations	\$ 1,910	\$ —

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

(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) per common share. A reconciliation between the denominator of basic and diluted net income (loss) per common share is as follows:

	Three Months Ended		Six Months Ended	
	August 31,		August 31,	
	2017	2016	2017	2016
Weighted-average common shares outstanding	24,160,680	24,160,324	24,160,502	24,160,324
Effect of dilutive securities:				
Stock options, warrants and restricted stock	—	82,123	—	95,017
Weighted-average common shares and potential common shares outstanding	<u>24,160,680</u>	<u>24,242,447</u>	<u>24,160,502</u>	<u>24,255,341</u>

Restricted stock, stock options and warrants totaling 586,395 and 328,576 for the three months ended August 31, 2017 and 2016, respectively, and 570,044 and 460,869 for the six months ended August 31, 2017 and 2016, respectively, were not included in the net income (loss) per diluted share calculation because the exercise price of these stock options and warrants was greater than the average market price of the Company's common stock during these periods, or the inclusion of these components would have been anti-dilutive.

(4) Fair Value Measurements and Derivatives

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

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

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

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

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

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

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

	Total	Fair Value Measurements at Reporting Date Using	
		Level 1	Level 2
Cash and cash equivalents:			
Cash and money market funds	\$ 45,821	\$ 45,821	\$ —
Derivatives			
Designated for hedging	\$ (1,057)	\$ —	\$ (1,057)
Investment securities:			
Trading securities	\$ 3,749	\$ 3,749	\$ —
Available-for-sale securities	3	3	—
Other investments at cost (a)	5,011	—	—
Total investment securities	\$ 8,763	\$ 3,752	\$ —

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

	Total	Fair Value Measurements at Reporting Date Using	
		Level 1	Level 2
Cash and cash equivalents:			
Cash and money market funds	\$ 956	\$ 956	\$ —
Derivatives			
Designated for hedging	\$ 345	\$ —	\$ 345
Investment securities:			
Trading securities	\$ 4,094	\$ 4,094	\$ —
Available-for-sale securities	6	6	—
Other investments at cost (a)	6,288	—	—
Total investment securities	\$ 10,388	\$ 4,100	\$ —

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

The carrying amount of the Company's accounts receivable, short-term debt, accounts payable, accrued expenses, bank obligations and long-term debt approximates fair value because of (i) the short-term nature of the financial instrument; (ii) the interest rate on the financial instrument being reset every quarter to reflect current market rates, and (iii) the stated or implicit interest rate approximates the current market rates or are not materially different 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 - 6 months and are classified in the balance sheet according to their terms. The Company also has an interest rate swap agreement as of August 31, 2017 that hedges interest rate exposure related to the forecasted outstanding balance of its Florida Mortgage, with monthly payments due through March 2026. The swap agreement locks the interest rate on the debt at 3.48% (inclusive of credit spread) through the maturity date of the loan. During the first quarter of Fiscal 2017, the Company unwound another interest rate swap agreement that hedged interest rate exposure related to one of its mortgage notes when that mortgage was paid in full. The fair value of that interest rate swap agreement on the date it was unwound was \$(114), and was charged to interest expense in the Company's Consolidated Statements of Operations and Comprehensive Income (Loss) during the six months ended August 31, 2016. Interest rate swap agreements qualifying for hedge accounting are designated as cash flow hedges and valued based on a comparison of the change in fair value of the actual swap contracts designated as the hedging instruments and the change in fair value of a hypothetical swap contract (Level 2). We calculate the fair value of interest rate swap agreements quarterly based on the

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

quoted market price for the same or similar financial instruments. Interest rate swaps are classified in the balance sheet as either assets or liabilities based on the fair value of the instruments at the end of the period.

It is the Company's policy to enter into derivative instrument contracts with terms that coincide with the underlying exposure being hedged. As such, the Company's derivative instruments are expected to be highly effective. Hedge ineffectiveness, if any, is recognized as incurred through Other Income (Expense) in the Company's Consolidated Statements of Operations and Comprehensive Income (Loss) and amounted to \$(52) and \$(95) for the three and six months ended August 31, 2017, respectively, and \$29 and \$(21) for the three and six months ended August 31, 2016, respectively.

Financial Statement Classification

The following table discloses the fair value as of August 31, 2017 and February 28, 2017 of derivative instruments:

		Derivative Assets and Liabilities	
		Fair Value	
Account		August 31, 2017	February 28, 2017
Designated derivative instruments			
Foreign currency contracts	Prepaid expenses and other current assets	\$ —	\$ 643
	Accrued expenses and other current liabilities	(690)	—
Interest rate swap agreements	Other long-term liabilities	(367)	(298)
Total derivatives		<u>\$ (1,057)</u>	<u>\$ 345</u>

In connection with the sale of Hirschmann on August 31, 2017 (see Note 2), 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 for the three and six months ended August 31, 2017, within continuing operations, when the contracts were settled.

Cash flow hedges

During Fiscal 2017, the Company entered into forward foreign currency contracts, which have a current outstanding notional value of \$9,720 and are designated as cash flow hedges at August 31, 2017. The current outstanding notional value of the Company's interest rate swap at August 31, 2017 is \$8,864. 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 six months ended August 31, 2017 and 2016 was as follows:

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	Three months ended August 31, 2017			Six months ended August 31, 2017		
	Pretax Gain(Loss) Recognized in Other Comprehensive Income	Pretax Gain (Loss) Reclassified from Accumulated Other Comprehensive Income	Gain (Loss) for Ineffectiveness in Other Income	Pretax Gain (Loss) Recognized in Other Comprehensive Income	Pretax Gain (Loss) Reclassified from Accumulated Other Comprehensive Income	Gain (Loss) for Ineffectiveness in Other Income
Cash flow hedges						
Foreign currency contracts	\$ (533)	\$ 42	\$ (52)	\$ (1,266)	\$ 317	\$ (95)
Interest rate swaps	(25)	—	—	(69)	—	—

	Three months ended August 31, 2016			Six months ended August 31, 2016		
	Pretax Gain(Loss) Recognized in Other Comprehensive Income	Pretax Gain (Loss) Reclassified from Accumulated Other Comprehensive Income	Gain (Loss) for Ineffectiveness in Other Income	Pretax Gain (Loss) Recognized in Other Comprehensive Income	Pretax Gain (Loss) Reclassified from Accumulated Other Comprehensive Income	Gain (Loss) for Ineffectiveness in Other Income
Cash flow hedges						
Foreign currency contracts	\$ 108	\$ 44	\$ 29	\$ (536)	\$ 259	\$ (21)
Interest rate swaps	(107)	—	—	73	(114)	—

The net income (loss) recognized in Other Comprehensive Income (Loss) for foreign currency contracts is expected to be recognized in cost of sales within the next nine months. No amounts were excluded from the assessment of hedge effectiveness during the respective periods. As of August 31, 2017, no foreign currency contracts originally designated for hedge accounting were de-designated or terminated. Refer to Note 6 for information regarding activity related to cash flow hedges pertaining to discontinued operations.

(5) Investment Securities

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

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	August 31, 2017			February 28, 2017		
	Cost Basis	Unrealized Holding Gain/(Loss)	Fair Value	Cost Basis	Unrealized Holding Gain/(Loss)	Fair Value
Investment Securities						
Marketable Securities						
Trading						
Deferred Compensation	\$ 3,749	\$ —	\$ 3,749	\$ 4,094	\$ —	\$ 4,094
Available-for-sale						
Cellstar	—	3	3	—	6	6
Total Marketable Securities	3,749	3	3,752	4,094	6	4,100
Other Long-Term Investments	5,011	—	5,011	6,288	—	6,288
Total Investment Securities	\$ 8,760	\$ 3	\$ 8,763	\$ 10,382	\$ 6	\$ 10,388

Long-Term Investments

Trading Securities

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

Available-For-Sale Securities

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

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

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

Other Long-Term Investments

Other long-term investments include investments in two non-controlled corporations accounted for by the cost method. As of August 31, 2017, the Company's investments in 360fly, Inc. totaled \$4,453 and we held 5.0% of the outstanding shares of this company. No additional investment was made in 360fly, Inc. during the three and six months ended August 31, 2017. During the three and six months ended August 31, 2017, the Company issued a senior secured note to 360fly, Inc. totaling \$2,000. This note bears interest at 8% and is due on August 31, 2019.

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 a newly formed subsidiary of RxNetworks, called Fathom Systems Inc. ("Fathom"). As a result of this transaction, Voxx recognized a gain of \$1,416 for the three and six months ended August 31, 2017. The cash proceeds were subject to a hold-back provision, which was not included in the calculation of the gain recognized. As of August 31, 2017, the Company's investment in Fathom is being accounted for by the cost method and totaled \$558 and we held 8.3% of the outstanding

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shares of this company. Voxx's total cost method investment balance for 360fly, Inc. and Fathom was \$5,011 as of August 31, 2017.

(6) Accumulated Other Comprehensive (Loss) Income

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

	Foreign Currency Translation Gains (Losses)	Unrealized gains (losses) on investments, net of tax	Pension plan adjustments, net of tax	Derivatives designated in a hedging relationship, net of tax	Total
Balance at February 28, 2017	\$ (41,831)	\$ (98)	\$ (2,282)	\$ 313	\$ (43,898)
Other comprehensive income (loss) before reclassifications	17,100	(12)	(265)	(1,422)	15,401
Reclassified from accumulated other comprehensive income (loss)	10,739	89	1,955	236	13,019
Net current-period other comprehensive income (loss)	27,839	77	1,690	(1,186)	28,420
Balance at August 31, 2017	<u>\$ (13,992)</u>	<u>\$ (21)</u>	<u>\$ (592)</u>	<u>\$ (873)</u>	<u>\$ (15,478)</u>

In the above table, all reclassifications of other comprehensive income (loss) for the six months ended August 31, 2017 for foreign currency translation, investments and pension plan adjustments are related to the sale of Hirschmann on August 31, 2017 (see Note 2). Within reclassifications for derivatives designated in a hedging relationship, pre-tax losses totaling \$(71) are related to cash flow hedge activity of discontinued operations for the six months ended August 31, 2017, and \$335 is related to the sale of Hirschmann on August 31, 2017. Within other comprehensive income (loss) before reclassifications for derivatives designated in a hedging relationship, \$(501) is related to cash flow hedge activity of discontinued operations for the six months ended August 31, 2017.

During the three and six months ended August 31, 2017, the Company recorded tax expense (benefit) related to derivatives designated in a hedging relationship of \$(207) and \$(673), respectively, unrealized losses on investments of \$0 and pension plan adjustments of \$0.

The other comprehensive income (loss) before reclassification of \$17,100 includes the remeasurement of intercompany transactions of a long-term nature of \$12,070 with certain subsidiaries whose functional currency is not the U.S. dollar, and \$5,029 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. Foreign currency translation gains (losses) reclassified from accumulated other comprehensive income (loss) of \$10,739 include \$9,911 due to the settlement of a euro based loan and the recognition of the cumulative translation adjustment of \$828 due to the sale of Hirschmann.

(7) Supplemental Cash Flow Information

The following is supplemental information relating to the consolidated statements of cash flows, including continuing and discontinued operations:

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

	Six Months Ended August 31,	
	2017	2016
Non-cash investing and financing activities:		
Capital expenditures funded by long-term obligations	\$ 1,917	\$ —
Mortgage settlement funded by long-term obligations	—	5,590
Deferred financing costs funded by long-term obligations	—	1,769
Cash paid during the period:		
Interest (excluding bank charges)	\$ 2,430	\$ 2,225
Income taxes (net of refunds)	2,001	3,086

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, 2017.

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 at February 28, 2017	116,250	\$ 7.76	
Granted	—	—	
Exercised	661	7.76	
Forfeited/expired	—	—	
Outstanding and exercisable at August 31, 2017	115,589	\$ 7.76	0.13

A restricted stock award is an award of common stock that is subject to certain restrictions during a specified period. Restricted stock awards are independent of option grants and are subject to forfeiture if employment terminates for a reason other than death, disability or retirement, prior to the release of the restrictions. The Company has a Supplemental Executive Retirement Plan (SERP), which was established in Fiscal 2014. Shares are granted based on certain performance criteria and vest on the later of three years from the date of grant (or three years from the date of participation in the SERP with respect to grants made when the plan was established in Fiscal 2014), or the grantee reaching the age of 65 years. The shares will also vest upon termination of the grantee's employment by the Company without cause, provided that the grantee, at the time of termination, has been employed by the Company for at least 10 years, 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 2017, the Company granted 74,156 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 or a maximum. 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 during July 2017 was \$6.52.

In conjunction with the sale of Hirschmann on August 31, 2017 (see Note 2), all restricted shares granted to the CEO and President of Hirschmann, totaling 72,300 shares became immediately vested in accordance with the SERP and were settled in cash in the amount of \$582. The remaining unrecognized stock-based compensation expense related to this

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individual's restricted stock awards was recognized as a reduction of the gain on sale of discontinued operations in the amount of \$373.

The following table presents a summary of the Company's restricted stock activity for the six months ended August 31, 2017:

	Number of Shares	Weighted Average Grant Date Fair Value
Balance at February 28, 2017	437,443	\$ 6.99
Granted	74,156	6.52
Vested and settled	72,300	5.98
Forfeited	—	—
Balance at August 31, 2017	439,299	\$ 7.08
Vested and unissued at August 31, 2017	56,181	\$ 13.62

During the three and six months ended August 31, 2017, the Company recorded \$131 and \$250 in stock-based compensation related to restricted stock awards for continuing operation, respectively. As of August 31, 2017, there was \$670 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 six months ended August 31, 2017, net of discounts, were \$30,515 and \$63,927, respectively, compared to \$31,819 and \$60,800 for the three and six months ended August 31, 2016, respectively.

(10) Research and Development

Expenditures for research and development are charged to expense as incurred. Such expenditures amounted to \$3,400 and \$6,186 for the three and six months ended August 31, 2017, respectively, compared to \$2,826 and 6,552 for the three and six months ended August 31, 2016, respectively, net of customer reimbursements, and are included in continuing operations within Engineering and Technical Support Expenses on the 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, 2017	\$ 7,373
Goodwill acquired (see Note2)	10
Balance at August 31, 2017	<u>\$ 7,383</u>
Gross carrying amount at August 31, 2017	\$ 7,383
Accumulated impairment charge	—
Net carrying amount at August 31, 2017	<u>\$ 7,383</u>
Premium Audio:	
Beginning balance at March 1, 2017	\$ 46,533
Activity during the period	—
Balance at August 31, 2017	<u>\$ 46,533</u>
Gross carrying amount at August 31, 2017	\$ 78,696
Accumulated impairment charge	(32,163)
Net carrying amount at August 31, 2017	<u>\$ 46,533</u>
Total Goodwill, net	<u>\$ 53,916</u>

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

At August 31, 2017, intangible assets consisted of the following:

	Gross Carrying Value	Accumulated Amortization	Total Net Book Value
Finite-lived intangible assets:			
Customer relationships	\$ 50,033	\$ 24,885	\$ 25,148
Trademarks/Tradenames	415	397	18
Developed technology	31,290	5,442	25,848
Patents	2,812	2,048	764
License	1,400	1,400	—
Contract	2,141	1,790	351
Total finite-lived intangible assets	<u>\$ 88,091</u>	<u>\$ 35,962</u>	52,129
Indefinite-lived intangible assets			
Trademarks			101,274
Total net intangible assets			<u>\$ 153,403</u>

At February 28, 2017, 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	\$ 49,005	\$ 22,615	\$ 26,390
Trademarks/Tradenames	415	395	20
Developed technology	31,290	4,081	27,209
Patents	2,755	1,930	825
License	1,400	1,400	—
Contract	2,141	1,732	409
Total finite-lived intangible assets	<u>\$ 87,006</u>	<u>\$ 32,153</u>	<u>54,853</u>
Indefinite-lived intangible assets			
Trademarks			100,086
Total net intangible assets			<u>\$ 154,939</u>

The Company recorded amortization expense for continuing operations of \$1,642 and \$3,255, respectively for the three and six months ended August 31, 2017, and \$1,620 and \$3,240 for the three and six months ended August 31, 2016, respectively. The estimated aggregate amortization expense for continuing operations for all amortizable intangibles for August 31 of each of the succeeding years is as follows:

Year	Amount
2018	\$ 6,399
2019	6,281
2020	6,228
2021	6,003
2022	5,874

(12) Equity Investment

As of August 31, 2017, and February 28, 2017, 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.

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	August 31, 2017	February 28, 2017
Current assets	\$ 43,783	\$ 43,643
Non-current assets	6,983	6,207
Current liabilities	8,086	5,998
Members' equity	42,680	43,852

	Six Months Ended August 31,	
	2017	2016
Net sales	\$ 49,477	\$ 47,864
Gross profit	16,137	15,093
Operating income	7,391	6,686
Net income	7,460	6,706

The Company's share of income from ASA was \$1,927 and \$3,730, respectively, for the three and six months ended August 31, 2017 and \$1,545 and \$3,353 for the three and six months ended August 31, 2016, respectively.

(13) Income Taxes

For the six months ended August 31, 2017, the Company recorded an income tax benefit from continuing operations of \$(3,963), which includes a discrete income tax provision of \$65 related to the accrual of interest for unrecognized tax benefits and the re-measurement of state deferred taxes based on law changes enacted during the period. The income tax benefit relates primarily to foreign taxes offset by an income tax benefit for domestic losses incurred during Fiscal 2018, as the U.S. taxable income from discontinued operations is treated as a source of income under the intra-period allocation guidance. For the six months ended August 31, 2016, the Company recorded an income tax benefit from continuing operations of \$(6,940), which includes a discrete income tax provision of \$166 related to the accrual of interest for unrecognized tax benefits.

The effective tax rate for the six months ended August 31, 2017 and August 31, 2016 was an income tax benefit from continuing operations of 15.0% and 70.2%, respectively. The effective tax rate for the six months ended August 31, 2017 differs from the U.S. statutory rate of 35% primarily due to the ability to provide an income tax benefit for domestic losses, as the U.S. taxable income from discontinued operations is treated as a source of income under the intra-period allocation guidance, coupled with the mix of domestic and foreign earnings, the non-controlling interest related to EyeLock LLC, and an income tax benefit related to various federal tax credits.

For the three months ended August 31, 2017, the Company recorded an income tax provision from continuing operations of \$3,465, which includes a discrete income tax provision of \$55 related to the accrual of interest for unrecognized tax benefits and the re-measurement of state deferred taxes based on law changes enacted during the quarter. For the three months ended August 31, 2016, the Company recorded an income tax benefit from continuing operations of \$(5,543), which includes a discrete income tax provision of \$64 related to the accrual of interest for unrecognized tax benefits.

The effective tax rate for the three months ended August 31, 2017 and August 31, 2016 was an income tax provision from continuing operations of 21.2% and an income tax benefit of 267.6%, respectively. The effective tax rate for the three months ended August 31, 2017 differs from the U.S. statutory rate of 35% primarily due to the ability to provide an income tax benefit for domestic losses as the U.S. taxable income from discontinued operations is treated as a source of income under the intra-period allocation guidance, coupled with the mix of domestic and foreign earnings, the non-controlling interest related to EyeLock LLC, and an income tax benefit related to various federal tax credits.

At August 31, 2017, the Company had an uncertain tax position liability from continuing operations of \$3,328, including interest and penalties. The unrecognized tax benefits include amounts related to various U.S. federal, state and local and foreign tax issues.

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(14) Inventory

Inventories by major category are as follows:

	August 31, 2017	February 28, 2017
Raw materials	\$ 25,603	\$ 20,488
Work in process	2,494	2,270
Finished goods	113,956	99,594
Inventory, net	<u>\$ 142,053</u>	<u>\$ 122,352</u>

(15) Financing Arrangements

The Company has the following financing arrangements:

	August 31, 2017	February 28, 2017
<i>Debt</i>		
Domestic credit facility (a)	\$ 94	\$ 92,793
Florida mortgage (b)	8,864	9,113
Euro asset-based lending obligation (c)	5,164	3,905
Schwaiger mortgage (d)	592	644
Klipsch note (e)	15	113
Voxx Germany mortgage (f)	3,953	3,875
Total debt	<u>18,682</u>	<u>110,443</u>
Less: current portion of long-term debt	<u>6,770</u>	<u>9,215</u>
Long-term debt	<u>11,912</u>	<u>101,228</u>
Debt issuance costs	3,070	3,481
Total long-term debt, net of debt issuance costs	<u>\$ 8,842</u>	<u>\$ 97,747</u>

(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 15(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. As of August 31, 2017, \$94 was outstanding under the revolving credit facility. The remaining availability under the revolving credit line of the Credit Facility was \$100,563 as of August 31, 2017.

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.

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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 August 31, 2017, the weighted average interest rate on the facility was 5.00%.

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; (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 August 31, 2017, 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 six months ended August 31, 2017 totaled \$57 and \$118, respectively, compared to \$73 and \$122 during the three and six months ended August 31, 2016, respectively. These charges are included within Interest and Bank Charges on the 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 Consolidated Statements of Operations and Comprehensive Income (Loss) over the five-year term of the Credit Facility. During the three and six months ended August 31, 2017, the Company amortized \$197 and \$395 of these costs, respectively, compared to \$198 and \$394 for the three and six months ended August 31, 2016, respectively. The net unamortized balance of these deferred financing costs as of August 31, 2017 was \$2,806.

(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"). 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% (2.86% at August 31, 2017) 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.

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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 Consolidated Statements of Operations and Comprehensive Income (Loss) over the ten-year term of the Florida Mortgage. The Company amortized \$8 and \$16 of these costs during both of the three and six months ended August 31, 2017 and 2016, respectively.

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% (1.28% at August 31, 2017) and the rate of interest for the ABL is the three-month Euribor plus 2.3% (1.97% at August 31, 2017). As of August 31, 2017, 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) Klipsch Note

This balance represents a mortgage on a facility included in the assets acquired in connection with the Klipsch acquisition on March 1, 2011 and assumed by Voxx. The balance of this note will be fully paid by the end of Fiscal 2018.

(f) 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 June 2019.

(16) Other Income (Expense)

Other income (expense) is comprised of the following:

	Three Months Ended		Six Months Ended	
	August 31,		August 31,	
	2017	2016	2017	2016
Foreign currency loss	\$ (7,387)	\$ (67)	\$ (8,219)	\$ (773)
Interest income	16	77	31	100
Rental income	131	176	275	349
Miscellaneous	(389)	37	(723)	67
Total other, net	\$ (7,629)	\$ 223	\$ (8,636)	\$ (257)

Included within the foreign currency loss for the three and six months ended August 31, 2017 is a loss on forward contracts totaling \$(6,618) incurred in conjunction with the sale of Hirschmann (see Note 2).

VOXX International Corporation and Subsidiaries
Notes to Unaudited Consolidated Financial Statements, continued
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(17) 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. 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 Fuerte 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 was 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 for Venezuela and continues to account for the subsidiary under this method.

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 February 2015, the Venezuelan government introduced a new currency system, referred to as the Marginal Currency System, or SIMADI rate. This market-based exchange system consisted of a mechanism from which both businesses and individuals were allowed to purchase and sell foreign currency at the price set by the market. In March 2016, the Venezuelan government enacted further changes to its foreign currency exchange mechanisms, including a 59% devaluation of the official government exchange rate (DIPRO) from 6.3 bolivars to 10.0 bolivars to the U.S. dollar. Additionally, the SIMADI exchange rate was replaced by the DICOM, a new floating exchange rate for non-essential imports. The Venezuelan government reported that the DICOM exchange rate would be allowed to float to meet market needs. In May 2017, the Venezuelan government significantly devalued this currency further and as of August 31, 2017, the published DIPRO and DICOM rates offered were 10.0 and 3,250 bolivars to the U.S. dollar, respectively. As of August 31, 2017, the DICOM rate continues to be the appropriate rate to use for remeasuring its Venezuelan subsidiary's financial statements. Total net currency exchange gains (losses) for Venezuela of \$21 and \$105 were recorded for the three and six months ended August 31, 2017, respectively, as compared to \$(134) and \$(65), respectively, for the three and six months ended August 31, 2016, and are included in Other Income (Expense) on the Consolidated Statements of Operations and Comprehensive Income (Loss).

Our investment in Venezuela mainly consists of \$3,611 of properties that are currently being held for investment purposes. No impairments were recorded related to these properties during the three and six months ended August 31, 2017. The Company continues to monitor closely the continued economic instability, increasing inflation and currency restrictions imposed by the government and will continue to evaluate its local properties. Further devaluations or regulatory actions could impair the carrying value of these properties.

(18) Lease Obligations

At August 31, 2017, 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, as follows:

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		Operating Leases
2018	\$	1,341
2019		745
2020		294
2021		266
2022		203
Thereafter		390
Total minimum lease payments	\$	3,239

The Company has capital leases with a total lease liability of \$1,152 at August 31, 2017. These leases have maturities through Fiscal 2021.

(19) Capital Structure

The Company's capital structure is as follows:

Security	Par Value	Shares Authorized		Shares Outstanding		Voting Rights per Share	Liquidation Rights
		August 31, 2017	February 28, 2017	August 31, 2017	February 28, 2017		
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	21,900,011	21,899,370	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	2,168,094	2,168,074	N/A	N/A	N/A	

(20) Variable Interest Entities

A variable interest entity ("VIE") is an entity that either (i) has insufficient equity to permit the entity to finance its activities without additional subordinated financial support, or (ii) has equity investors who lack the characteristics of a controlling financial interest. Under ASC 810, an entity that holds a variable interest in a VIE and meets certain requirements would be considered to be the primary beneficiary of the VIE and required to consolidate the VIE in its consolidated financial statements. In order to be considered the primary beneficiary of a VIE, an entity must hold a variable interest in the VIE and have both:

- the power to direct the activities that most significantly impact the economic performance of the VIE; and
- the right to receive benefits from, or the obligation to absorb losses of, the VIE that could be potentially significant to the VIE.

On September 1, 2015, Voxx acquired a majority voting interest in substantially all of the assets and certain specified liabilities of EyeLock, Inc. and EyeLock Corporation, a market leader of iris-based identity authentication solutions, through a newly-formed entity, EyeLock LLC. In connection with the acquisition, the Company entered into a Loan Agreement with EyeLock LLC. The terms of the Loan Agreement allowed EyeLock LLC to borrow up to \$12,000, at an interest rate of 10%. During Fiscal 2017, as well as during the first and second quarters of Fiscal 2018, the Company issued four convertible promissory notes to EyeLock LLC, allowing the entity to borrow up to a total of \$21,000 in

VOXX International Corporation and Subsidiaries
Notes to Unaudited Consolidated Financial Statements, continued
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additional funds. The outstanding principal balance of these promissory notes are convertible at the sole option of Voxx into units of EyeLock LLC. The convertible promissory notes bear interest at 10% and can be used only for working capital purposes related to new business opportunities. If Voxx chooses not to convert into equity, the outstanding loan principal will be repaid at a multiple ranging from 1.35 to 1.50 based on the repayment date. Amounts outstanding under the initial loan agreement are due on November 1, 2017, while the four convertible promissory notes executed during Fiscal 2017 and Fiscal 2018 are due on November 1, 2017, April 24, 2018 and September 1, 2018, respectively. All four agreements include customary events of default and are collateralized by all of the property of EyeLock LLC.

We determined that we hold a variable interest in EyeLock LLC as a result of:

- our majority voting interest and ownership of substantially all of the assets and certain liabilities of the entity; and
- the loan agreements with EyeLock LLC, executed in conjunction with the acquisition, as well as during Fiscal 2017 and Fiscal 2018. The total outstanding balance of these loans as of August 31, 2017 was \$28,456.

We concluded that we became the primary beneficiary of EyeLock LLC on September 1, 2015 in conjunction with the acquisition. This was the first date on which we had the power to direct the activities that most significantly impact the economic performance of the entity because we acquired a majority interest in substantially all of the assets and certain liabilities of EyeLock, Inc. and EyeLock Corporation on this date, as well as obtained a majority voting interest as a result of this transaction. Although we are considered to have control over EyeLock LLC under ASC 810, due to our majority ownership interest, the assets of EyeLock LLC can only be used to satisfy the obligations of EyeLock LLC. As a result of our majority ownership interest in the entity and our primary beneficiary conclusion, we consolidated EyeLock LLC within our consolidated financial statements beginning on September 1, 2015.

Assets and Liabilities of EyeLock LLC

The following table sets forth the carrying values of assets and liabilities of EyeLock LLC that were included on our Consolidated Balance Sheet as of August 31, 2017 and February 28, 2017:

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

	August 31, 2017	February 28, 2017
Assets	<i>(unaudited)</i>	
Current assets:		
Cash and cash equivalents	\$ (24)	\$ 11
Accounts receivable, net	108	295
Inventory, net	118	135
Receivables from vendors	106	—
Prepaid expenses and other current assets	109	189
Total current assets	417	630
Property, plant and equipment, net	232	276
Intangible assets, net	37,657	39,187
Other assets	90	96
Total assets	\$ 38,396	\$ 40,189
Liabilities and Partners' Equity		
Current liabilities:		
Accounts payable	\$ 381	\$ 710
Accrued expenses and other current liabilities	5,154	3,506
Current portion of debt	27,000	22,098
Total current liabilities	32,535	26,314
Long-term debt	1,456	—
Other long-term liabilities	1,200	1,200
Total liabilities	35,191	27,514
Commitments and contingencies		
Partners' equity:		
Capital	41,416	40,891
Retained earnings	(38,211)	(28,216)
Total partners' equity	3,205	12,675
Total liabilities and partners' equity	\$ 38,396	\$ 40,189

Revenue and Expenses of EyeLock LLC

The following table sets forth the revenues and expenses of EyeLock LLC that were included in our Consolidated Statements of Operations for the three and six months ended August 31, 2017 and 2016, respectively:

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	Three Months Ended		Six Months Ended	
	August 31,		August 31,	
	2017	2016	2017	2016
Net sales	\$ 150	\$ 64	\$ 214	\$ 111
Cost of sales	79	21	57	30
Gross profit	71	43	157	81
Operating expenses:				
Selling	762	416	1,355	1,086
General and administrative	2,019	1,611	3,677	3,297
Engineering and technical support	1,785	2,038	3,818	4,094
Total operating expenses	4,566	4,065	8,850	8,477
Operating loss	(4,495)	(4,022)	(8,693)	(8,396)
Interest and bank charges	(694)	(376)	(1,303)	(651)
Loss before income taxes	(5,189)	(4,398)	(9,996)	(9,047)
Income tax expense	—	—	—	—
Net loss	\$ (5,189)	\$ (4,398)	\$ (9,996)	\$ (9,047)

(21) Segment Reporting

The Company operates in three distinct segments based upon our products and our internal organizational structure. The three operating segments, which are also the Company's reportable segments, are Automotive, Premium Audio and Consumer Accessories.

Our Automotive segment designs, manufactures, distributes and markets rear-seat entertainment devices, satellite radio products, automotive security, remote start systems, mobile multimedia devices, aftermarket/OE-styled radios, car link-smartphone telematics applications, collision avoidance systems and location-based services.

Our Premium Audio segment designs, manufactures, distributes and markets home theater systems, high-end loudspeakers, outdoor speakers, iPod/computer speakers, business music systems, cinema speakers, flat panel speakers, Bluetooth speakers, soundbars, headphones and DLNA (Digital Living Network Alliance) compatible devices.

Our Consumer Accessories segment designs, markets and distributes remote controls; wireless and Bluetooth speakers; karaoke products; action cameras; iris identification and security related products; personal sound amplifiers; infant/nursery products; activity tracking bands; and A/V connectivity, portable/home charging, reception, and digital consumer products.

The accounting principles applied at the consolidated financial statement level are generally the same as those applied at the operating segment level and there are no material intersegment sales. The segments are allocated interest expense, based upon a pre-determined formula, which utilizes a percentage of each operating segment's intercompany balance, which is offset in Corporate/Eliminations.

Segment data for each of the Company's segments are presented below:

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	<u>Automotive</u>	<u>Premium Audio</u>	<u>Consumer Accessories</u>	<u>Corporate/ Eliminations</u>	<u>Total</u>
<u>Three Months Ended August 31, 2017</u>					
Net sales	\$ 32,685	\$ 39,941	\$ 40,587	\$ 257	\$ 113,470
Equity in income of equity investees	1,927	—	—	—	1,927
Interest expense and bank charges	202	1,991	1,735	(2,085)	1,843
Depreciation and amortization expense	283	910	1,172	750	3,115
Income (loss) before income taxes	1,877	(844)	(8,274)	(9,142)	(16,383)
<u>Three Months Ended August 31, 2016</u>					
Net sales	\$ 38,948	\$ 34,902	\$ 44,271	\$ 204	\$ 118,325
Equity in income of equity investees	1,545	—	—	—	1,545
Interest expense and bank charges	751	1,294	1,151	(1,467)	1,729
Depreciation and amortization expense	344	865	1,167	675	3,051
Income (loss) before income taxes	3,378	1,494	(4,811)	(2,133)	(2,072)
<u>Six Months Ended August 31, 2017</u>					
Net sales	\$ 69,708	\$ 77,668	\$ 80,515	\$ 402	\$ 228,293
Equity in income of equity investees	3,730	—	—	—	3,730
Interest expense and bank charges	288	3,936	3,447	(4,036)	3,635
Depreciation and amortization expense	552	1,792	2,337	1,473	6,154
Income (loss) before income taxes	5,423	(4,715)	(15,399)	(11,804)	(26,495)
<u>Six Months Ended August 31, 2016</u>					
Net sales	\$ 78,798	\$ 67,035	\$ 85,957	\$ 435	\$ 232,225
Equity in income of equity investees	3,353	—	—	—	3,353
Interest expense and bank charges	1,573	2,488	2,172	(2,940)	3,293
Depreciation and amortization expense	688	1,731	2,322	1,343	6,084
Income (loss) before income taxes	4,538	971	(10,360)	(5,039)	(9,890)

(22) 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 does not believe that any of its current outstanding litigation matters will have a material adverse effect on the Company's financial statements, individually, or in the aggregate.

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 patent, trademark or other intellectual property owners. 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 that are not advantageous to the Company, or pay material amounts of damages.

(23) New Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09, "Revenues from Contracts with Customers (Topic 606)," which outlines a single comprehensive model for entities to use

VOXX International Corporation and Subsidiaries
Notes to Unaudited Consolidated Financial Statements, continued
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in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. The standard requires entities to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. The new guidance also includes a cohesive set of disclosure requirements intended to provide users of financial statements comprehensive information about the nature, amounts, timing and uncertainty of revenue and cash flows arising from a company's contracts with customers. ASU 2014-09 defines a five-step process to achieve this core principle and in doing so, it is possible that more judgment and estimates may be required within the revenue recognition process than are required under existing guidance, including identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to separate performance obligations, among others.

Retrospective or modified retrospective application of the accounting standard is required. In August 2015, the FASB issued ASU 2015-14, "Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date," an amendment deferring the effective date of ASU 2014-09 for all entities for one year. Public business entities, certain not-for-profit entities, and certain employee benefit plans should apply the guidance in ASU 2014-09 to annual reporting periods beginning December 15, 2017, including interim reporting periods within that reporting period. Earlier application is permitted only as of annual reporting periods beginning after December 31, 2016. The FASB issued additional amendments to the initial guidance in March 2016, April 2016, May 2016, December 2016 and February 2017 within ASU 2016-08, ASU 2016-10, ASU 2016-11 ASU 2016-12, ASU 2016-20 and ASU 2017-05. We will adopt the provisions of ASU 2014-09 effective March 1, 2018.

Preliminarily, the Company expects to use the modified retrospective method upon adoption of the standard. The Company has reviewed selected customer contracts representing certain of our revenue streams for the current fiscal year. The assessment of the impact on revenue and expenses based on these reviews to determine the impact to the Company's results of operations, financial position and cash flows as a result of this guidance is ongoing. The Company will continue to review customer contracts during the remainder of Fiscal 2018. Any preliminary assessments are subject to change.

In January 2016, the FASB issued ASU 2016-01 "Recognition and Measurement of Financial Assets and Financial Liabilities," which amends certain aspects of recognition, measurement, presentation and disclosure of financial instruments. This amendment requires all equity investments to be measured at fair value with changes in the fair value recognized through net income (other than those accounted for under equity method of accounting or those that result in consolidation of the investee). This standard will be effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The Company is currently evaluating the impact, if any, the adoption of ASU 2016-01 will have on its consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, "Leases (Topic 842)." ASU 2016-02 requires that a lessee recognize the assets and liabilities that arise from operating leases. A lessee should recognize in the statement of financial position a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term. For leases with a term of 12 months or less, a lessee is permitted to make an accounting policy election by class of underlying asset not to recognize lease assets and lease liabilities. In transition, lessees and lessors are required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach. This amendment will be effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early application is permitted. The Company has not yet determined the effect of the adoption of this standard on the Company's consolidated financial position and results of operations.

In June 2016, the FASB issued ASU 2016-13, "Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments." The standard significantly changes how entities will measure credit losses for most financial assets and certain other instruments that aren't measured at fair value through net income. The standard will replace today's "incurred loss" approach with an "expected loss" model for instruments measured at amortized cost. For available-for-sale debt securities, entities will be required to record allowances rather than reduce the carrying amount, as they do today under the other-than-temporary impairment model. It also simplifies the accounting model for purchased credit-impaired debt securities and loans. The amendment will affect loans, debt securities, trade receivables, net investments in leases, off balance sheet credit exposures, reinsurance receivables, and any other financial assets not excluded from the scope that have the contractual right to receive cash. The amendments should be applied on either a prospective transition or modified-retrospective approach depending on the subtopic. This ASU is effective for annual periods beginning after December 15, 2019, and interim periods therein. Early adoption is permitted for annual periods

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beginning after December 15, 2018, and interim periods therein. The Company is currently evaluating the impact of the adoption of this standard on its consolidated financial statements.

In August 2016, the FASB issued ASU No. 2016-15, "Statement of Cash Flows (Topic 230) - Classification of Certain Cash Receipts and Cash Payments," which addresses eight specific cash flow issues and is intended to reduce diversity in practice in how certain cash receipts and cash payments are presented and classified in the statement of cash flows. The guidance is effective for interim and annual periods beginning after December 15, 2017, and early adoption is permitted. The adoption of this guidance is not expected to have a material impact on the Company's consolidated financial statements.

In October 2016, the FASB issued ASU No. 2016-16, "Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory," which is intended to improve the accounting for the income tax consequences of intra-entity transfers of assets other than inventory. This update removes the current exception in GAAP prohibiting entities from recognizing current and deferred income tax expenses or benefits related to transfer of assets, other than inventory, within the consolidated entity. The current exception to defer the recognition of any tax impact on the transfer of inventory within the consolidated entity until it is sold to a third party remains unaffected. The amendments in this update are effective for public entities for annual reporting periods beginning after December 15, 2017. Early adoption is permitted. The Company is currently assessing the impact of the future adoption of this standard on its consolidated financial statements.

In November 2016, the FASB issued ASU No. 2016-18, "Statement of Cash Flows (Topic 230)" to reduce diversity in practice related to the classification and presentation of changes in restricted cash on the statement of cash flows under Topic 230, Statement of Cash Flows. The revised guidance requires that amounts generally described as restricted cash and restricted cash equivalents be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The guidance will be applied on a retrospective basis beginning with the earliest period presented. The amendments in this ASU are effective for annual and interim periods beginning after December 15, 2017. Early adoption is permitted. The Company does not expect the adoption of this ASU to have a material impact on its consolidated financial statements.

In January 2017, the FASB issued ASU No. 2017-01, "Business Combinations (Topic 805) - Clarifying the Definition of a Business," with the objective to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets versus businesses. The amendments in ASU 2017-01 provide a screen to determine when a set of assets and activities is not a business. The screen requires that when substantially all of the fair value of the gross assets acquired (or disposed of) is concentrated in a single identifiable asset or a group of similar identifiable assets, the set is not a business. This screen is expected to reduce the number of transactions that need to be further evaluated. If the screen is not met, the amendments in ASU 2017-01 (i) require that to be considered a business, a set of assets and liabilities acquired must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output; and (ii) remove the evaluation of whether a market participant could replace missing elements. The amendments in this ASU are effective for annual and interim periods beginning after December 15, 2017 and should be applied prospectively. Early adoption is permitted for transactions for which the acquisition date occurs before the issuance date of ASU 2017-01, only when the transaction has not been reported in financial statements that have been issued or made available for issuance. The Company is currently assessing the impact of the adoption of this pronouncement on its consolidated financial statements.

In January 2017, the FASB issued ASU No. 2017-04, "Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment." Under the new guidance, if a reporting unit's carrying value amount exceeds its fair value, an entity will record an impairment charge based on that difference. The impairment charge will be limited to the amount of goodwill allocated to that reporting unit. The standard eliminates today's requirement to calculate goodwill impairment using Step 2, which calculates an impairment charge by comparing the implied fair value of goodwill with its carrying amount. The standard does not change the guidance on completing Step 1 of the goodwill impairment test. The amendments in this ASU are effective for annual or any interim goodwill impairments tests in fiscal years beginning after December 15, 2019 and should be applied prospectively. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The Company is currently evaluating the impact of the new standard on our consolidated financial statements.

In March 2017, the FASB issued ASU No. 2017-07, "Compensation-Retirement Benefits: Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost." The new standard requires that an employer

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disaggregate the service cost component of net benefit cost. Also, these amendments provide guidance on how to present the service cost component and the other components of net benefit costs in the income statement and allow only the service cost component of net benefit cost to be eligible for capitalization. The guidance is effective for fiscal years beginning after December 15, 2017. The Company does not expect the adoption of this ASU to have a material impact on its consolidated financial statements.

In May 2017, the FASB issued ASU No. 2017-09, "Compensation-Stock Compensation (Topic 718) - Scope of Modification Accounting," which amends the scope of modification accounting for share-based payment arrangements. The standard provides guidance on the types of changes to the terms or conditions of share-based payment awards to which an entity would be required to apply modification accounting under ASC 718. Specifically, an entity would not apply modification accounting if the fair value, vesting conditions, and classification of the awards are the same immediately before and after the modification. The new standard is effective for annual periods beginning after December 15, 2017 and interim periods within those years. Early adoption is permitted. The Company does not expect the adoption of this ASU to have a material impact on its consolidated financial statements.

In August 2017, the FASB issued ASU No. 2017-12, "Derivatives and Hedging: Targeted Improvements to Accounting for Hedging Activities," which improves the financial reporting of hedging relationships to better align risk management activities in financial statements and make certain targeted improvements to simplify the application of the hedge accounting guidance in current GAAP. The standard is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption is permitted for any interim and annual financial statements that have not yet been issued. The Company is currently in the process of evaluating the impact of this new pronouncement on its consolidated financial statements.

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 six months ended August 31, 2017 compared to the three and six months ended August 31, 2016. Next, we present EBITDA, Adjusted EBITDA and Diluted Adjusted EBITDA per common share attributable to Voxx for the three and six months ended August 31, 2017 compared to the three and six months ended August 31, 2016 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 presented in our MD&A below are in thousands, except share and per share data.

Business Overview

VOXX International Corporation ("Voxx," "We," "Our," "Us" or the "Company") is a leading international manufacturer and distributor in the Automotive, Premium Audio and Consumer Accessories industries. The Company has widely diversified interests, with more than 30 global brands that 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. We conduct our business through sixteen wholly-owned subsidiaries: Audiovox Atlanta Corp., VOXX Electronics Corporation, VOXX Accessories Corp., VOXX German Holdings GmbH ("Voxx Germany"), Audiovox Venezuela, C.A., Audiovox Canada Limited, Voxx Hong Kong Ltd., Audiovox International Corp., Audiovox Mexico, S. de R.L. de C.V. ("Voxx Mexico"), Code Systems, Inc., Oehlbach Kabel GmbH ("Oehlbach"), Schwaiger GmbH ("Schwaiger"), Invision Automotive Systems, Inc. ("Invision"), Klipsch Holding LLC ("Klipsch"), Omega Research and Development, LLC ("Omega") and Audiovox Websales LLC, as well as a majority owned subsidiary, EyeLock LLC ("EyeLock"). We market our products under the Audiovox® brand name and other brand names and licensed brands, such as 808®, AR for Her, Acoustic Research®, Advent®, Ambico®, Car Link®, Chapman®, Code-Alarm®, Discwasher®, Energy®, Heco®, Incaar™, Invision®, Jamo®, Jensen®, Klipsch®, Mac Audio™, Magnat®, Mirage®, myris®, Oehlbach®, Omega®, Phase Linear®, Prestige®, Pursuit®, RCA®, RCA Accessories, Schwaiger®, Recoton®, Terk® and VoxxHirschmann, 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, as well as market a number of products under exclusive distribution agreements, such as SiriusXM satellite radio products, 360Fly® Action Cameras and Singtrix®, the next generation in karaoke.

On August 31, 2017, the Company completed its sale of Hirschmann Car Communication GmbH and its subsidiaries. See Note 2 for more details of this transaction.

Reportable Segments

The Company operates in three segments based upon our products and internal organizational structure. The operating segments consist of the Automotive, Premium Audio and Consumer Accessories segments. The Automotive segment designs, manufactures, distributes and markets rear-seat entertainment devices, satellite radio products, automotive security, remote start systems, mobile multimedia devices, aftermarket/OE-styled radios, car-link smartphone telematics applications, and collision avoidance systems. The Premium Audio segment designs, manufactures, distributes and markets home theater systems, high-end loudspeakers, outdoor speakers, iPod/computer speakers, business music systems, cinema speakers, flat panel speakers, Bluetooth speakers, soundbars, headphones and DLNA (Digital Living Network Alliance) compatible devices. The Consumer Accessories segment designs, markets and distributes remote controls; wireless and Bluetooth speakers; karaoke products; action cameras, iris identification and security related products; personal sound amplifiers; infant/nursery products; activity tracking bands; and A/V connectivity, portable/home charging, reception and digital consumer products. See Note 21 to the Company's Consolidated Financial Statements for segment information.

Products included in these segments are as follows:

Automotive products include:

- mobile multi-media video products, including in-dash, overhead and headrest systems,
- autosound products including radios and amplifiers,
- satellite radios including plug and play models and direct connect models,
- smart phone telematics applications,
- automotive security and remote start systems,
- automotive power accessories,
- rear observation and collision avoidance systems, and
- power lift gates.

Premium Audio products include:

- premium loudspeakers,
- architectural speakers,
- commercial speakers,
- outdoor speakers,
- flat panel speakers,
- wireless speakers,
- Bluetooth speakers,
- home theater systems,
- business music systems,
- streaming music systems,
- on-ear and in-ear headphones,
- wireless and Bluetooth headphones,
- soundbars and sound bases, and
- DLNA (Digital Living Network Alliance) compatible devices.

Consumer Accessories products include:

- High-Definition Television ("HDTV") antennas,
- Wireless Fidelity ("WiFi") antennas,
- High-Definition Multimedia Interface ("HDMI") accessories,
- security related products,
- home electronic accessories such as cabling,
- other connectivity products,
- power cords,
- performance enhancing electronics,
- TV universal remotes,
- flat panel TV mounting systems,
- iPod specialized products,
- wireless headphones,
- wireless speakers,
- Bluetooth speakers,
- action cameras,
- karaoke products,
- infant/nursery products,
- activity tracking bands,
- power supply systems and charging products,
- electronic equipment cleaning products,
- personal sound amplifiers,
- set-top boxes,
- home and portable stereos, and
- digital multi-media products, such as personal video recorders and MP3 products.

We believe our segments have expanding market opportunities with certain levels of volatility related to domestic and international markets, new car sales, increased competition by manufacturers, private labels, technological advancements, discretionary consumer spending and general economic conditions. Also, all of our products are subject to price fluctuations which could affect the carrying value of inventories and gross margins in the future.

Our objective is to continue to grow our business by acquiring new brands, embracing new technologies, expanding product development and applying this to a continued stream of new products that should increase gross margins and improve operating income. In addition, it is our intention to continue to acquire synergistic companies that would allow us to leverage our overhead, penetrate new markets and expand existing product categories through our business channels. Notwithstanding the above, if the appropriate opportunity arises, the Company will explore the potential divestiture of a product line or business.

Acquisitions and Dispositions

On April 18, 2017, Voxx acquired certain assets and assumed certain liabilities of Rosen Electronics LLC. As consideration for the Rosen asset purchase, the Company paid \$1,814. In addition, the Company agreed to pay a 2% fee related to future net sales of Rosen products for three years. The purpose of this acquisition was to increase the Company's market share and strengthen its intellectual property related to the rear seat entertainment market. Details of the tangible and intangible assets acquired are outlined in Note 2 of this report.

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. 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 second quarter ending August 31, 2017. Financial results of the discontinued operation through the sale date were as follows:

	Six Months Ended	
	August 31,	
	2017	2016
Net sales of discontinued operations	\$ 91,824	\$ 82,492
Income from discontinued operations, net of tax	32,710	(1,866)
Income from discontinued operations per diluted share	\$ 1.35	\$ (0.08)

Details of the disposition are outlined in Note 2 of this report.

Critical Accounting Policies and Estimates

The preparation of these financial statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses reported in those financial statements. These judgments can be subjective and complex, and consequently, actual results could differ from those estimates. Our most critical accounting policies and estimates relate to revenue recognition; sales incentives; accounts receivable reserves; inventory reserves; goodwill and other intangible assets; warranties; stock-based compensation; income taxes; and the fair value measurements of financial assets and liabilities. A summary of the Company's critical accounting policies is identified in Management's Discussion and Analysis of Financial Condition and Results of Operations in the Company's Form 10-K for the fiscal year ended February 28, 2017. Since February 28, 2017, there have been no changes in our critical accounting policies or changes to the assumptions and estimates related to them.

Results of Operations

As you read this discussion and analysis, refer to the accompanying consolidated statements of operations and comprehensive income (loss), which present the results of our operations for the three and six months ended August 31, 2017 and 2016.

The following tables set forth, for the periods indicated, certain statements of operations data from continuing operations for the three and six months ended August 31, 2017 and 2016, and therefore excludes all income statement activity of the discontinued operation.

Net Sales

	August 31,		\$ Change	% Change
	2017	2016		
Three Months Ended:				
Automotive	\$ 32,685	\$ 38,948	\$ (6,263)	(16.1)%
Premium Audio	39,941	34,902	5,039	14.4
Consumer Accessories	40,587	44,271	(3,684)	(8.3)
Corporate	257	204	53	26.0
Total net sales	<u>\$ 113,470</u>	<u>\$ 118,325</u>	<u>\$ (4,855)</u>	<u>(4.1)%</u>
Six Months Ended:				
Automotive	\$ 69,708	\$ 78,798	\$ (9,090)	(11.5)%
Premium Audio	77,668	67,035	10,633	15.9
Consumer Accessories	80,515	85,957	(5,442)	(6.3)
Corporate	402	435	(33)	(7.6)
Total net sales	<u>\$ 228,293</u>	<u>\$ 232,225</u>	<u>\$ (3,932)</u>	<u>(1.7)%</u>

Automotive sales represented 28.8% and 30.5% of the net sales for the three and six months ended August 31, 2017, respectively, compared to 32.9% and 33.9% in the respective prior year periods. The Company experienced a decrease in automotive sales during the three and six months ended August 31, 2017 primarily due to the continued decline in satellite radio sales, as a result of most vehicles being built equipped with these products as standard vehicle options. Additionally, the Company had a decrease in sales related to its international OEM manufacturing line as a result of the completion of a program with Bentley during the first quarter of Fiscal 2018, with final spare parts shipments during the three and six months ended August 31, 2017. Within the Company's domestic OEM manufacturing lines, there was a decrease in sales during the three and six months ended August 31, 2017 related to the winding down of certain headrest programs with General Motors and Ford in preparation for new programs which have experienced delayed launches and will begin in the third quarter of Fiscal 2018. This was offset by an increase in sales during the six months ended August 31, 2017 resulting from additional vehicle models added to the Company's existing programs with Subaru. The Company also saw an increase in aftermarket overhead and headrest DVD player sales for both the three and six months ended August 31, 2017 as a result of the Company's acquisition of Rosen Electronics LLC during the first quarter of Fiscal 2018.

Premium Audio sales represented 35.2% and 34.0% of our net sales for the three and six months ended August 31, 2017, respectively, compared to 29.5% and 28.9% in the respective prior year periods. Sales have increased in this segment primarily as a result of the introduction of several new products, including various lines of HD wireless desktop and bookshelf size speakers, wireless soundbars, Klipsch Heritage products, and wireless and multi-room streaming audio systems, including Capital Records branded products. These products were launched during Fiscal 2017, as well as during the second quarter of Fiscal 2018, and have experienced strong sales for the segment for the three and six months ended August 31, 2017. The Company also offered several close out promotions on certain soundbar models that are being phased out to make room for new product lines, which resulted in further sales increases as a result of these promotions. Additionally, the Company experienced an increase in sales of several of its existing lines of home entertainment speakers due to successful marketing and promotional activity. These increases were partially offset by decreases in commercial speaker sales during the three and six months ended August 31, 2017 due to the delay of certain projects and programs, which is primarily a result of slower box office sales that have affected many of the Company's cinema customers.

Consumer Accessory sales represented 35.8% and 35.3% of our net sales for the three and six months ended August 31, 2017, respectively, compared to 37.4% and 37.0% in the comparable prior year periods. The Company experienced a decrease in consumer accessory sales due to factors including a decline in sales of the 360Fly action camera product. There was also a decrease in sales of hook-up products; clock radios; docking stations; reception products, such as antennas; and power products, such as cables and surge protectors, due to competition, changes in demand and changes in technology during the three and six months ended August 31, 2017. As an offset to these declines, the Company experienced an increase in sales of wireless speakers during the three and six months ended August 31, 2017, as compared to the prior year. The Company is now seeing increases in sales of its wireless speaker lines due to new orders and placements at retailers, as well as the launch of new product lines. The Company also experienced increases in sales during the three and six months ended August 31, 2017 related to its new Striiv activity tracking bands, which began selling during the second quarter of Fiscal 2018, as well as in the Company's new Project Nursery product line, which includes baby monitors and launched in the second quarter of Fiscal 2017. Additionally, during the three and six months ended August 31, 2017, the Company experienced an increase in international sales, primarily due to the roll out of an upgrade

to the digital broadcasting platform in Europe during Fiscal 2017, which has required consumers to purchase new equipment, such as set top boxes.

Gross Profit and Gross Margin Percentage

	August 31,		\$ Change	% Change
	2017	2016		
Three Months Ended:				
Automotive	\$ 8,396	\$ 10,963	\$ (2,567)	(23.4)%
	25.7%	28.4%		
Premium Audio	12,433	11,488	945	8.2
	31.1%	32.9%		
Consumer Accessories	7,560	9,823	(2,263)	(23.0)
	18.6%	22.2%		
Corporate	32	169	(137)	(81.1)
	25.0%	27.4%		
	<u>\$ 28,421</u>	<u>\$ 32,443</u>	<u>\$ (4,022)</u>	<u>(12.4)%</u>
Six Months Ended:				
Automotive	\$ 18,713	\$ 21,249	\$ (2,536)	(11.9)%
	26.8%	27.0%		
Premium Audio	22,608	22,622	(14)	(0.1)%
	29.1%	33.7%		
Consumer Accessories	17,063	20,115	(3,052)	(15.2)%
	21.2%	23.4%		
Corporate	181	430	(249)	(57.9)%
	25.7%	27.7%		
	<u>\$ 58,565</u>	<u>\$ 64,416</u>	<u>\$ (5,851)</u>	<u>(9.1)%</u>

Gross margins in the Automotive segment decreased 270 and 20 basis points, respectively, for the three and six months ended August 31, 2017 as compared to the prior year. The main driver of this decline in margins was an overall decrease in the Company's OEM manufacturing sales for the three and six months ended August 31, 2017, from which the Company generally earns higher margins. This was offset by an increase in sales of certain higher margin products, such as the Company's aftermarket overhead and headrest DVD players, due to the acquisition of Rosen, as well as decreased sales of lower margin products, such as satellite radio fulfillments during the three and six months ended August 31, 2017.

Gross margins in the Premium Audio segment decreased 180 and 460 basis points, respectively, for the three and six months ended August 31, 2017 as compared to the comparable prior year periods. The decline in margins was primarily a result of heavy promotions of older soundbar models that the Company is phasing out in order to make way for a new line of products. The Company also experienced lower sales of its higher margin commercial speakers during the three and six months ended August 31, 2017. As an offset to these declines, the segment experienced an increase in sales of certain higher margin products, such as home entertainment speakers for the three and six months ended August 31, 2017. Additionally, during the prior year periods, the Company offered close out promotions for certain portable mobile devices that were not repeated during the three and six months ended August 31, 2017, and resulted in higher margins for the segment's mobility products.

Gross margins in the Consumer Accessories segment decreased 360 and 220 basis points, respectively, for the three and six months ended August 31, 2017, as compared to the prior year period. For the three and six months ended August 31, 2017, margins were negatively impacted by decreased sales of certain higher margin products, including hookup products, as well as by the increase in sales of the Company's new Striiv activity band, which contributed significant sales during the three and six months ended August 31, 2017, but generated lower margins for the segment. The Company also incurred increased freight charges due to an increased demand for certain remote products during the three and six months ended August 31, 2017, thus driving down margins for these products. Additionally, the Company incurred a one-time settlement charge during the three and six months ended August 31, 2017 related to a contract shortfall with a vendor for the purchase of certain products, which caused margins to be negatively impacted for the periods. Finally, during the six months ended August 31, 2016, certain warranty reserves were released and adjusted based on actual sales and warranty activity. As a result, warranty expense during the six months ended August 31,

2017 is higher as compared to the prior year period and has resulted in a further decline in the margin for the year. These decreases were partially offset by an increase in sales of higher margin products, such as the Company's Project Nursery line of baby monitors, and an increase in sales of the segment's wireless speakers. There was also a decrease in sales of action cameras during the three and six months ended August 31, 2017. As the sales of this product generally produce lower margins for the Company, the decrease in sales offset the overall decline in margins for the three and six months ended August 31, 2017.

Operating Expenses

	<u>August 31,</u>		<u>\$ Change</u>	<u>% Change</u>
	<u>2017</u>	<u>2016</u>		
Three Months Ended:				
Operating expenses:				
Selling	\$ 10,652	\$ 9,924	\$ 728	7.3 %
General and administrative	20,640	18,021	2,619	14.5
Engineering and technical support	7,383	6,609	774	11.7
Total operating expenses	<u>\$ 38,675</u>	<u>\$ 34,554</u>	<u>\$ 4,121</u>	<u>11.9 %</u>
Six Months Ended:				
Operating expenses:				
Selling	\$ 23,061	\$ 21,306	\$ 1,755	8.2 %
General and administrative	40,837	38,148	2,689	7.0
Engineering and technical support	14,037	14,655	(618)	(4.2)
Total operating expenses	<u>\$ 77,935</u>	<u>\$ 74,109</u>	<u>\$ 3,826</u>	<u>5.2 %</u>

Total operating expenses have increased for both the three and six months ended August 31, 2017 as compared with the three and six months ended August 31, 2016. Selling expenses increased during the three and six months ended August 31, 2017 due primarily to advertising and marketing related expenses as a result of increased web advertising, in-store vignettes and displays, and coverage of the Company's trade show events. There was also a modest increase in salary and benefit expenses within selling expenses due to an increase in headcount in certain business units, as well as severance expense incurred due to restructuring activities in others. Within general and administrative expenses, the Company experienced increases related to the implementation of a new payroll and time and attendance system that took effect during the fourth quarter of Fiscal 2017, as well as due to salary, benefits and payroll related expenses as a result of bonus accruals, headcount increases in certain business units, and severance expenses resulting from restructuring activities in others. The increases were offset by a decline in occupancy costs related to the consolidation of the Company's shared services into one location, which was completed during the fourth quarter of Fiscal 2017. Engineering and technical support expenses increased during the three months ended August 31, 2017, but decreased during the six months ended August 31, 2017, primarily due to the timing of research and development expenditures and product launches as compared to the prior year periods.

Other (Expense) Income

	August 31,		\$ Change	% Change
	2017	2016		
Three Months Ended:				
Interest and bank charges	\$ (1,843)	\$ (1,729)	\$ (114)	6.6 %
Equity in income of equity investees	1,927	1,545	382	24.7
Investment gain	1,416	—	1,416	100.0
Other, net	(7,629)	223	(7,852)	(3,521.1)
Total other (expense) income	<u>\$ (6,129)</u>	<u>\$ 39</u>	<u>\$ (6,168)</u>	<u>(15,815.4)%</u>
Six Months Ended:				
Interest and bank charges	\$ (3,635)	\$ (3,293)	\$ (342)	10.4 %
Equity in income of equity investees	3,730	3,353	377	11.2
Investment gain	1,416	—	1,416	100.0
Other, net	(8,636)	(257)	(8,379)	3,260.3
Total other (expense) income	<u>\$ (7,125)</u>	<u>\$ (197)</u>	<u>\$ (6,928)</u>	<u>3,516.8 %</u>

Interest and bank charges represent expenses for the Company's bank obligations, interest related to capital leases and amortization of debt issuance costs. The increase in these expenses for the three and six months ended August 31, 2017 is due to a higher average outstanding balance on the Company's Credit Facility compared to the prior year periods.

Equity in income of equity investees represents the Company's share of income from its 50% non-controlling ownership interest in ASA Electronics LLC and Subsidiaries ("ASA"). The increase in income from ASA for the three and six months ended August 31, 2017 as compared to the prior year was due to a favorable product mix, resulting in higher sales for several of the company's existing customers, as well as a special project performed for one of the company's customers during the period.

During July 2017, one of the Company's cost method investees, RxNetworks, was sold to a third party, resulting in a gain recognized by the Company for the three and six months ended August 31, 2017, representing the excess of the consideration received for the investment held by the Company on the date of the transaction.

Other, net, during the three and six months ended August 31, 2017 primarily includes net foreign currency losses of \$(7,387) and \$(8,219), respectively, interest income of \$16 and \$31, respectively, and rental income of \$131 and \$275, respectively, while Other, net, during the three and six months ended August 31, 2016, primarily included foreign currency losses of \$(67) and \$(773), respectively, interest income of \$77 and \$100, respectively, and rental income of \$176 and \$349, respectively. Included in the foreign currency losses for the three and six months ended August 31, 2017 are losses on forward contracts totaling \$(6,618) incurred in conjunction with the sale of Hirschmann.

Income from Discontinued Operations

On August 31, 2017, the Company completed its sale of Hirschmann to a subsidiary of TE. The consideration received by the Company was €148,500. The purchase price, at the exchange rate as of the close of business on August 31, 2017 approximated \$177,000, and is subject to adjustment based upon the final working capital. For the three and six months ended August 31, 2017, income from discontinued operations consisted primarily of a gain on sale of \$36,118 in both periods, as well as operating income of \$1,562 and \$2,840, respectively. For the three and six months ended August 31, 2016, income from discontinued operations consisted primarily of operating income of \$1,296 and \$1,764, respectively. The increase in operating income for the Company's discontinued operation for the three and six months ended August 31, 2017 was primarily due to an increase in tuner and antenna sales during these periods as compared to the prior year.

Income Tax Provision

The effective tax rate for the three and six months ended August 31, 2017 was an income tax provision of 21.2% and an income tax benefit of 15.0%, respectively, compared to an income tax benefit of 267.6% and 70.2%, respectively, in the comparable prior periods. The effective tax rate for the three and six months ended August 31, 2017 differs from the statutory rate of 35% primarily due to the ability to provide an income tax benefit for domestic losses, as the U.S. taxable income from discontinued operations is treated as a source of income under the intra-period allocation guidance, coupled with the mix of domestic and foreign earnings, the non-controlling interest related to EyeLock LLC and an income tax benefit related to various federal tax credits.

Net Income

The following table sets forth, for the periods indicated, selected statement of operations data beginning with net income and basic and diluted net income per common share.

	Three Months Ended August 31,		Six Months Ended August 31,	
	2017	2016	2017	2016
Net (loss) income from continuing operations	\$ (19,848)	\$ 3,471	\$ (22,532)	\$ (2,950)
Net income (loss) from discontinued operations	\$ 34,931	\$ (2,167)	\$ 32,710	\$ (1,866)
Net income (loss) attributable to VOXX International Corporation	\$ 17,106	\$ 3,020	\$ 14,076	\$ (1,288)
Net (loss) income per common share - basic:				
Continuing operations	\$ (0.74)	\$ 0.21	\$ (0.77)	\$ 0.02
Discontinued operations	\$ 1.45	\$ (0.09)	\$ 1.35	\$ (0.08)
Attributable to VOXX International Corporation	\$ 0.71	\$ 0.12	\$ 0.58	\$ (0.05)
Net (loss) income per common share - diluted:				
Continuing operations	\$ (0.74)	\$ 0.21	\$ (0.77)	\$ 0.02
Discontinued operations	\$ 1.45	\$ (0.09)	\$ 1.35	\$ (0.08)
Attributable to VOXX International Corporation	\$ 0.71	\$ 0.12	\$ 0.58	\$ (0.05)

The net loss from continuing operations for the three months ended August 31, 2017 was unfavorably impacted by an operating loss, which was driven by lower sales and gross profits, as well as higher operating expenses; a loss on foreign currency contracts incurred in conjunction with the sale of Hirschmann; net losses incurred by EyeLock LLC, the Company's majority owned subsidiary; and income tax expense. This was offset by an investment gain related to the sale of one of the Company's cost method investments and the performance of the Company's equity investment. The net loss from continuing operations for the six months ended August 31, 2017 was unfavorably impacted by an operating loss, which was driven by lower sales and gross profits, as well as higher operating expenses; a loss on foreign currency contracts incurred in conjunction with the sale of Hirschmann; and by net losses incurred by EyeLock LLC, the Company's majority owned subsidiary. This was offset by an investment gain related to the sale of one of the Company's cost method investments, the performance of the Company's equity investment, and an income tax benefit. Net income from continuing operations for the three months ended August 31, 2016, as well as the net loss for the six months ended August 31, 2016 were both favorably impacted by income tax benefits, as well as by the performance of the Company's equity investment and offset by net losses incurred by EyeLock LLC, the Company's majority owned subsidiary.

The net income from discontinued operations for both the three and six months ended August 31, 2017 was favorably impacted by the gain on the sale of Hirschmann, offset by income tax expense. For the three and six months ended August 31, 2016, net loss from discontinued operations was unfavorably impacted by income tax expense, offset by net operating income in both periods.

Net income attributable to VOXX International Corporation for both the three and six months ended August 31, 2017 was favorably impacted by the gain on sale of Hirschmann, as well as the effect of the minority interest of EyeLock LLC, and was offset by losses incurred by the Company's continuing operations, including a loss on foreign currency contracts incurred in conjunction with the sale of Hirschmann. Net income attributable to VOXX International Corporation for the three months ended August 31, 2016 was favorably impacted by the effect of the minority interest of EyeLock LLC and net income tax benefits, offset by operating losses from continuing operations. The net loss attributable to VOXX International Corporation for the six months ended August 31, 2016 was unfavorably impacted by operating losses from continuing operations, offset by a net income tax benefit and the effect of the minority interest of EyeLock LLC.

EBITDA, Adjusted EBITDA and Diluted Adjusted EBITDA per Common Share

EBITDA, Adjusted EBITDA and Diluted Adjusted EBITDA per common share are not financial measures recognized by GAAP. EBITDA represents net income (loss) attributable to VOXX International Corporation, computed in accordance with GAAP, before interest expense and bank charges, taxes, and depreciation and amortization. Adjusted EBITDA represents EBITDA adjusted for stock-based compensation expense, gains on the sale of discontinued operations, losses on forward contracts, and investment gains. Depreciation, amortization and stock-based compensation are non-cash items. Diluted Adjusted EBITDA per common share represents the Company's diluted earnings per common share based on Adjusted EBITDA.

We present EBITDA, Adjusted EBITDA and Diluted Adjusted EBITDA per common share in this Form 10-Q because we consider them to be useful and appropriate supplemental measures of our performance. Adjusted EBITDA and diluted adjusted earnings per common share help us to evaluate our performance without the effects of certain GAAP calculations that may not have a direct cash impact on our current operating performance. In addition, the exclusion of certain costs or gains relating to non-recurring events allows for a more meaningful comparison of our results from period-to-period. These non-GAAP measures, as we define them, are not necessarily comparable to similarly entitled measures of other companies and may not be an appropriate measure for performance relative to other companies. EBITDA, Adjusted EBITDA and Diluted Adjusted EBITDA per common share should not be assessed in isolation from, are not intended to represent, and should not be considered to be more meaningful measures than, or alternatives to, measures of operating performance as determined in accordance with GAAP.

Reconciliation of GAAP Net Income (Loss) Attributable to VOXX International Corporation to EBITDA, Adjusted EBITDA and Diluted Adjusted EBITDA per Common Share

	Three Months Ended August 31,		Six Months Ended August 31,	
	2017	2016	2017	2016
Net income attributable to VOXX International Corporation	\$ 17,106	\$ 3,020	\$ 14,076	\$ (1,288)
Adjustments:				
Interest expense and bank charges (1)	1,730	1,722	3,406	3,310
Depreciation and amortization (1)	4,340	4,247	8,477	8,490
Income tax expense (benefit)	6,207	(2,261)	2,144	(3,653)
EBITDA	29,383	6,728	28,103	6,859
Stock-based compensation	157	188	299	363
Gain on sale of discontinued operation	(36,118)	—	(36,118)	—
Loss on forward contracts attributable to sale of business	6,618	—	6,618	—
Investment gain	(1,416)	—	(1,416)	—
Adjusted EBITDA	\$ (1,376)	\$ 6,916	\$ (2,514)	\$ 7,222
Diluted income per common share attributable to VOXX International Corporation	\$ 0.71	\$ 0.12	\$ 0.58	\$ (0.05)
Diluted Adjusted EBITDA per common share attributable to VOXX International Corporation	\$ (0.06)	\$ 0.29	\$ (0.10)	\$ 0.30

(1) For purposes of calculating Adjusted EBITDA for the Company, interest expense and bank charges, as well as depreciation and amortization have been adjusted in order to exclude the non-controlling interest portion of these expenses attributable to EyeLock LLC.

Liquidity and Capital Resources

Cash Flows, Commitments and Obligations

As of August 31, 2017, we had working capital of \$169,138 which includes cash and cash equivalents of \$45,821, compared with working capital of \$143,281 at February 28, 2017, which included cash and cash equivalents of \$956. We plan to utilize our current cash position as well as collections from accounts receivable, the cash generated from our operations and the income on our investments to fund the current operations of the business. However, we may utilize all or a portion of current capital resources to pursue other business opportunities, including acquisitions or to further pay down our debt.

Operating activities used cash of \$32,207 for the six months ended August 31, 2017, principally due to increases in the Company's inventory, as well as prepaid expenses and other assets, and was offset by a decrease in accounts receivable and an increase in accrued expenses. For the six months ended August 31, 2016, operating activities used cash of \$7,017 due primarily to increases

in the Company's inventory balance and decreases in accrued expenses and income taxes payable, which was offset by decreases in accounts receivable as a result of collections and factoring of certain trade accounts receivable balances.

Investing activities provided cash of \$163,991 during the six months ended August 31, 2017 primarily as a result of the sale of Hirschmann on August 31, 2017, which was offset by cash used for capital additions, as well as the acquisition of Rosen Electronics LLC and the issuance of notes receivable. For the six months ended August 31, 2016, investing activities used cash of \$5,089, primarily as a result of capital additions made during the quarter.

Financing activities used cash of \$92,272 during the six months ended August 31, 2017, primarily due to the repayment of balances outstanding on the Company's Credit Facility as a result of the sale of Hirschmann. Financing activities provided cash of \$4,584 during the six months ended August 31, 2016, primarily due to borrowings of bank obligations, net of repayments.

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 15(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. As of August 31, 2017, \$94 was outstanding under the revolving credit facility. The remaining availability under revolving credit line of the Credit Facility was \$100,563 as of August 31, 2017.

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 shall 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 shall bear interest at a rate equal to the applicable margin for Base Rate Loans of 0.75 - 1.25% as defined in the agreement.

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; (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.

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.

On August 31, 2017, the Company completed its sale of Hirschmann to a subsidiary of TE. The consideration received by the Company was €148,500. The purchase price, at the exchange rate as of the close of business on August 31, 2017 approximated \$177,000, and is subject to adjustment based upon the final working capital. As of August 31, 2017, a total of \$94 was outstanding under the Credit Facility compared to \$92,793 at February 28, 2017. The decrease in the outstanding credit facility balance as of August 31, 2017 is principally a result of the Company's decision to pay down the outstanding balance of the Credit Facility in conjunction with the sale of Hirschmann.

Certain contractual cash obligations and other commercial commitments will impact our short and long-term liquidity. At August 31, 2017, such obligations and commitments are as follows:

Amount of Commitment Expiration per Period (9)

	Total	Less than 1 Year	2-3 Years	4-5 Years	After 5 Years
Contractual Cash Obligations					
Capital lease obligation (1)	\$ 1,152	\$ 303	\$ 616	\$ 233	\$ —
Operating leases (2)	3,239	1,341	1,039	469	390
Total contractual cash obligations	\$ 4,391	\$ 1,644	\$ 1,655	\$ 702	\$ 390
Other Commitments					
Bank obligations (3)	\$ 5,258	\$ 5,164	\$ —	\$ 94	\$ —
Stand-by and commercial letters of credit (4)	1,161	1,161	—	—	—
Other (5)	13,424	1,606	4,453	1,000	6,365
Pension obligation (6)	648	—	—	—	648
Unconditional purchase obligations (7)	86,897	86,897	—	—	—
Total other commitments	107,388	94,828	4,453	1,094	7,013
Total commitments	\$ 111,779	\$ 96,472	\$ 6,108	\$ 1,796	\$ 7,403

1. Represents total principal payments due under capital lease obligations which have a total current (included in other current liabilities) and long-term principal balance of \$303 and \$849, respectively, at August 31, 2017.
2. We enter into operating leases in the normal course of business.
3. Represents amounts outstanding under the Company's Credit Facility and the Voxx Germany Euro asset-based lending facility at August 31, 2017.
4. We issue standby and commercial letters of credit to secure certain purchases and insurance requirements.
5. This amount includes amounts due under an assumed mortgage on a facility in connection with the acquisition of Klipsch, as well as amounts outstanding under loans and mortgages for our manufacturing facility in Florida and for facilities purchased at Schwaiger and Voxx Germany.
6. Represents the liability for an employer defined benefit pension plan covering certain eligible employees of Voxx Germany.
7. Open purchase obligations represent inventory commitments. These obligations are not recorded in the consolidated financial statements until commitments are fulfilled given that such obligations are subject to change based on negotiations with manufacturers.

We regularly review our cash funding requirements and attempt to meet those requirements through a combination of cash on hand, cash provided by operations, available borrowings under bank lines of credit and possible future public or private debt and/or equity offerings. At times, we evaluate possible acquisitions of, or investments in, businesses that are complementary to ours, which transactions may require the use of cash. We believe that our cash, other liquid assets, operating cash flows, credit arrangements, and access to equity capital markets, taken together, provide adequate resources to fund ongoing operating expenditures. In the event that they do not, we may require additional funds in the future to support our working capital requirements or for other purposes and may seek to raise such additional funds through the sale of public or private equity and/or debt financings as well as from other sources. No assurance can be given that additional financing will be available in the future or that if available, such financing will be obtainable on terms favorable when required.

Off-Balance Sheet Arrangements

We do not maintain any off-balance sheet arrangements, transactions, obligations or other relationships with unconsolidated entities that would be expected to have a material current or future effect upon our financial condition or results of operations.

Related Party Transactions

None noted.

New Accounting Pronouncements

We are required to adopt certain new accounting pronouncements. See Note 23 to our consolidated financial statements included herein.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Foreign Currency

Voxx conducts business in various non-U.S. countries, including Germany, Canada, Mexico, China, Denmark, the Netherlands, and France and thus is exposed to market risk for changes in foreign currency exchange rates. A cumulative foreign currency translation loss of \$(13,992) related to the Company's foreign subsidiaries is included in Accumulated Other Comprehensive Income (Loss) on the Consolidated Balance Sheet at August 31, 2017. The aggregate foreign currency transaction exchange rate losses included in determining income before income taxes were \$(7,387) and \$(8,219) for the three and six months ended August 31, 2017, respectively, compared to \$(67) and \$(773) for the three and six months ended August 31, 2016, respectively. Included in the foreign currency losses for the three and six months ended August 31, 2017 are losses on forward contracts totaling \$(6,618) incurred in conjunction with the sale of Hirschmann. For the three and six months ended August 31, 2017, a uniform 10% strengthening of the U.S. dollar relative to the local currency of our foreign operations would have resulted in a decrease in sales from continuing operations of approximately \$1,900 and \$3,900, respectively, and net income from continuing operations of approximately \$190 and \$180, respectively. The effects of foreign currency exchange rates on future results would also be impacted by changes in sales levels or local currency prices.

The Company continues to monitor the political and economic climate in Venezuela. Venezuela did not have any sales for the three and six months ended August 31, 2017. Approximately \$51 of assets invested in Venezuela are cash related and are subject to government foreign exchange controls. The Company also maintains \$3,611 in real estate property in Venezuela that could be subject to government foreign exchange controls upon their ultimate sale, or as a result of additional currency restrictions.

The Company enters into forward foreign currency contracts which are utilized to hedge a portion of its foreign currency inventory purchases. As of August 31, 2017, the total net fair value of our forward foreign currency contracts recorded in Accrued expenses and other liabilities and Prepaid expenses and other current assets on our Consolidated Balance Sheet was \$(690). Total gains recognized related to forward foreign currency contracts settled during the three and six months ended August 31, 2017 were \$42 and \$317, respectively, compared to \$44 and \$259, respectively, during the three and six months ended August 31, 2016.

Interest

In connection with the Amended Credit Facility and the Florida Mortgage, we have debt outstanding in the amount of \$94 and \$8,864, respectively, at August 31, 2017. Interest on the Amended Credit Facility is charged at a range of LIBOR plus 0.75 - 2.25% and interest on the Florida Mortgage is charged at 70% of 1-month LIBOR plus 1.54%. The Company also has debt outstanding with variable interest rates on its Euro asset based lending obligation in Germany (see Note 15(c)). The Company currently has one interest rate swap for the Florida Mortgage with a notional amount of \$8,864 at August 31, 2017. This swap locks the interest rate at 3.48% (inclusive of credit spread) on the Florida Mortgage through the mortgage end date of March 2026.

As of August 31, 2017, the total net fair value of the interest rate swap recorded in Other liabilities on our Consolidated Balance Sheet is \$(367), which represents the amount that would be received/(paid) upon unwinding the interest rate swap agreement based on market conditions on that date. Changes in the fair value of these interest rate swap agreements are reflected as an adjustment to other assets or liabilities with an offsetting adjustment to Accumulated Other Comprehensive Income (Loss) since the hedges are deemed fully effective. During the six months ended August 31, 2016, the Company unwound an interest rate swap, resulting in a charge to interest expense of \$(114), representing the fair value of the interest rate swap on the date of the unwind.

ITEM 4. CONTROLS AND PROCEDURES

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we have evaluated the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Exchange Act Rules 13a-15(e) and 15d-15(e) as of the end of the period covered by this report. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of the period covered by this report, these disclosure controls and procedures are effective as of August 31, 2017 to provide reasonable assurance that information required to be disclosed by the Company in its filing under the Exchange Act was recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission.

There were no material changes in our internal control over financial reporting (as such term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) during the three-month period ended August 31, 2017 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

See Note 22 of the Notes to the Consolidated Financial Statements in Part I, Item 1 of this Form 10-Q and Note 15 of the Form 10-K for the fiscal year ended February 28, 2017 for information regarding legal proceedings.

ITEM 1A. RISK FACTORS

There have been no material changes from the risk factors previously disclosed in the Company's Form 10-K for the fiscal year ended February 28, 2017.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

There were no shares of common stock repurchased during the three months ended August 31, 2017.

ITEM 6. EXHIBITS

<u>Exhibit Number</u>	<u>Description</u>
10.1	<u>Sale and Purchase Agreement dated June 25, 2017 between VOXX International (Germany) GmbH, Tyco Electronics Germany Holdings GmbH and Tyco Electronics Group S.A. (filed herewith).</u>
31.1	<u>Certification of Patrick M. Lavelle Pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act of 1934 (filed herewith).</u>
31.2	<u>Certification of Charles M. Stoehr Pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act of 1934 (filed herewith).</u>
32.1	<u>Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith).</u>
32.2	<u>Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith).</u>
101	The following materials from VOXX International Corporation's Quarterly Report on Form 10-Q for the period ended August 31, 2017, formatted in eXtensible Business Reporting Language (XBRL): (i) the Consolidated Balance Sheets, (ii) the Consolidated Statements of Operations and Comprehensive Income (Loss), (iii) the Consolidated Statements of Cash Flows, and (iv) Notes to Consolidated Financial Statements.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

VOXX INTERNATIONAL CORPORATION

October 10, 2017

By: /s/ Patrick M. Lavelle
Patrick M. Lavelle,
President and Chief Executive Officer

By: /s/ Charles M. Stoehr
Charles M. Stoehr,
Senior Vice President and Chief Financial Officer

Dated 25 June 2017

HIRSCHMANN CAR COMMUNICATION-GROUP

SALE AND PURCHASE AGREEMENT

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THIS AGREEMENT is dated 25 June 2017 and is made between:

- (1) **Voxx International (Germany) GmbH** with its business seat at Pulheim (Germany) and registered with the commercial register at the local court of Cologne under HRB 75918 (the **Seller 1**);
- (2) **Voxx International Corporation** with its business seat at Orlando, Florida (USA) and registered in the State of Delaware (USA) (the **Seller 2**, and together with the Seller 1 the **Sellers**);
- (3) **Tyco Electronics Germany Holdings GmbH** with its business seat at Bensheim and registered with the commercial register at the local court of Darmstadt under HRB 86154 (the **Purchaser**);

Sellers and Purchaser also each individually a **Party** and collectively the **Parties**;

and

- (4) **Tyco Electronics Group S.A.** with its business seat at Luxembourg and registered with the Luxembourg trade and companies register under number B123549 (the **Guarantor**).

WHEREAS

- (A) Car Communication Holding GmbH with its seat in Neckartenzlingen/Germany (the **Company**) is a company with limited liability (*Gesellschaft mit beschränkter Haftung*) duly existing in accordance with German law and registered with the commercial register of the local court of Stuttgart under HRB 723 556. The Company is the sole (direct and indirect) shareholder of companies (the **Subsidiaries**) as described in [Schedule 1](#).
- (B) The Seller 1 is the sole owner of all shares in the Company's share capital in the aggregate nominal amount of EUR 54,700.00 (collectively the **Shares**).
- (C) The Seller 2 is the sole shareholder of the Seller 1 and has granted a shareholder loan in the outstanding principal amount of EUR 4,788,211.98 to the Company, with an accruing interest rate of 8.5 % p.a. (the **Shareholder Loan**).
- (D) The Purchaser with its seat in Bensheim is a limited liability company duly existing in accordance with German law and registered with the commercial register at the local court of Darmstadt under HRB 86154.
- (E) The Guarantor with its seat in Luxembourg is a public limited liability company duly existing in accordance with Luxembourg law and registered with the Luxembourg trade and companies register under number B123549. The Guarantor is the sole shareholder of the Purchaser.
- (F) The Parties intend that
- the Seller 1 sells to the Purchaser, and the Purchaser purchases from the Seller 1, the Shares; and
 - the Seller 2 sells to the Purchaser, and the Purchaser purchases from the Seller 2, the [Shareholder Loan](#)

(such sales and transfers collectively the **Transaction**) subject to and in accordance with the provisions set forth in this sale and purchase agreement (the **Agreement**). The Transaction shall take economic effect amongst the Sellers and the Purchaser as well as the Guarantor as of the Closing Date (as defined below).

1 Definitions

AO means the German Tax Act (*Abgabenordnung, AO*)

Adjustment Amount shall have the meaning as set forth in clause 9.5

Affiliate means any entity controlled or under joint control as defined in clauses 15 et seqq. of the German Act on Stock Corporations (*Aktiengesetz*), as amended

Agreement shall have the meaning as set forth in Recital (F)

Annual Accounts 2017 shall have the meaning as set forth in clause 5.1 of [Schedule 6](#)

Annual Accounts HCC 2017 shall have the meaning as set forth in clause 5.2 of [Schedule 6](#)

BGB means German Civil Code (*Bürgerliches Gesetzbuch, BGB*)

Business Day means any day on which banks are open for business and money transfers in Frankfurt am Main, Germany

Cash means cash and cash equivalents (including all interest accrued thereon but excluding any cash provided by the Purchaser to Companies on or after Closing. For purposes of this definition, there shall be deducted from "cash": (i) any cash equivalents that are not able to be converted into cash within 60 days of the Closing Date, and (iii) any cash to the extent it is not freely usable because it is subject to restrictions, limitations or taxes on use or distribution by law, contract or otherwise.

Closing shall have the meaning as set forth in clause 7.1

Closing Date shall have the meaning as set forth in clause 7.1

Closing Date Accounts means the unaudited consolidated financial statements of the Company as of the Closing Date

Closing Net Working Capital means the consolidated Net Working Capital of the Companies as per the Closing Date

Closing Working Capital Adjustment means (i) if the Closing Net Working Capital exceeds the Target Net Working Capital, the amount, if any, by which the Closing Net Working Capital exceeds the Target Net Working Capital, which amount shall be expressed as a positive number; (ii) if the Closing Net Working Capital is less than the Target Net Working Capital, the amount, if any, by which the Target Net Working Capital exceeds the Closing Net Working Capital, which amount shall be expressed as a negative number, or (iii) if the Closing Net Working Capital is equal to the Target Net Working Capital, zero

Companies means collectively the Company and the Subsidiaries

Company shall have the meaning as set forth in Recital (A)

Company IC Debt Amount shall have the meaning as set forth in clause 5.1

Company IC Payables shall have the meaning as set forth in clause 5.1

Company Loan shall have the meaning as set forth in clause 5.2(b)

Competing Activity shall have the meaning as set forth in clause 21.2

Conditions Precedent shall have the meaning as set forth in clause 6.1

Enterprise Value shall have the meaning as set forth in clause 4.2 (a)

Estimated Closing Net Working Capital means the estimate of the management of the Company of what the consolidated Net Working Capital of the Companies will be at the Closing Date

Estimated Working Capital Adjustment means (i) if the Estimated Closing Net Working Capital exceeds the Target Net Working Capital, the amount, if any, by which the Estimated Closing Net Working Capital exceeds the Target Net Working Capital, which amount shall be expressed as a positive number; (ii) if the Estimated Closing Net Working Capital is less than the Target Net Working Capital, the amount, if any, by which the Target Net Working Capital exceeds the Estimated Closing Net Working Capital, which amount shall be expressed as a negative number, or (iii) if the Estimated Closing Net Working Capital is equal to the Target Net Working Capital, zero

EStG means the German Income Tax Act (*Einkommenssteuergesetz, EStG*)

Expert Arbitrator shall have the meaning as set forth in clause 9.4

Final Closing Date Accounts shall have the meaning as set forth in clause 9.3

Final Loan Purchase Price shall have the meaning as set forth in clause 9.6

Final Net Debt Balance shall have the meaning as set forth in clause 9.1 (b)

Final Purchase Price means the sum of the Final Shares Purchase Price and the Final Loan Purchase Price

Final Shares Purchase Price shall have the meaning as set forth in clause 4.1

Guarantor shall have the meaning as set forth in the Recitals

HCC shall have the meaning as set forth in clause 6.1 (e)

HCC IC Debt Amount shall have the meaning as set forth in clause 5.1

HCC IC Payables shall have the meaning as set forth in clause 5.1

HCC Loan shall have the meaning as set forth in clause 5.2(b)

HGB means the German Commercial Code (*Handelsgesetzbuch, HGB*)

Hirschmann Brand shall have the meaning as set forth in clause 15.8(c)(i)

Hirschmann's OE Business shall have the meaning as set forth in clause 21.1

Indebtedness means, without duplication: (i) the principal amount of any indebtedness for borrowed money, any accrued interest, prepayment premiums and other change-of-control costs and penalties related thereto (in particular all fees and penalties mentioned in clause 15.5); (ii) any guaranty of the foregoing; (iii) any obligations from finance or capital leases or sale and lease back arrangements, deferred purchase price or any other arrangements the purpose of which is to borrow money; (iv) hedging obligations, recourse obligations on factored debts and obligations under other derivative instruments; (v) bonuses payable in relation to the Transaction as well as any employer-related Taxes or contribution related thereto, or any amounts payable in connection with

the VOXX International Corporation Supplemental Executive Retirement Plan; and (vi) service and management fees payable to any of the Sellers or their Affiliates

IP-Rights shall have the meaning as set forth in clause 10.1 of Schedule 6

Key Employees shall have the meaning as set forth in clause 15.1 (k)

KStG means the German Corporate Income Tax Act (*Körperschaftsteuergesetz, KStG*)

Loan Adjustment Amount shall have the meaning as set forth in clause 9.6

Loan Agreement shall have the meaning as set forth in clause 5.2

Losses shall have the meaning as set forth in clause 15.4 (c)

Material Agreement shall have the meaning as set forth in clause 9.3 of Schedule 6

Net Debt Balance means the total consolidated Indebtedness of the Companies minus the total consolidated Cash of the Companies and determined in accordance with the accounting principles in Schedule 16. Schedule 2 contains a sample calculation for the Net Debt Balance.

Net Working Capital means the consolidated total current assets of the Companies minus the consolidated current liabilities of the Companies, determined in accordance with the accounting principles in Schedule 16. Schedule 2 contains a sample calculation for the Net Working Capital.

Party/Parties shall have the meaning as set forth in the Recitals

PLTA shall have the meaning as set forth in clause 15.4

PLTA Financial Statements shall have the meaning as set forth in clause 15.4 (a)

Pre Closing Date Period shall have the meaning as set forth in clause 12.2 (a)

Preliminary Loan Purchase Price shall have the meaning as set forth in clause 4.3

Preliminary Net Debt Balance shall have the meaning as set forth in clause 4.2 (b)

Preliminary Purchase Price shall have the meaning as set forth in clause 4.3

Preliminary Shares Purchase Price shall have the meaning as set forth in clause 4.2

Profits shall have the meaning as set forth in clause 15.4

Purchaser shall have the meaning as set forth in the Recitals

Release Letter shall have the meaning as set forth in clause 5.3

Relevant Tax Matter shall have the meaning as set forth in clause 12.4 (b)

Seller 1 shall have the meaning as set forth in the Recitals

Seller 2 shall have the meaning as set forth in the Recitals

Seller's Account shall have the meaning as set forth in clause 4.5

Seller's Knowledge means the actual knowledge (*positive Kenntnis*) of Ludwig Geis, Dr. Cornelia Ballwießer, Dr. Dirk Wendt, Gerhard Over, Heinz-Hermann Tiben, Dr. Klaus Breining, Peter Inzenhofer and/or the managing directors of the Seller 1 after due inquiry with the managing directors of the Company and HCC in respect of relevant facts or circumstances

Shares shall have the meaning as set forth in Recital (B)

Shareholder Loan shall have the meaning as set forth in Recital (C)

Signing Date means the day on which this Agreement has been recorded as a notarial deed

Subordination Agreement shall have the meaning as set forth in clause 5.3;

Subsidiaries shall have the meaning as set forth in Recital (A)

Target Net Working Capital means EUR 25,032,000 (in words: Euro twenty-five million and thirty-two thousand

Tax means any public imposition and public levies of any kind whatsoever, including but not limited to taxes (*Steuern*) in the meaning of Sec. 3 para. 1 through 3 AO, duties (*Abgaben*), public contributions (*Beiträge, Gebühren*), customs duties (*Zölle*), excise, and any other similar imposition, social security contributions (*Sozialversicherungsbeiträge*), repayment of investment grants (*Investitionszuschüsse and -zulagen*), repayment of subsidies (*Beihilfen*), de grouping and similar charges (in each case including equivalent impositions under the laws of any other jurisdiction, and irrespective of whether (i) owed as a primary liability (*Steuerschuld*) or as a secondary liability (*Haftungsschuld*), (ii) assessed, to be withheld or payable by law, or (iii) owed pursuant to a tax indemnification obligation (*Steuerumlagen*) or business, share sales and reorganization agreements), together with any interest or penalty including but not limited to any ancillary charges (*steuerliche Nebenleistungen*) within the meaning of section 3 para. 4 of the German Tax Code (AO) and equivalent impositions under the laws of any jurisdiction. For the avoidance of doubt: deferred taxes (*latente Steuern*) for accounting purposes, the increase, reduction or forfeiture of Tax Losses and similar notional tax losses that are no cash cost are not Taxes within the meaning of this definition

Tax Authority means any governmental authority in charge of imposing any Tax

Tax Benefit shall have the meaning as set forth in clause 12.2 (d)

Tax Indemnity Claim shall have the meaning as set forth in clause 12.2 (a)

Tax Litigation shall have the meaning as set forth in clause 12.4 (d)

Tax Losses shall have the meaning as set forth in clause 12.2 a (iv)

Tax Returns shall have the meaning as set forth in clause 12.4 (a)

Transaction shall have the meaning as set forth in Recital (F)

VoxxHirschmann Brand shall have the meaning as set forth in clause 15.8 (a)

Voxx's OE Business shall have the meaning as set forth in clause 21.1

2 Sale and Purchase of Shares

Subject to the terms set forth in this Agreement, the Seller 1 hereby sells (*verkauft*) the Shares to the Purchaser, and the Purchaser hereby purchases (*kauft*) the Shares from the Seller 1.

- 2.1 The Seller 1 shall assign and transfer (*abtreten*) with effect *in rem* (*mit dinglicher Wirkung*) the Shares to the Purchaser on the Closing Date in accordance with clause 7.2 (f) hereinafter.
- 2.2 The sale and purchase of the Shares shall occur with economic effect as of the Closing Date together with any and all rights pertaining to the Shares, including the right to receive dividends for periods as from the Closing Date and undistributed dividends for prior periods.
- 2.3 The Seller 1, waiving all requirements as to form and notice as prescribed by law and the articles of association of the Company with regard to the calling and conducting of a shareholders' meeting, hereby grants its consent to the sale and transfer of the Shares as set forth herein by way of a shareholders' resolution.

3 Sale of Shareholder Loan

- 3.1 Subject to the terms set forth in this Agreement, the Seller 2 hereby sells (*verkauft*) the Shareholder Loan to the Purchaser, and the Purchaser hereby purchases (*kauft*) the Shareholder Loan from the Seller 2.
- 3.2 The Seller 2 and the Purchaser agree that the Shareholder Loan sold and purchased hereunder is not assigned (*abgetreten*) by virtue of this Agreement but will be assigned (*abgetreten*) with effect *in rem* (*mit dinglicher Wirkung*) on the Closing Date by means of a separate assignment agreement in accordance with clause 7.2 (g) hereinafter.
- 3.3 The sale and purchase of the Shareholder Loan shall occur with economic effect as of the Closing Date together with any and all rights pertaining to the Shareholder Loan, including the right to receive interest for periods as from the Closing Date.

4 Purchase Price; Preliminary Purchase Price

- 4.1 The purchase price to be paid by the Purchaser to the Seller 1 for the Shares shall be the Preliminary Shares Purchase Price (as specified and defined in clause 4.2 below), adjusted as provided for in clause 9 below (such adjusted purchase price for the Shares the **Final Shares Purchase Price**).
 - 4.2 The preliminary purchase price to be paid by the Purchaser to the Seller 1 for the Shares shall be:
 - (a) EUR 148,500,000 (in words: Euro one hundred and forty-eight million and five hundred thousand) (the **Enterprise Value**);
-

- (b) minus any positive amount of Net Debt Balance as shown in the Sellers' best estimate of what the Net Debt Balance will be at the Closing Date, calculated consistently with the definitions of Cash and of Indebtedness and Schedule 2, to be delivered in writing to the Purchaser at the latest 5 Business Days prior to the Closing Date (such Net Debt Balance the **Preliminary Net Debt Balance**) or plus any negative amount of Preliminary Net Debt Balance, as the case may be;
- (c) minus the amount of EUR 14,264,972.39 (in words: fourteen million two hundred and sixty four thousand nine hundred seventy two 39/100 Euro) to be paid by the Purchaser pursuant to clause 7.2 (c) at Closing;
- (d) plus any positive amount of Estimated Working Capital Adjustment or minus any negative amount of Estimated Working Capital Adjustment, as the case may be,

each (b) and (d) as notified by the Seller 1 to the Purchaser no later than 5 Business Days prior to the Closing Date (the aggregate amount of (a), (b), (c) and (d) the **Preliminary Shares Purchase Price**). For the determination of the Preliminary Net Debt Balance and the Estimated Working Capital Adjustment, the respective amounts may only be taken into account once. For the avoidance of doubt, when determining the Preliminary Net Debt Balance (i) the principal amount of the Shareholder Loan as per Recital (C) plus accrued interest until and including the Closing Date shall be taken into account as a liability and (ii) clause 15.4 (d) shall apply. A sample calculation on the basis of the according numbers for the financial year ending 28 February 2017 is attached hereto as Schedule 2.

- 4.3 The purchase price to be paid by the Purchaser to the Seller 2 for the Shareholder Loan shall amount to the principal amount of the Shareholder Loan as per Recital (C) plus accrued interest until and including the Closing Date as notified by the Seller 2 to the Purchaser no later than 5 Business Days prior to the Closing Date (the **Preliminary Loan Purchase Price**). The Preliminary Loan Purchase Price and the Preliminary Shares Purchase Price shall collectively be referred to as the **Preliminary Purchase Price**.
 - 4.4 The Preliminary Purchase Price is a net amount excluding VAT. The Parties assume that no VAT will be payable. The Sellers shall not opt for VAT according to Sec. 9 para 1 German VAT Act or a similar provision under foreign laws.
 - 4.5 The Preliminary Purchase Price shall be paid in full at the Closing in Euro by way of wire transfer - to be credited on the same day - free of any costs and fees into the bank account of Seller 1 at Commerzbank AG (IBAN: DE28 3704 0044 0300 7143 00; BIC: COBADEFFXXX) or any other account notified by the Sellers to the Purchaser in writing at least three Business Days prior to the Closing Date (the **Seller's Account**). The Sellers may also notify up to three (3) accounts to the Purchaser (and all such accounts together shall then be deemed the Seller's Account), provided that Sellers (i) determine for each one of those accounts which portion of the Preliminary Purchase Price shall be paid onto such account and (ii) provide reasonably in advance the identity of account owner and wire instructions for those accounts. For the avoidance of doubt, Seller 2 herewith acknowledges that such payment onto the Seller's Account shall have fulfilment effect also with respect to Purchaser's obligation to pay the Preliminary Loan Purchase Price to Seller 2.
 - 4.6 In any case of a default on payment (*Zahlungsverzug*), the Preliminary Purchase Price shall bear default interest at the rate of twelve per cent (12 %) p.a. during the default period. Interest shall be calculated on the basis of actual days elapsed and a calendar year of 360 days and shall be paid together with the outstanding Preliminary Purchase Price in Euro by way of wire transfer free of any costs and fees into the Seller's Account.
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4.7 Any of the Purchaser's rights to set-off (*aufrechnen*) and/or to withhold (*zurückbehalten*) any payments due under this Agreement is hereby expressly waived and excluded.

5 Loan Agreement for Settlement of IC Accounts / Release Letter

- 5.1 As of 28 February 2017, (i) HCC owes intercompany loan payables in the total amount of EUR 6,054,163.96 (in words: six million fifty four thousand one hundred and sixty three 96/100 Euro) (the **HCC IC Debt Amount**) to the Company (the **HCC IC Payables**) and (ii) the Company owes intercompany loan payables in the total amount of EUR 14,264,972.39 (in words: fourteen million two hundred and sixty four thousand nine hundred seventy two 39/100 Euro) (the **Company IC Debt Amount**) to Seller 1 (the **Company IC Payables**).
- 5.2 The Parties shall procure that on or prior to the Closing, the Company and HCC as borrower enter into a loan agreement on the basis of a draft provided by the Purchaser (the **Loan Agreement**) with the following key terms:
- (a) Purchaser grants a loan as of Closing to HCC in the nominal amount equal to the HCC IC Debt Amount for the purpose of repaying the HCC IC Payables (the **HCC Loan**).
 - (b) Purchaser grants a loan as of Closing to the Company in the nominal amount equal to EUR 8,210,808.43 (in words: eight million two hundred and ten thousand eight hundred and eight 43/100 Euro) (which is the Company IC Debt Amount minus the HCC IC Debt Amount) for the purpose of repaying the Company IC Payables (the **Company Loan**).
 - (c) Other terms as reasonably suggested by Purchaser.
- 5.3 With respect to the Shareholder Loan, the Seller 2 and the Company have entered into a sub-ordination agreement (*Rangrücktritts- und Belassungserklärung*) with Baden-Württembergische Bank dated 26 November 2014 (**Subordination Agreement**) according to which Seller 2 is inter alia obliged not to transfer or encumber the Shareholder Loan and the Company is obliged not to allow any encumbrance or transfer of the Shareholder Loan. Seller 2 shall take all necessary measures to procure that Baden-Württembergische Bank releases Seller 2 and the Company from its obligations under the Subordination Agreement with effect on or prior to the Closing by way of a release letter (**Release Letter**).

6 Conditions Precedent

- 6.1 The Parties' obligations to carry out the actions for Closing as set forth in clause 7.2 shall be subject to the following conditions to Closing (the **Conditions Precedent**) being satisfied:
- (a) merger control clearance of the Transaction from the German Federal Cartel Office, the Austrian Competition Authorities (Federal Competition Authority, Federal Cartel Prosecutor, Cartel Court) and the Hungarian Competition Authority or any other authorities to which the merger envisaged by the Transaction is notified, or respective notice that the merger envisaged by the Transaction does not fulfil the criteria for prohibition has been obtained;
 - (b) receipt by Purchaser of the Sellers' best estimate of the Net Debt Balance of the Closing Date pursuant to clause 4.2 (b) and the Estimated Closing Net Working Capital and the resulting calculation of the Preliminary Shares Purchase Price by the Seller 1 in accordance with clause 4.2;
 - (c) receipt by the Purchaser of the calculation of the Preliminary Loan Purchase Price by the Seller 2 in accordance with clause 4.3;
 - (d) the articles of association of the Company have been amended to create a shortened fiscal year (*Rumpfgeschäftsjahr*) of the Company ending at the end of the Closing Date, and such amendment of
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- the Company's articles of association has been duly registered with the Company's commercial register and the competent Tax Authority has approved the change of the fiscal year for tax purposes;
- (e) the articles of association of Hirschmann Car Communication GmbH (**HCC**) have been amended to create a shortened fiscal year (*Rumpfgeschäftsjahr*) of HCC ending at the end of the Closing Date, and such amendment of HCC's articles of association has been duly registered with HCC's commercial register and the competent Tax Authority has approved the change of the fiscal year for tax purposes; and
 - (f) receipt by the Purchaser of the Release Letter or a certified copy thereof.
- 6.2 The Parties shall inform each other in writing without delay (*unverzüglich*) as soon as any of the Conditions Precedent has been satisfied or events or circumstances arise which may prevent any of the Conditions Precedent to be fulfilled.
- 6.3 The Condition Precedent under clause 6.1 (f) may be waived by the Purchaser (in whole or in part) by written notice to the Sellers. No other Conditions Precedent may be unilaterally waived by either Party.

7 Closing

- 7.1 The consummation of the Transaction (the **Closing**) shall take place
- (a) at the offices of Norton Rose Fulbright LLP, Taunustor 1 (TaunusTurm), 60310 Frankfurt, Germany on the last Business Day of the month in which the last of the Conditions Precedent has been fulfilled or waived, provided that if the last of the Conditions Precedent has been fulfilled or waived less than five Business Days before the last Business Day of the month, Closing shall take place on the last Business Day of the following month; or
 - (b) at any other time or place on which the Parties may mutually agree in writing;
- the end of the last day of the month in which the Closing takes place shall be the **Closing Date**.
- 7.2 At the Closing, the Parties shall simultaneously (*Zug um Zug*) execute and deliver the following documents or cause such documents to be executed and delivered and take the following actions or cause such actions to be taken simultaneously:
- (a) The Seller 1 shall deliver to the Purchaser duly executed resignation letters, effective on or before the Closing Date, of those members of the supervisory board, advisory board or any other board of any of the Companies who act as representatives of the Sellers or any of its Affiliates and who are listed in Schedule 17.
 - (b) The Purchaser shall pay the Preliminary Purchase Price as notified in accordance with clause 4.5 to the Seller's Account.
 - (c) The Purchaser shall disburse the Company Loan and the HCC Loan under the Loan Agreement by way of payment of the HCC IC Debt Amount to HCC and of the Company Loan to the Company.
 - (d) The Parties procure that HCC shall settle the HCC IC Payables by way of payment of the HCC IC Debt Amount to the Company.
 - (e) The Parties further procure that the Company shall settle the Company IC Payables by way of payment of the Company IC Debt Amount to Seller 1.
 - (f) The Seller 1 shall assign (*abtreten*), effective as of the Closing Date at midnight (*Mitternachtsgeschäft*), the Shares to the Purchaser by way of a separate transfer deed substantially as set forth in Schedule 3.
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- (g) The Seller 2 shall assign (*abtreten*), effective as of the Closing Date, the Shareholder Loan to the Purchaser by way of a separate assignment agreement substantially as set forth in Schedule 4.
- (h) The Seller 1 shall terminate the profit and loss transfer agreement between the Seller 1 on the one hand and the Company on the other hand dated 14 September 2012 with effect as of the end of the Closing Date.

8 Rescission Rights

- 8.1 In the event that one or several of the Conditions Precedent has or have not been satisfied within 90 calendar days after the Signing Date at the latest, each of the Parties shall be entitled to rescind from this Agreement (*Rücktritt vom Vertrag*) by written notice to the respective other Party with a copy to the acting notary provided that (i) the Sellers may exercise such right to rescind only jointly and (ii) such rescission may not be sought by a Party if the non-occurrence of the Closing is due to a grossly negligent or intentional (*grob fahrlässig oder vorsätzlich*) failure of such Party to comply with its respective obligations under this Agreement.
- 8.2 In the event that the Transaction should not have been authorized by the competent cartel authorities specified in clause 6.1 (a) within a period of 50 calendar days after the notification has been filed, then the rescission right granted in clause 8.1 shall arise only in the event that Closing has not occurred within six (6) months after Signing Date.
- 8.3 If this Agreement is rescinded in accordance with this clause 8, this Agreement shall cease to have force and effect and shall not create any binding obligation between the Parties except that the provisions as set forth in this clause 8, clause 16 (Guarantee), clause 19 (Confidentiality), clause 20 (Costs and Taxes), clause 23 (Notices), clause 24 (Applicable Law; Arbitration) and clause 25 (Other Provisions) shall remain in full force and effect.
- 8.4 Upon rescission, any of the Parties' claims shall be excluded as far as this is legally permissible except that Purchaser shall be liable for the Sellers' damages arising from the non-occurrence of Closing due to non-fulfilment of the Closing Condition specified in clause 6.1 (a) if the Purchaser has grossly negligently or intentionally (*grob fahrlässig oder vorsätzlich*) failed to duly and timely provide correct and complete information to the EU Commission, the German Federal Cartel Office or any other authorities to which the merger envisaged by the Transaction is notified.

9 Determination of Final Shares Purchase Price

- 9.1 The Final Shares Purchase Price shall be equal to
 - (a) the Enterprise Value;
 - (b) minus any positive amount of Net Debt Balance as of the Closing Date (the **Final Net Debt Balance**) or plus any negative amount of Final Net Debt Balance, as the case may be;
 - (c) minus the amount of EUR 14,264,972.39 (in words: fourteen million two hundred and sixty four thousand nine hundred seventy two 39/100 Euro) to be paid by the Purchaser pursuant to clause 7.2 (c) at Closing;
 - (d) plus any positive amount of Closing Working Capital Adjustment or minus any negative amount of Closing Working Capital Adjustment, as the case may be.
 - 9.2 For purposes of determination of the Final Net Debt Balance and the Closing Working Capital Adjustment, the Purchaser shall without delay, however in no event later than seventy-five (75) days after the Closing Date, cause the Company to prepare in accordance with US generally accepted accounting principles and, to the
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extent in line with US generally accepted accounting principles, consistent with the practice as reflected in Schedule 18, the Closing Date Accounts and to deliver them to the Parties together with a calculation of the Final Shares Purchase Price in accordance with clause 9.1. For the determination of the Final Net Debt Balance and the Closing Working Capital Adjustment, the numbers contained in the Closing Date Accounts (as amended pursuant to the provisions in clause 9.3 and/or 9.4 to be the Final Closing Date Accounts) shall be relevant. The calculation shall be made in accordance with the principles set forth in the last three sentences of clause 4.2.

9.3 If the Sellers do not object within thirty (30) Business Days after receipt of the Closing Date Accounts or confirm their agreement, those Closing Date Accounts shall be deemed to be approved as final and binding between the Parties. If and to the extent the Sellers do object and the Parties do not reach agreement within 20 (twenty) Business Days after such objections, all items in dispute shall, pursuant to clause 9.4, be referred to the Expert Arbitrator (as defined below) who shall decide on the issues with binding effect for the Parties (the accounts as deemed final or as decided upon by the Expert Arbitrator the **Final Closing Date Accounts**).

9.4 The expert arbitrator shall be a public accountant (*Wirtschaftsprüfer*) admitted to practice in Germany appointed jointly by the Sellers and the Purchaser. If an agreement on the appointment cannot be reached within ten (10) Business Days after the end of the 20 Business Day period referred to in clause 9.3, the Expert Arbitrator shall be appointed upon request of the Sellers and/or the Purchaser, as the case may be, by the President of the *Institut der Wirtschaftsprüfer in Deutschland e.V. (IDW)* in Düsseldorf (such expert arbitrator so appointed the **Expert Arbitrator**).

The Expert Arbitrator shall be bound by those items which neither the Sellers nor the Purchaser have objected to or on which the Sellers and the Purchaser have agreed; in its decision on the points in dispute the Expert Arbitrator shall not go beyond the range of difference of opinions between the Sellers and the Purchaser on each individual item. The Expert Arbitrator shall give both the Sellers and the Purchaser an opportunity to present their position on the disputed items.

The Expert Arbitrator shall then amend the Closing Date Accounts to reflect (i) the adjustments, if any, on which the Sellers and the Purchaser have agreed and (ii) those adjustments which the Expert Arbitrator has decided in the absence of agreement between the Sellers and the Purchaser. The Closing Date Accounts so amended by the Expert Arbitrator shall, for purposes of this Agreement, be final and binding upon the Parties and be deemed the Final Closing Date Accounts.

All costs and expenses of the Expert Arbitrator and of the proceedings thereunder shall be advanced by the Sellers on the one hand and the Purchaser on the other hand in equal amounts. Each of the Sellers and Purchaser shall bear its own costs and the costs of its advisers and counsel, except to the extent that the Expert Arbitrator decides otherwise. The Expert Arbitrator may decide in its equitable discretion upon the final allocation of its costs and expenses as well as the costs and expenses of the proceedings hereunder between the Sellers and/or the Purchaser, including reasonable fees and expenses of the Sellers and the Purchaser and their advisers and counsel in these proceedings, taking into account the decision and the original positions and motions of the Sellers and the Purchaser and applying, *mutatis mutandis*, Sec. 91 et seq. of the German Civil Procedure Code (*Zivilprozessordnung*).

- 9.5 Any difference between the Preliminary Shares Purchase Price and the Final Shares Purchase Price (such difference amount the **Adjustment Amount**) plus interest at a rate of 5 % p.a. since the Closing Date until and including the date of payment shall, within ten (10) Business Days after the Final Closing Date Accounts have been delivered to the Parties, be payable by Purchaser to the Seller 1 (if the Final Shares Purchase Price is higher than the Preliminary Shares Purchase Price) or by the Seller 1 to the Purchaser (if the Final Shares Purchase Price is lower than the Preliminary Shares Purchase Price).
- 9.6 The **Final Loan Purchase Price** shall be the principal amount of the Shareholder Loan plus accrued interest until and including the Closing Date, both as shown in the Final Closing Date Accounts. Any difference between the Preliminary Loan Purchase Price and the Final Loan Purchase Price (such difference amount the **Loan Adjustment Amount**) plus interest at a rate of 5 % p.a. since the Closing Date until and including the date of payment shall, within ten (10) Business Days after the Final Closing Date Accounts have been delivered to the Parties, be payable by the Purchaser to the Seller 2 (if the Final Loan Purchase Price is higher than the Preliminary Loan Purchase Price) or by the Seller 2 to the Purchaser (if the Final Loan Purchase Price is lower than the Preliminary Loan Purchase Price).

10 Sellers' Representations

- 10.1 During the preparation of the Transaction the Parties have exchanged comprehensive information enabling the Purchaser to thoroughly evaluate the Companies and their business activities under commercial, financial, technical, organizational, environmental, tax and legal aspects. The Purchaser had numerous discussions with the Companies' management, as well as site visits to the facilities operated by the Companies. The Purchaser confirms to the Sellers that (i) the Purchaser or its respective employees, agents or professional advisors, in compliance with applicable antitrust laws, have had full access to all information and documents contained in the data room provided for the Purchaser's information and as listed in Schedule 5, and (ii) the Purchaser has independently carried out such other reviews or investigations as the Purchaser may have considered necessary or appropriate, including the aforementioned information visits as the case may be. For documentation purposes the Parties have deposited with the recording notary a USB stick containing scanned copies of all documents that have been made available to the Purchaser prior to the Signing Date.
- 10.2 In addition to the Purchaser's independent research and investigations, if any, the Sellers represent vis-à-vis the Purchaser by way of independent guarantees (Sec. 311 para. (1) BGB) the information as set forth in Schedule 6 to be true and correct as of the Signing Date or as of such other date as expressly referred to in the respective clause; provided, however, that any representation of Seller 2 is explicitly restricted to the information as set forth in clause 1 and 4 of Schedule 6. The scope and content of each of Sellers' representations contained in Schedule 6 as well as the Sellers' potential liability arising thereunder shall be exclusively defined by the provisions of this Agreement (in particular the limitations on Purchaser's rights and remedies set forth in clause 11 below), which shall be an integral part of the Sellers' representations and none of the Sellers' representations shall be construed as a Seller's guarantee within the meaning of Sec. 443 and 444 BGB (*Garantie für die Beschaffenheit der Sache*).

11 Remedies for Breach of Sellers' Representations

- 11.1 If and to the extent a representation made pursuant to clause 10.2 proves to be incorrect, the relevant Seller shall be given the opportunity to restore the situation as described in the respective representation
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(*Naturalrestitution*). If the relevant Seller does not establish such status within an adequate period of time and in no event later than three (3) months after receipt of a specified notice describing in detail the respective incorrectness, then the relevant Seller shall pay upon the Purchaser's request to the respective company or, at the Purchaser's choice, to the Purchaser, the amount required to compensate for damages which result from such incorrect representation. However, any liability of the Sellers for indirect, incidental or consequential damages (*indirekte oder Folgeschäden*), internal administration and overhead costs, lost profits (*entgangener Gewinn*) or lost business opportunities (*entgangene Geschäftschancen*) is hereby expressly excluded unless protection against such indirect, incidental or consequential damages, lost profits or lost business opportunities constitutes the actual intent and purpose (*Sinn und Zweck*) of any of the respective warranty or representation. Any compensation amount shall be computed net of any proven advantages and benefits (including avoided losses, tax benefits and savings and increases in the value of any asset owned by the Companies (*Abzug neu für alt*) resulting from the incorrect representation (*Vorteilsanrechnung*)).

11.2 Any liability of the Sellers shall also be excluded

- (a) if claims of the Purchaser or the facts on which such claims are based have been known by the Purchaser or have been fairly disclosed to the Purchaser (including its officers, employees, representatives, agents or advisors and including within the information listed in Schedule 5), prior to the Signing Date; or
- (b) if the matter to which the claim relates has been provided for in the Closing Date Accounts but only to the extent such provision has reduced the Final Shares Purchase Price; or
- (c) to the extent the amount of the claim can be recovered from an existing insurance or would have been recoverable under any insurance policy as existing at Closing if the insurance coverage had been continued without change (including reasonable increases in the ordinary course, consistent with past practice); or
- (d) to the extent the amount of the claim is recovered from any third party; or
- (e) to the extent the Purchaser or following Closing any of the Companies has participated in causing (*mitverursacht*) such Purchaser's claim within the meaning of Sec. 254 para. (1) BGB or has failed to comply with its duty to mitigate damages pursuant to Sec. 254 para. (2) BGB; or
- (f) if any individual claim does not exceed EUR 100,000 (in words: one hundred thousand Euro) and to the extent the aggregate amount of all claims does not exceed 1.5 % of the Final Purchase Price, in which case only the amount exceeding the total sum of 1.5 % of the Final Purchase Price can be recovered (*Freibetrag*); or
- (g) to the extent any claims recoverable (whether individually or in the aggregate) amount (as far as a liability of Seller 1 is concerned) to more than 10% of the Final Shares Purchase Price and (as far as a liability of Seller 2, other than under clause 22, is concerned) to more than 10% of the Final Loan Purchase Price.

11.3 The limitations pursuant to clause 11.2 shall not apply to

- (a) claims in respect of guarantees made by each Seller in clause 1 through 4 of Schedule 6 with regard to the Shares and Shareholder Loan;
- (b) claims under clause 12.2 (Tax Indemnity) and/or
- (c) claims based on a Seller's fraud (*Arglist*) or willful misconduct (*Vorsatz*)

in which events the respective Seller shall be individually liable (*Teilschuldnerschaft*) for the full amount of the respective claims, but in any case limited to the Final Shares Purchase Price or the Final Loan Purchase Price attributable to the relevant Seller, as far as legally permissible.

- 11.4 The liability of the Sellers for claims raised by third parties against the Companies or the Purchaser (as the case may be) shall be excluded to the extent (i) the Purchaser has failed (x) to provide the Sellers with any and all information available insofar (including copies of all related correspondence), (y) to offer the Sellers adequate opportunity to participate, at Sellers' costs and expenses, in all proceedings necessary or appropriate to dispute and/or defend against such claims or (z) to duly defend against such claims as reasonably directed by the Sellers and (ii) such failure has increased the liability of the Sellers.
- 11.5 Any and all claims under this clause 11 shall be time-barred (*verjährt*) (i) 18 (eighteen) months after the Closing Date, except for claims based on clause 1, 2.1, 2.2, 2.4 and 4 of Schedule 6 which shall be time-barred five (5) years after the Closing Date, or (ii) any prior day following the Closing Date on which control over the Companies changes (i.e. the Companies cease to be the Purchaser's Affiliates). Section 203 BGB shall not apply.
- 11.6 The Parties agree that the rights and remedies the Purchaser may have with respect to the breach of a representation by the Sellers contained in this Agreement are limited to the rights and remedies explicitly contained herein and that, in particular, any and all damage claims based on any such breach by the Sellers are excluded except as set forth in this clause 11 and clause 12. Except for the claims for specific performance (*primäre Erfüllungspflichten*) as well as any rights and claims arising under the provisions of this agreement (including the tax provisions, covenants, the restrictive covenants and rescission rights), any and all rights and remedies of any legal nature which the Purchaser may otherwise have against the Sellers in connection with the former shareholdings of Seller 1 in the Companies or the Transaction shall be excluded. In particular, without limiting the generality of the foregoing, the Purchaser, to the extent legally permissible, hereby waives any claims under statutory representations and warranties (Sec. 434 et seqq. BGB), statutory contractual or pre-contractual obligations (Sec. 280 to 282, 311 BGB) or frustration of contract (Sec. 313 BGB) or tort (Sec. 823 et seqq. BGB); the Purchaser shall have no right to rescind, cancel or otherwise terminate this Agreement or to exercise any right or remedy which would have a similar effect, except for the rescission or termination rights specifically set forth in this Agreement, and the Purchaser undertakes to procure that none of the Companies raises any claims against the Sellers or any executive, employee or other representative of the Sellers not provided for in this Agreement. The provisions of this clause 11.5 shall not affect any mandatory rights and remedies of the Purchaser for fraud or wilful misconduct (*Vorsatz*), e.g., Sec. 826 BGB or Sec. 823 para. (2) BGB in connection with criminal offences.

12 Taxes

12.1 Tax Warranties

The Seller 1 represents and warrants to the Purchaser by virtue of an independent promise of guaranty (*selbständiges Garantieverprechen*) pursuant to Section 311 para. 1 of the German Civil Code (*BGB*) that except as disclosed in Schedule 13 and subject to the limitations as set out in clause 11 as of the date hereof

- (i) and as of the Closing Date, all Tax Returns required to be filed by the Companies on or before the Closing Date have been duly and timely filed with the appropriate Tax Authority;
 - (ii) to the Seller's Knowledge no claim has been made by any Tax Authority in a jurisdiction where any of the Companies does not file Tax Returns that any of the Companies is or may be subject to taxation by that jurisdiction;
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- (iii) and as of the Closing Date all of the Companies have timely paid all due and payable Taxes, and have timely withheld, declared and paid all withholding Taxes to the Tax Authorities;
- (iv) to the Seller's Knowledge no audit of any of the Companies by any Tax Authority is in progress, and none of the Companies has been notified by any Tax Authority that any such audit is contemplated;
- (v) none of the Companies has received any written Tax ruling (*verbindliche Auskunft*) or entered into or is currently under negotiations to enter into any agreement with any Tax Authority, each which will be relevant for a Tax position of any of the Companies after the Closing Date;
- (vi) that any Tax allocation agreements (*Steuerumlageverträge*) between the Sellers and the Companies, if any, end upon Closing; and
- (vii) there are no Tax-related minimum holding or watching periods (*steuerliche Halte- oder Sperfristen*) and no Tax-related notification requirement to be observed by any of the Companies after the Closing Date.

For the avoidance of doubt, the Parties agree that the scope and content of each of the representations and warranties of Seller 1 under this clause 12.1 as well as the potential liability of Seller 1 arising thereunder shall be exclusively defined by the provisions of this Agreement (in particular the limitations on Purchaser's rights and remedies set forth in clause 11 above), which shall be an integral part of the representations of Seller 1 and none of the representations of Seller 1 shall be construed as a Seller's guarantee within the meaning of Sec. 443 and 444 BGB (*Garantie für die Beschaffenheit der Sache*).

12.2 Tax Indemnity

- (a) Subject to, and limited by, the provisions set forth in this clause 12, Seller 1 shall pay to the Purchaser an amount equal to all Taxes of the Companies which are allocable to time periods or portions thereof ending on or before the Closing Date (such period the **Pre Closing Date Period**; Taxes allocable to time periods starting before the Closing Date and ending after the Closing Date shall be calculated (i) in the case of Taxes imposed on a periodic basis, the amount of such Taxes for the entire period multiplied by a fraction, the numerator of which is the number of days in the portion of the period ending on the Closing Date and the denominator of which is the total number of days in the entire period, and (ii) in the case of all other Taxes (e.g., Taxes imposed on income, profit and capital gain), as if such periods end on the Closing Date) (any payment claims of the Purchaser pursuant to this clause 12.2 the **Tax Indemnity Claim**).
 - (b) Clause 11 shall apply *mutatis mutandis* in case of a breach of a Tax warranty given by Seller 1 under clause 12.1, unless and to the extent the Purchaser has a Tax Indemnity Claim in which case clause 12.2 shall apply.
 - (c) The Purchaser shall have no Tax Indemnity Claim and no claim based on clause 12.2(b) if and to the extent
 - (i) the relevant Taxes do not exceed the aggregate amounts of all Tax liabilities and Tax provisions accounted for in the Closing Date Accounts to the extent such Tax liabilities and Tax provisions have reduced the Final Shares Purchase Price in accordance with clause 9;
 - (ii) the relevant Tax has been paid or discharged until the Closing Date;
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- (iii) the relevant Tax is the result of a transaction (including any corporate reorganisation pursuant to the UmwStG or a similar measure) initiated by the Purchaser or by any of the Companies or, as the case may be, by one of their successors to all or parts of their business(es) following the Closing Date with economic effect as of a point in time prior to the Closing Date, provided that such measure is not (x) carried out or effected with the prior written consent of the Seller, (y) required by mandatory law or (z) required pursuant to a legally binding commitment of the Companies created on or before the Closing Date;
 - (iv) the relevant Tax can be offset against Tax losses, Tax loss carry forwards, negative income, interest carry forwards or EBITDA carry forwards in the meaning of section 4h (1) EStG (the **Tax Losses**) that are or were available (including as a result of subsequent Tax audits) in the Pre Closing Date Period to which such Taxes are attributable to the extent such Tax Losses did not increase the Final Shares Purchase Price in accordance with clause 9;
 - (v) the relevant Tax is a result of any change in the accounting or taxation policies of any of the Companies introduced after the Closing Date with economic effect as of a point in time prior to the Closing Date, provided that such measure is not (x) carried out or effected with the prior written consent of the Seller, (y) required by mandatory law or (z) required pursuant to a legally binding commitment of the Companies created on or before the Closing Date;
 - (vi) the relevant Tax can be recovered from third parties; and
 - (vii) the procedures set forth in clause 12.4 were not observed by the Purchaser, unless the Purchaser proves that such breach of clause 12.4 has not caused the relevant Tax.
- (d) If and to the extent in respect of periods after the Closing Date, the Purchaser or any of the Companies or any successor to all or parts of their business(es) receives any Tax benefit as the result of circumstances which have been giving rise to a Tax Indemnity Claim or a claim based on clause 12.2(b) (including, but not limited to timing difference (*Phasenverschiebung*), extension of amortization or depreciation periods or higher depreciation allowances or non-recognition of expenses and/or provisions - the **Tax Benefit**), then the Tax Benefit shall reduce the Tax Indemnity Claim or the claim based on clause 12.2(b) to the extent that the relevant Tax Benefit has been realized in a cash effective manner (i.e., by way of receipt of a payment, by way of offset or by way of a reduction of a Tax that otherwise would have become payable) prior to or on the date on which the Tax Indemnity Claim or the claim based on clause 12.2(b) becomes due and payable or will be realized within seven (7) fiscal years after the Closing Date. Any Tax Benefit shall be computed as per the date when the Purchaser notifies Seller 1 of the Tax Indemnity Claim and shall (i) be equal to the nominal amount of the Tax Benefit to the extent the Tax Benefit has already been realized by that date, or (ii) to the extent any Tax Benefit is reasonably expected to arise in a cash effective manner after that date be calculated on the basis of a lump sum calculation by reference to the tax rates applicable on the date the Purchaser notifies Seller 1 of the Tax Indemnity Claim and for the avoidance of doubt without any discounting to a net present value.
- (e) Seller 1 shall pay to the Purchaser an amount equal to any Tax refund claims accounted for in the Closing Date Accounts which are not received on the basis of a non-appealable Tax assessment notice, but only if and to the extent such Tax refund claims have actually increased the Final Shares Purchase Price in accordance with clause 9 and have not been applied against a Tax Indemnity Claim of the Purchaser pursuant to clause 12.2 (a).
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- (f) Any indemnification payment to be made by the Seller 1 pursuant to clause 12.2 shall be due ten (10) Business Days after the Seller 1 has been notified by the Purchaser about the payment obligation, but in no event earlier than three (3) Business Days prior to the Date at which the relevant Tax falls due.
- (g) The limitations pursuant to Clause 11 shall not apply to claims under this Clause 12.2. The liability of Seller 1 for any claims of the Purchaser against Seller 1 under this clause 12.2 shall be limited to the amount of the Final Shares Purchase Price.

12.3 Tax Refunds, Reverse Indemnity

- (a) The Purchaser hereby undertakes to pay to the Seller 1 an amount equal to
 - (i) any Tax refund received by any of the Companies or any successor to all or parts of their business(es) by receipt of cash payment, set-off, deduction or otherwise relating to the Pre Closing Date Period, together with any interest thereon paid or credited by the Tax Authorities, net of any Taxes thereon, and only if and to the extent the aggregate of all such Tax refunds exceeds the respective tax refund claims reflected in the Closing Date Accounts that have increased the Final Shares Purchase Price in accordance with clause 9, and such Tax Refund does not give rise to additional Taxes of the Companies, the Purchaser, a party related to the Purchaser or any successor to all or parts of their business(es) (clause 12.2(d) shall apply *mutatis mutandis*);
 - (ii) any unused Tax liabilities or Tax provisions accounted for in the Closing Date Accounts which are reversed on the basis of a non-appealable Tax assessment notice, but only if and to the extent such Tax liabilities and Tax provisions have actually reduced the Final Shares Purchase Price in accordance with clause 9 and have not been applied against a Tax Indemnity Claim of the Purchaser pursuant to clause 12.2 (a); and
 - (iii) any Taxes which are imposed on the Seller 1 or a party related to the Seller 1 due to an increase of any of the Companies' taxable income which is attributed to the Seller 1 due to a tax group for corporate income tax (including solidarity surcharge) and trade tax purposes (*körperschaftsteuerliche und gewerbsteuerliche Organschaft*) if and to the extent such increase of taxable income results from (A) a reorganization or transaction having a Tax effect on a Pre Closing Date Tax Period initiated by the Purchaser, the Purchaser's affiliates or any of the Companies after the Closing Date, or (B) any change in accounting or taxation policies or practices (including the amendment of Tax returns) of any of the Companies after the Closing Date, or (C) any change in the exercise of any Tax election right introduced after the Closing Date, in each of these cases (A) through (C) provided that such measures are implemented with economic effect as of a point in time prior to the Closing Date, and provided that the respective measure is not (x) carried out or effected with the prior written consent of the Seller, (y) required by mandatory law or (z) required pursuant to a legally binding commitment of the Companies created on or before the Closing Date; clause 12.2(d) applies *mutatis mutandis* to any claims of the Seller under this clause 12.3(a)(iii);
 - (iv) any Taxes, including Tax prepayments (*Steuervorauszahlungen*) relating to periods after the Closing Date (or portions thereof) which have been paid by the Companies or parties related to the Companies for the account of any of the Companies on or prior to the Closing Date to the extent such Tax prepayments did not increase the Final Shares Purchase Price in accordance with clause 9;
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- (v) any Taxes, Tax prepayments (*Steuervorauszahlungen*) relating to periods after the Closing Date (or portions thereof) and payable by the Sellers or a party related to the Sellers for the account of any of the Companies to the extent such Tax prepayments did not increase the Final Shares Purchase Price in accordance with clause 9; and
 - (vi) any loss suffered by the Sellers which is caused by the Purchaser's failure to comply with any of its obligations set forth in clause 12.4.
- (b) The Purchaser shall notify the Seller 1 without undue delay in writing of the receipt of a Tax refund or the relevant decision by a Tax Authority on the reversal of any unused Tax liabilities or Tax provisions and any formal decisions of the Tax Authorities relevant in this respect.
 - (c) Any amount payable by the Purchaser pursuant to this clause 12.3 shall become due and payable within ten (10) Business Days after (i) receipt of the Tax refund or the relevant decision by a Tax Authority on the reversal of a Tax liability or Tax provision, or (ii) with respect to Taxes payable or losses suffered by the Seller 1 after written notification of the Purchaser by the Seller 1, but in no event earlier than three (3) Business Days prior to the Date at which the relevant Tax falls due.

12.4 Cooperation in Tax Matters

- (a) After the Closing Date, the Purchaser shall prepare and file (or cause the Companies to prepare and file), when due, all returns, declarations, reports, claims for refund, forms or notices relating to any Tax (herein **Tax Returns**) required to be filed by or on behalf of the Companies with respect to any Pre Closing Date Period. Such Tax Returns shall be prepared on a consistent basis, applying the same policies, procedures, election rights and practices as applied in the preparation of the Tax Returns for previous Tax periods of the relevant Company, to the extent these policies etc. do not breach mandatory law and do not contradict published decrees of the Tax Authorities without a respective disclosure to the Tax Authorities. The Purchaser shall provide, or cause the Companies to provide to Seller 1, drafts of such Tax Returns as timely prior to the relevant filing date as reasonably appropriate but in any event not later than twenty (20) Business Days prior to the due date of the relevant Tax Return in order to enable the Seller 1 to review such Tax returns and provide comments thereon to the Purchaser. All such Tax Returns and any amendments to all Tax Returns filed by the Companies which relate to any Pre Closing Date Period shall require the prior consent of the Seller 1 (which shall not be unreasonably withheld, and shall be deemed to have been granted if Seller 1 does not answer within twenty (20) Business Days following the receipt by Seller 1 of any such Tax Returns or amendments), and shall, if the Seller 1 and the Purchaser fail to reach an agreement thereon, be prepared and filed in accordance with Seller 1's instructions unless these instructions breach mandatory law, contradict published decrees of the Tax Authorities without a respective disclosure to the Tax Authorities or do not comply with past practice of the Companies.
 - (b) After the Closing Date, the Purchaser shall within five (5) Business Days after receipt provide (and cause the Companies to provide) the Seller 1 with copies of all Tax assessment notices (*Steuerbescheide*), other decisions, notices of any Tax audit, proceeding or investigation and any other material written communication with the Tax Authorities received by any of the Companies, the Purchaser or any of the Purchaser's affiliates from any Tax Authority or court and relating to Taxes of the Pre Closing Date Period and relevant for this clause 12 (the **Relevant Tax Matter**). Upon request of the Seller 1, the Purchaser shall provide reasonable information necessary to determine the relevant facts and amounts.
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- (c) The Purchaser shall procure that with respect to Relevant Tax Matters (i) the Seller 1 and the Seller 1's advisors are granted the right to participate in meetings, discussions and correspondence with the relevant Tax Authorities, including in connection with any Tax audits, (ii) all written questions or information requests by the Tax Authorities, including Tax auditors, are forwarded to the Seller 1 as soon as reasonably practical for the Seller 1's evaluation and comments and (iii) such comments - if reasonable - are duly incorporated by the relevant Company in its statement to the Tax Authority.
- (d) The Purchaser shall procure that, upon the request of the Seller 1 and at the expense of Seller 1, reasonable objections are filed and legal proceedings are instituted and conducted against any Tax assessments or other decisions of the Tax Authorities with respect to Relevant Tax Matters in accordance with Seller 1's directions. Alternatively, if and to the extent a Relevant Tax Matter relates to the German tax group for corporate income tax (including solidarity surcharge) and trade tax purposes (*körperschaftsteuerliche und gewerbsteuerliche Organschaft*) among the Seller 1 and the Company or the Company and HCC, the Seller may elect at any time to direct, through counsel of their own choice and at their own expense, any reasonable actions including legal remedies to be taken with respect to any audit, claim for refund and administrative or judicial proceeding involving any asserted liability with respect to any Relevant Tax Matter (collectively **Tax Litigation**). If the Seller elects to direct a Tax Litigation in accordance with the preceding sentence, then (i) the Purchaser shall cooperate and follow Seller's instructions and shall cause the Companies or their respective successors to cooperate and follow Seller's instructions in each phase of such Tax Litigation and (ii) the Purchaser shall as soon as reasonably practical empower, and shall cause the Companies or their respective successors promptly to empower, the designated representative of such Seller to represent the relevant Company or its successor in the Tax Litigation.
- (e) The Purchaser shall not (and shall ensure that the Companies will not) settle any Relevant Tax Matter or concede or give their consent to the findings of any Tax audit relating to a Relevant Tax Matter without the prior written consent of the Seller 1 (which shall not be unreasonably withheld, and shall be deemed to have been granted if Seller 1 does not answer within fifteen (15) Business Days).
- (f) After the Closing Date, the Purchaser and the Seller 1 shall fully cooperate, and shall cause the Companies and their representatives to fully cooperate, in all other respects in connection with all Relevant Tax Matters, including the preparation and filing of any Tax Return or the conducting of any audit, investigation, dispute or appeal or any other communication with any Tax Authority. Such cooperation shall include (but shall not be limited to) the review of all books, records and information, and the assistance of all officers and employees of the Companies, to the extent necessary in connection with Relevant Tax Matters. In addition, clause 17 shall apply accordingly.

12.5 Limitation Periods

Any and all claims under this clause 12 except any claims under clause 12.4 shall be time-barred (*verjährt*) six (6) months after the respective Tax assessment for the relevant entity of the Companies has become finally binding (*formell und materiell bestandskräftig*) or after a similar binding event in case of non-German Taxes, but no earlier than 6 (six) months after the Closing Date.

12.6 Exclusivity

For the avoidance of doubt: Unless explicitly provided otherwise in this clause 12, any claims under this clause 12 (including any limitations of such claims) shall exclusively be governed by this clause 12.

12.7 Any payment made in accordance with this clause 12 or any other section of this Agreement shall be treated as adjustment of the Final Shares Purchase Price and any payment made directly to any Company shall be treated as a short cut payment for a reduction of the Final Shares Purchase Price and a (direct or indirect) contribution to the capital reserve of the respective Company in the meaning of Sec. 272 (2) No. 4 HGB or corresponding provisions under the laws of foreign jurisdictions.

12.8 The Parties shall co-operate in order to achieve that a Tax audit for the Pre Closing Date Period will be carried out as soon as possible for all Companies.

13 Purchaser's Representations; Remedies

13.1 The Purchaser represents vis-à-vis the Sellers by way of independent guarantees (Sec. 311 para. (1) BGB) that at the Signing Date and, except for clause 13.1 (d), the Closing Date:

- (a) the Purchaser is a limited liability company, duly incorporated and validly existing under the laws of Germany and has all requisite corporate power and authority to own its assets and to carry out its business;
- (b) the execution and performance by the Purchaser of this Agreement and the consummation of the Transaction are within the Purchaser's corporate powers and have been duly authorized by all necessary corporate actions on part of the Purchaser;
- (c) the execution and performance by the Purchaser of this Agreement and the consummation of the Transaction neither violate the Purchaser's articles of association or bylaws nor any applicable law, regulation, judgment, injunction or order binding on the Purchaser, and there is no action, law suit, investigation or proceeding (except for merger control clearances, if any) pending against, or to the Purchaser's knowledge, threatened in writing against the Purchaser before any court, arbitration panel or governmental authority which in any manner challenges or seeks to prevent, alter or delay the Transaction; and
- (d) as of the Signing Date only, the Purchaser does not have actual knowledge of any facts or circumstances that could give rise to claims against the Sellers pursuant to clauses 10, 11 or 12.2 (b) in connection with clause 12.1.

13.2 In the event that any of the representations pursuant to clause 13.1 should be incorrect, the Purchaser shall fully indemnify and hold the Sellers harmless from any of the Sellers' respective damages. All claims for any breach of guarantees pursuant to this clause 13.2 shall become time-barred (*verjähren*) 18 (eighteen) months after the Closing Date.

14 Anti Trust Filings

14.1 The Purchaser has, inter alia based on information provided by the Sellers, (i) done a thorough analysis of the merger control filing requirements in the jurisdictions in which such filings may potentially be required, (ii) prepared respective draft filings and (iii) made such analysis as well as such draft filings available to the Sellers for review and comments. Based on this analysis, the Parties assume that the Transaction will be authorized without any conditions or other requirements (*Bedingungen oder Auflagen*) within the initial waiting period of 50 calendar days.

14.2 As soon as reasonably practical after the Signing Date, the Transaction shall be notified to the competent merger authorities specified in clause 6.1 (a). The notification shall be filed by the Purchaser on behalf of the Sellers and the Purchaser. The Purchaser shall further ensure that all other filings with, or notifications to, any

governmental authority required in connection with this Agreement will be made without undue delay at the pertinent time as required by law, provided that the Sellers reasonably comply, and procure that the Companies reasonably comply, with the obligations in the following sentence. The Sellers shall upon request submit to the Purchaser all documents and other information, and shall provide such other assistance to the filings, in each case as necessary and reasonably practical to obtain clearance of the Transaction as soon as possible.

- 14.3 In order to obtain all governmental authorizations for the consummation of the Transaction under the applicable merger control laws, the Purchaser and the Sellers shall (i) reasonably cooperate with each other in the preparation of any filings or notifications and in connection with any submissions, investigations or enquiries, (ii) supply to any governmental authority as soon as reasonably practical any additional information requested by such governmental authority or required pursuant to any applicable laws and take all other actions reasonably required to obtain the necessary authorizations for the consummation of the Transaction or to cause any applicable waiting periods to commence and to expire, (iii) promptly provide the other Party with copies of any written (or written summaries of any non-written) communication received or sent in connection with any proceeding referred to in this clause 14.3 and (iv) give the other Party and its respective advisors the opportunity to participate in all meetings, communications and conferences with any relevant governmental authority, to the extent legally permissible. The Purchaser is only entitled to withdraw any filings or to agree with any competent authority on an extension of the examination period for a filing if and to the extent the Sellers have granted their prior written consent not unreasonably to be withheld.
- 14.4 If and to the extent any governmental authority referred to in clause 6.1 (a) indicates that it intends not to authorize the Transaction, the Purchaser shall offer to such governmental authority any commitments (*Zusagen*) necessary in order to obtain clearance of the Transaction subject to conditions (*Auflagen und Bedingungen*). These shall include any and all measures which render the clearance of the Transaction by the respective governmental authority possible, in particular the divestiture of any businesses or parts thereof, to the extent this reduces the market shares attributable to the Purchaser and the markets in which the competent governmental authority expects the Transaction to lead to the creation or increase of a dominant market position (*marktbeherrschende Stellung*) to such extent that the respective governmental authority does no longer expect the creation or the increase of such dominant market position. If and to the extent the clearance of the Transaction is subject to the compliance with any such conditions, the Purchaser shall, however, be obliged to fulfil such conditions. The Purchaser may not request any adjustment or repayment of the Purchase Price or any other amendment of this Agreement as a result of (i) any divestiture or other action pursuant this clause 14.4, (ii) any legal consequences caused by the non-compliance with any filing requirements or (iii) any decision by a competent governmental authority, whether or not specified in clause 6.1 (a), taken after the Closing prohibiting the Transaction or any part thereof.
- 14.5 If the Conditions Precedent have been fulfilled but the Transaction has, due to still pending merger control proceedings in jurisdictions other than those referred to in clause 6.1 (a), not been cleared under the laws of such other jurisdiction, Closing shall be performed to the maximum extent legally permitted. The Purchaser shall agree to take, and/or consent to, all appropriate measures including the conclusion of a "hold separate agreement" for one or more Companies in order to have such Companies be exempted, for the time being, from the consummation of the Transaction until the pending clearances have been granted. The foregoing shall neither delay the Closing nor affect the obligation of the Purchaser to timely pay the full Preliminary Purchase Price.
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The Purchaser agrees and shall ensure that neither the Purchaser nor any of its Affiliates will, prior to the Closing Date, take any action that could prevent, delay or otherwise infer with any merger clearances of the Transaction.

16 Covenants

16.1 Between the Signing Date and the Closing Date, the Seller 1 shall (i) without the written consent of the Purchaser not sell, transfer or otherwise dispose of, or create any encumbrances on, the Shares, and (ii) use reasonable best efforts to ensure that (A) the Companies will conduct their respective operations and affairs in the ordinary course of business and exercise commercially reasonable best efforts to preserve intact their respective business organization, personnel and goodwill, except in either case for actions taken with the Purchaser's prior written consent, and to prepare for the consummation of the Transaction, and (B) with respect to any of the Companies none of the following shall occur without the written consent of the Purchaser:

- (a) any increase or decrease of the registered share capital or the redemption of any shares;
 - (b) any merger, split, dissolution, liquidation or other significant change of the corporate structure;
 - (c) any payment or resolution of a dividend or other distribution to shareholders (*sonstige Ausschüttungen an Gesellschafter*) except for (i) dividends or other distributions to the Companies and (ii) the payment of the Profits (as defined in clause 15.4 below) by the Company as per clause 7.2 (e);
 - (d) any acquisition or disposal of a business outside ordinary course of business;
 - (e) any incurrence or guarantee of any indebtedness for borrowed money (excluding drawings under existing loan and factoring agreements with financial institutions in the ordinary course of business necessary to carry out the business of the Companies as presently conducted) exceeding an aggregate amount of EUR 175,000 (in words: hundred and seventy five thousand Euro);
 - (f) the acquisition or sale of any fixed assets in each individual case with a value in excess of EUR 350,000 (in words: three hundred and fifty thousand Euro) and outside the ordinary course of business;
 - (g) any investments with a value in excess of EUR 350,000 (in words: three hundred and fifty thousand Euro);
 - (h) the termination by the Companies of supplier contracts or customer contracts with an annual contract volume of more than EUR 1 m (in words: one million Euro);
 - (i) the termination of any hedge agreements;
 - (j) the execution, change or termination of agreements for the lease (*Miete oder Pacht*) of material land and/or buildings;
 - (k) the termination by the Companies of the employment of any of the employees listed in Schedule 15 (the **Key Employees**);
 - (l) any change in, or commitment to change, any compensation or benefit of any of the employees whose annual salary (including performance-related payments, bonuses and any benefits) in the previous year exceeded EUR 175,000 (in words: hundred and seventy-five thousand Euro) other than in the ordinary course of business;
 - (m) any change in, or commitment to change, any compensation or benefit plan or collective agreement which will collectively apply to more than 10 employees within any of the Companies other than in the ordinary course of business;
 - (n) any increase of any off-balance sheet financing obligation;
 - (o) any payment to the Sellers other than in the ordinary course of business;
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- (p) any expenses for research and development projects or acquisition of tooling related fixed assets with a value in excess of EUR 1,000,000 (in words: one million Euro) in each individual case unless reimbursement by respective customers is contractually guaranteed;
- (q) the waiver of any claims of any of the Companies against any current or former directors and/or officers;
- (r) any material change, termination or entering into any Material Agreement;
- (s) any Tax election, any change in an annual accounting period for Tax purposes, any change in a method of accounting, any amended Tax Return, entering any closing agreement with respect to Taxes, settling any Tax claim or assessment, surrendering any claim to a refund or other reduction of Taxes or any extension or waiver of the limitation period applicable to any Tax Return or Tax claim or assessment;

provided that (i) all measures documented in the Companies' budget as set forth in Schedule 14 shall hereby be approved, and (ii) the Purchaser's consent as required under clauses 15.1 (a) through 15.1 (s) shall be deemed granted if the Sellers have not received the Purchaser's objection within five (5) Business Days after receipt by the Purchaser of a written (including email) notification by the Companies or the Sellers of any such measure. Between the Signing Date and the Closing Date, the Seller 1 shall, to the extent legally permissible, further inform the Purchaser before any of the matters described in lit. (p) above occur even if the thresholds of EUR 1,000,000 have not been reached and shall discuss such matter with the Purchaser in good faith.

16.2 The Seller 1 shall use reasonable best efforts to procure that the Companies and their respective businesses remain insured until the Closing Date in the same way as they are on the Signing Date and that all premiums due for such insurances are duly and timely paid. It is hereby acknowledged that it is in the sole discretion and responsibility of the Purchaser to arrange for the necessary or appropriate insurance for the time as from the Closing Date.

16.3 Until the Closing Date the Purchaser shall not directly contact any directors, officers or employees of the Companies. To the extent this is permissible by law, the Sellers shall procure that from the Signing Date the Purchaser or his advisors at the Purchaser's discretion is/are granted reasonable support (including access to the Companies coordinated and accompanied by the Sellers' advisors after approval by Seller 1), upon reasonable notice, during normal business hours to prepare for integration of the Companies. It is understood that no access granted to Purchaser hereunder shall unduly interfere with the operations of any of the Companies' business.

16.4 The Parties agree that the profit and loss transfer agreements (the **PLTA**) between (i) the Seller 1 and the Company and (ii) the Company and HCC shall still be executed as agreed for the periods until and including the Closing Date. With respect to the short fiscal year ending at the Closing Date, the Parties agree as follows:

The Purchaser shall procure that HCC transfers its attributable profits (*abzuführender Gewinn*) (the **Profits**) generated during the short fiscal year ending on the Closing Date to the Company or - in case of a loss situation - that the Company compensates such losses of HCC, in each case in accordance with the provisions of the PLTA between the Company and HCC and Sections 14 et seqq. of the German Corporate Income Tax Act (*Körperschaftsteuergesetz - KStG*).

With regard to the PLTA between the Seller 1 and the Company the following shall apply:

- (a) The Purchaser shall procure (i) that the Company prepares after the Closing Date the financial statements of the Company as per the end of the shortened fiscal year ending on the Closing Date in accordance with the German Commercial Code (HGB), applied consistently with past practice, (ii) that such financial statements will be audited and attached by an unqualified audit opinion in the meaning of Section 322 para 3 HGB by a public certified accountant and approved by the Purchaser as shareholder of the Company (such financial statements so audited, attached by an unqualified audit opinion and approved the **PLTA Financial Statements**) within six months after the Closing Date, and the Purchaser shall further procure that the PLTA Financial Statements will be delivered to Seller 1 within 10 Business Days after the aforementioned shareholder resolution about the approval of the PLTA financial statements has been adopted. All costs and expenses associated with the audit of the PLTA Financial Statements which are incurred by the Companies prior to the date on which the Final Net Debt Balance is determined shall be treated as Indebtedness when determining the Final Net Debt Balance. The Seller 1 shall indemnify the Purchaser for any costs and expenses associated with such audit which are incurred by the Companies on or after the date on which the Final Net Debt Balance is determined.
- (b) To the extent the PLTA Financial Statements show Profits of the Company, the Profits shall, within ten (10) Business Days after the PLTA Financial Statements have been delivered to the Parties, be paid out by the Company to the Seller 1 and the Seller 1 shall pay the amount of the Profits to the Purchaser (such Profits to be treated as a reduction of the Final Shares Purchase Price). However, the Parties agree that the Company may pay out the Profits directly to the Purchaser for the account (*für Rechnung*) of the Seller 1 on its obligation to pay the amount of the Profits to the Purchaser with debt-discharging effect (*mit schuldbefreiender Wirkung*) for the Company with regard to the obligation of the Company to pay out the profits pursuant to Section 291 para 1 German Stock Corporation Act (AktG) to the Seller 1 and with debt-discharging effect for the Seller 1 with regard to the obligation of the Seller 1 to pay the amount of the Profits to the Purchaser (*abgekürzter Zahlungsweg*).
- (c) To the extent the PLTA Financial Statements show attributable losses (*zu übernehmender Verlust*) of the Company (the **Losses**), the Purchaser shall pay the amount of the Losses to the Seller 1, and the Losses shall, within ten (10) Business Days after the PLTA Financial Statements have been delivered to the Parties, be compensated by the Seller 1 to the Company (such Losses to be treated as an increase of the Purchase Price). However, the Parties agree that the Purchaser may pay the amount of the Losses directly to the Company for the account of the Seller 1 on its obligation to compensate the Company for its Losses pursuant to Section 302 para 1 AktG with debt-discharging effect for the Purchaser with regard to the obligation of the Purchaser to pay the amount of the Losses to the Seller 1 and with debt-discharging effect for the Seller 1 with regard to the obligation of the Seller 1 to compensate the Company for its Losses pursuant to Section 302 para 1 AktG (*abgekürzter Zahlungsweg*).
- (d) (i) Any unsettled claim of the Company under the PLTA for the compensation of Losses or any unsettled obligation of the Company to transfer Profits to Seller 1, (ii) the Company IC Payables and the HCC IC Payables, and (iii) any obligations or rights of or loan amount received by the Company or HCC under the Loan Agreement, shall not be taken into account (as liability, cash, receivable or otherwise) when determining the Preliminary Net Debt Balance, the Final Net Debt Balance, the Estimated Working Capital Adjustment and/or the Closing Working Capital Adjustment.
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- 16.5 In the event that a Tax Authority claims that there is an error in the meaning of Section 14 para 1 No. 3 c) KStG in any of the financial statements relevant for the determination of a Profit or Loss under any PLTA, the Purchaser undertakes to correct the respective error in accordance with Section 14 para 1 No. 3 KStG and (x) with respect to the PLTA between the Company and HCC, the Purchaser shall procure that the respective unsettled Profits or Losses will be settled, and (y) with respect to the PLTA between the Seller 1 and the Company the Purchaser undertakes that the respective unsettled Profits or Losses will be settled in accordance with the principles in clause 15.4 (b) and (c) which shall apply *mutatis mutandis*.
- 16.6 The Seller 1 shall provide reasonable assistance (and ensure that the Companies provide reasonable assistance) to the Purchaser in respect to, and in connection with, all loan or facility agreements of the Seller 1 and each Company with any lender and all factoring agreements and agreements for capital leases in order to release any security granted thereunder, provide any notices and pay-off and cancellation letters thereunder, pay-off any amounts due thereunder and terminate the respective agreements with effect as of or prior to the Closing Date and subject to the occurrence of the Closing. All fees and penalties associated with such termination which are incurred by the Companies prior to the date on which the Final Net Debt Balance is determined shall be treated as Indebtedness when determining the Final Net Debt Balance. The Seller 1 shall indemnify the Purchaser for any reasonable costs and expenses associated with such termination which are reasonably incurred by the Companies on or after the date on which the Final Net Debt Balance is determined. The Seller 1 shall hold the Purchaser harmless for any loss resulting from the fact that despite the reasonable assistance of the Seller 1 and the reasonable efforts of the Purchaser to terminate any loan or facility agreements of each Company with any lender, any factoring agreement or any agreement for capital lease such contracts could not be terminated.
- 16.7 Unless otherwise instructed by the Purchaser in writing in a legally permissible way, prior to or at, and subject to the occurrence of, the Closing Sellers shall terminate any agreements between any of the Companies and the Sellers or their other Affiliates without any cost or liability to the Purchaser or the Companies.
- 16.8 Voxx/Hirschmann
- (a) Subject to clause 15.8 (b), from the Closing Date, the Sellers shall, and shall procure that their Affiliates shall, use the trademark, service mark or brand "VoxxHirschmann", whether registered, applied for or neither of the two (**VoxxHirschmann Brand**), anywhere in the world only for the purpose of the production, sale and delivery of products under (i) existing orders of or (ii) contracts with existing customers or (iii) bids or quotes placed before or at the Closing Date in accordance with past practice, but not for any other purpose (including, for the avoidance of doubt, any production, sale and delivery of products to (i) old customers (i.e., customers which at the Closing Date already were customers) which were not firmly committed under existing orders or contracts at the Closing Date or not offered in bids or quotes placed before or at the Closing Date or (ii) new customers (i.e., customers which were not yet customers at the Closing Date and with which no bids or quotes have been placed before or at the Closing Date)) provided that the VoxxHirschmann Brand shall not appear on any actual product.
- (b) The Sellers shall, and shall procure that their Affiliates shall, from the second anniversary of the Closing Date on, cease to use the VoxxHirschmann Brand completely anywhere in the world. In addition the Sellers shall procure cancellation of the VoxxHirschmann Brand with effect from the second anniversary of the Closing Date and shall procure that as soon as reasonably practical after the Closing Date, but in any event prior to the second anniversary of the Closing Date, their Affiliates the company name of which includes the word "Hirschmann" or a word confusingly similar to the word "Hirschmann" change their
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respective company name so that it does no longer include the word "Hirschmann" or a word confusingly similar to the word "Hirschmann".

- (c) From the Closing Date, the Sellers shall, and shall procure that their Affiliates shall,
- (i) not use any trademark, service mark or brand, whether registered, applied for or neither of the two, which includes the word "Hirschmann" or a word confusingly similar to the word "Hirschmann" (**Hirschmann Brand**), including as part of a company name, anywhere in the world, except as allowed in respect of the VoxxHirschmann Brand pursuant to clause 15.8 (a) and clause 15.8 (b) above or unless otherwise agreed with the Purchaser in writing;
 - (ii) not grant or purport to grant any right or licence to a third party to use the Hirschmann Brand or transfer any rights in the VoxxHirshmann Brand to a third party, unless otherwise agreed with the Purchaser in writing;
 - (iii) not apply for registration of, register, or otherwise seek to obtain any rights in, the Hirschmann Brand; and
 - (iv) neither contest the right of the Companies and their Affiliates to use or have used nor attack the Hirschmann Brand, unless the relevant trademark, service mark or brand of the Hirschmann Brand includes a word or a word that is confusingly similar with a registered trademark or service mark of the Sellers or their relevant Affiliate other than the word "Hirschmann" or a word confusingly similar to the word "Hirschmann".

16.9 The Purchaser shall procure and guarantees that the Shareholder Loan shall not be, neither fully nor in part and neither directly nor indirectly, repaid or otherwise fulfilled (*erfüllt*) prior to the lapse of a period of one year after the Closing Date, and Purchaser shall not accept any payment of the Company or third parties on the Shareholder Loan within said one year period.

16 Guarantee

The Guarantor hereby guarantees by way of an independent guarantee (Sec. 311 para. (1) BGB) the proper fulfilment of all of the Purchaser's obligations pursuant to this Agreement, including the due payment of the Final Shares Purchase Price and the Final Loan Purchase Price.

17 Access to Documents

The Purchaser shall procure that following the Closing Date all of the Companies will maintain proper books and records of all of their business matters and make such information or documents relating to the period until and including the Closing Date available to the Sellers or their legal successors as reasonably requested by the Sellers or their legal successors in good faith and to the extent required to safeguard their interests in respect of their former position as the Company's shareholder and creditor. The Sellers shall make such information or documents available to the Purchaser if required for any procedure involving any of the Companies.

18 Joint Statement

Unless otherwise required by law or stock market rules or regulations, at the date to be jointly determined by the Parties, the Sellers and the Purchaser shall issue a joint statement to the employees, customers, other of the Companies' business partners and to the public announcing the Transaction.

19 Confidentiality

The contents hereof shall be kept fully confidential by all parties hereto, except that they may be disclosed

- (a) to the Companies, or
- (b) to professional advisors of each party who are subject to professional duties of confidentiality, or
- (c) in the course of the Parties' disclosure to fiscal or other (in particular stock exchange) authorities to the extent such disclosure is mandatory or advisable in the reasonable judgement of the disclosing Party, or
- (d) in a statement pursuant to clause 18 above or
- (e) in any other way as mutually agreed by the Parties.

20 Costs and Taxes

Advisors', brokers' or representatives' fees incurred in connection herewith shall be borne by the respective Party which has incurred the fees. All transfer Taxes resulting from the execution and consummation of this Agreement, including without limitation real estate transfer taxes (*Grundenwerbsteuern*), stamp duties, withholding Taxes, value added taxes, sales taxes and similar Taxes, shall be borne by the Purchaser to the extent they do not create a Tax Benefit for the Sellers. Taxes imposed by reference to the Sellers' income, profit or capital gain shall be borne by the respective Seller; clause 12 shall prevail. The costs for the notarization of this Agreement shall be borne by the Purchaser. For the avoidance of doubt advisors', brokers' or representatives' fees and other transaction costs in connection herewith by any of the Companies shall be borne by the Sellers. Any costs in relation to implementing the change in the fiscal year (including any costs for the audit of financial statements of the Company and HCC for the fiscal year ending at the Closing Date) shall be borne by the Sellers.

21 Non-Compete and Non-Solicitation

- 21.1 The Parties acknowledge that as of the date hereof the Company and the Subsidiaries are engaged in the following OE businesses: Development, production, manufacture and distribution of automotive antennas, multi-tuners for third party infotainment manufacturers, E-Hub and asset tracking devices for commercial transportation industries (**Hirschmann's OE Business**). The Parties also acknowledge that as of the date hereof Seller 2 and its subsidiaries and affiliates (the **Seller Parties**) are engaged in the following vehicular OE businesses: Development, production, manufacture and distribution of rear seat and overhead infotainment products, remote car starters, keyless entry devices, security devices, E-FOB (phone as a key) and EVO streaming products and directly related antennas and reception products (**Voxx's OE Business**).
- 21.2 For a period of two (2) years from the Closing Date, Sellers shall refrain and shall procure that the Seller Parties shall refrain from engaging, directly or indirectly, in competition with Hirschmann's OE Business, as currently conducted or as currently actually planned and documented to be conducted (any of such business activities, a **Competing Activity**). Notwithstanding the foregoing, it is expressly understood and agreed that the Seller Parties' continued operation of any of Voxx's OE Business shall not be deemed a Competing Activity for any and all purposes hereunder.
- 21.3 In the case of a breach by Sellers of the obligations set forth in clause 21.2, the damages of Purchaser for which Sellers shall be liable as a result thereof shall include, without limitation, any damages suffered by the Companies.
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21.4 For a period of two (2) years from the Completion Date, Sellers shall refrain, and shall procure that the Affiliates of Sellers refrain, from:

- (a) influencing or attempting to influence any customer, supplier, consultant or other third party maintaining a contractual or other business relationship with any of the Companies to terminate or discontinue such relationship or to reduce the volume of goods or services provided thereunder; or
- (b) soliciting or attempting to solicit the service or employment of any current or future director, officer or employee of any of the Companies.

21.5 Clause 21.3 shall apply mutatis mutandis to a breach of the obligations set forth in clause 21.4.

21.6 The Parties understand and agree that in the case of a breach by Sellers of the obligations set forth in this clause 21, the remedies available to the Purchaser under this Agreement may not be sufficient to indemnify Purchaser and the Companies fully against all damage, and that therefore Purchaser shall be entitled to enforce any claims for specific performance (*Unterlassungs- und Beseitigungsansprüche*) by injunctive relief (*einstweiliger Rechtsschutz*) without, as far as legally permissible, having to establish irreparable harm and, as far as legally permissible, without having to provide a bond or other collateral (*ohne Sicherheitsleistung*).

22 Sellers' Liability

The liability of Seller 1 under or in connection with this Agreement shall be several and not joint (*Teilschuldnerschaft*). The Seller 2 hereby guarantees by way of an independent guarantee (Sec. 311 para. (1) BGB) the proper fulfilment of all of the obligations of Seller 1 pursuant to this Agreement. For the avoidance of doubt, any exclusions and limitations applicable to the liability of Seller 1 shall apply to the liability of Seller 2 under this guarantee accordingly.

23 Notices

All notices and communications required or permitted hereunder or under the agreements or other documents referred to herein shall be in the English language, in writing and, unless otherwise provided for in this Agreement, shall be deemed to have been duly received when delivered in person or when received by telegram or facsimile transfer (confirmed in writing by mail) or received by registered letter with return receipt requested by the appropriate Party at the address specified in the head of this Agreement or to such other address or addresses as any such Party may, from time to time, designate by like notice. All notices shall be made

- (a) If to the Sellers: Voxx International Corporation
Attn.: Patrick M. Lavelle
Attn.: C. Michael Stoehr
180 Marcus Boulevard
Hauppauge, NY 11788
USA
Facsimile: +1 631 231 1370
with a copy to:

Levy Stopol & Camelo LLP

Attn.: Larry N. Stopol, Esq.

1425 RXR Plaza

Uniondale, NY 11556-1425,

USA

Facsimile: +1 516 802 7008

and

Norton Rose Fulbright (Germany) LLP

Dr. Klaus von Gierke

Bleichenbrücke 10 (Kaufmannshaus)

20354 Hamburg

Germany

Facsimile: +49 40 970 799 111

(b) If to the Purchaser or Guarantor:

Jeanne Quirk and John Jenkins

c/o TE Connectivity Ltd.

1050 Westlakes Drive

Berwyn, PA 19312

USA

Facsimiles: +1 610 893 9682 and +1 610 893 9602

with a copy to:

Freshfields Bruckhaus Deringer LLP

Attn.: Dr. Arend von Riegen

Bockenheimer Anlage 44

60322 Frankfurt am Main

Germany

Facsimile: +49 69 23 26 64

24 Applicable Law; Arbitration

- 24.1 This Agreement shall be governed by and shall be construed in accordance with the laws of the Federal Republic of Germany without giving effect to the choice of law principles thereof which would result in the application of the laws of another jurisdiction.
- 24.2 All disputes arising in connection with this Agreement or its validity shall be finally settled according to the Arbitration Rules of the German Institution of Arbitration e.V. (DIS) without recourse to the ordinary courts of law.
- 24.3 The place of arbitration is Frankfurt am Main. The arbitral tribunal consists of three arbitrators. The substantive law of the Federal Republic of Germany is applicable to the dispute. The language of the arbitral proceedings is English.

25 Other Provisions

- 25.1 Any transfer or assignment (*Abtretung*) of rights existing pursuant to this Agreement shall only be admissible with the other Parties' consent. Any rights of retention (*Zurückbehaltung*) or rights to offset (*Aufrechnung*) shall only be permissible where the respective counterclaims have been duly confirmed by final and non-appealable (*rechtskräftig*) decision by a competent court or arbitration panel.
- 25.2 This document and the Schedules referred to herein contain all agreements among the Parties in regard of the subject matter hereof and shall supersede all prior agreements, including the indicative and binding offers submitted by or on behalf of the Purchaser. No side or other agreements have been entered into among the Parties with regard to the subject matter of this Agreement except as explicitly stated otherwise in this Agreement.
- 25.3 All agreements among the Parties and any and all notices among the Parties shall be made in writing unless a stricter form is required by mandatory law. This shall also be applicable with regard to the amendment of this clause.
- 25.4 In the event any provision hereof is for any reason held to be or become invalid or unenforceable, the validity of the remaining provisions hereof shall not be affected or impaired thereby. Instead of the invalid or enforceable provision hereof, such valid and enforceable provision shall be deemed to be agreed upon which most closely corresponds to the intended economic purpose of the invalid or unenforceable provision. The same shall apply to any supplementary interpretation of any of the terms of this Agreement.
- 25.5 The terms printed in *italics* in this Agreement constitute legal terms expressed in the German language describing the meaning of the terms in the English language they refer to, and shall be taken into account when interpreting this agreement.

* * *

Schedule 6

Sellers' Representations

1 Due Authorization

- 1.1 The execution, delivery and performance of this Agreement by each of the Sellers and the consummation of the Transaction are within corporate powers of each of the Sellers and have been duly authorized by all necessary
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corporate actions of each of the Sellers and the Agreement is legally valid, binding and enforceable against each of the Sellers at its terms.

- 1.2 The execution and performance by the Sellers of this Agreement and the consummation of the Transaction neither violate the articles of association or by-laws of any of the Sellers or the Company nor any judgment, injunction or order binding on the Sellers or the Company, and there is no action, lawsuit, investigation or proceeding (except for merger control clearances, if any) pending against, or to the Seller's Knowledge, threatened in writing against the Sellers or the Company before any court, arbitration panel or governmental authority which in any manner challenges or seeks to prevent, alter or materially delay the Transaction.

2 The Companies

- 2.1 As of the Closing Date, each of the Companies is duly incorporated or formed and validly existing under the laws of its jurisdiction of incorporation or formation and has all requisite corporate power and authority to own its assets and to carry out its business.
- 2.2 As of the Closing Date, none of the Companies holds any material interest in any company or other entity other than any company or entity of the Companies or as set forth in Schedule 7. The Company or a Subsidiary owns, beneficially and of record, all of the outstanding capital stock of each Subsidiary free and clear of all encumbrances.
- 2.3 As of the Closing Date, none of the Companies is a party to any agreement which would permit any third party (other than any entity of the Companies) to control such company or obligate it to transfer all its profits to any such third party.
- 2.4 As of the Closing Date, no bankruptcy or insolvency proceedings are pending, have been applied for by any of the Companies or to the Seller's Knowledge by any third party or have been rejected because of a lack of assets with respect to any of the Companies. To the Seller's Knowledge there are no circumstances that would require the opening of such proceedings. To the Seller's Knowledge none of the Companies has ceased or suspended payments, and no debt settlement arrangement with respect to any of the Companies has been proposed or approved other than in the ordinary course of business.

3 The Shares; Shares in Subsidiaries

- 4.1 The Shares are validly issued. As of the Closing Date, the Seller 1 is the sole and unrestricted legal and beneficial owner of the Shares. The Company is, directly or indirectly, the sole and unrestricted legal and beneficial owner of all of the shares in the Subsidiaries as stated in the table set forth in Schedule 1, and those shares in the Subsidiaries are validly issued.
- 4.2 As of the Closing Date, the Shares and the shares in the Subsidiaries are free and clear of any liens or encumbrances, and there are no pre-emptive rights, rights of first refusal, options or other rights of any third party to purchase or acquire the Shares, other shares in the Company or the shares in the Subsidiaries.
- 4.3 As of the Closing Date, the Shares and the shares in the Subsidiaries are fully paid, not repaid and non-assessable (*i.e.* there is no shareholder obligation to make an additional capital contribution).

4. The Shareholder Loan

- 4.1 As of the Closing Date, the Seller 2 is the rightful claimant to the Shareholder Loan. The principal amount of the Shareholder Loan and the accruing interest rate are as stated in Recital (C). As of the Signing Date, the principal
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amount of the Shareholder Loan amounts to EUR 4,788,211.98 (in words: Euro four million seven hundred eighty eight thousand two hundred and eleven 98/100).

4.2 As of Closing, the Seller 2 will have the right to transfer the Shareholder Loan.

5. Financial Statements and US GAAP Financial Information

5.1 The individual financial statements of the Company as per 28 February 2017 (the **Annual Accounts 2017**) have been duly prepared consistent with past practice and otherwise in accordance with German generally accepted accounting principles and give a true and fair view of the Companies' net assets, financial position and results of operations pursuant to Sec. 297 para. (2) HGB as per the accounts' date. At Closing, the Annual Accounts 2017 will have received an unqualified review opinion (*Bescheinigung nach prüferischer Durchsicht des Jahresabschlusses*) by Warth & Klein Grant Thornton AG, Düsseldorf.

5.2 The individual financial statements of HCC as per 28 February 2017 (the **Annual Accounts HCC 2017**) have been duly prepared consistent with past practice and otherwise in accordance with German generally accepted accounting principles and give a true and fair view of HCC's net assets, financial position and results of operations pursuant to Sec. 297 para. (2) HGB as per the accounts' date. At Closing, the Annual Accounts HCC 2017 will have received an unqualified audit opinion by Warth & Klein Grant Thornton AG, Düsseldorf.

5.3 The US GAAP pro forma financial information as set out in Schedule 18 has been duly prepared consistent with past practice and otherwise in accordance with US generally accepted accounting principles and give, on a consolidated basis, a true and fair view of the Companies' net assets, financial position and results of operations as per the accounts' date.

6. No distribution except under PLTAs

From 1 March 2017 and until the Closing Date, there has not been and there will not be any declaration, setting aside or payment of dividends or other distribution by any of the Companies to the Seller 1 or repurchase, redemption or other acquisition by any of the Companies of any outstanding shares of the capital stock or other securities of, or other ownership interest in, any of the Companies from the Sellers, save for the execution of the PLTAs as agreed for the periods until and including the Closing Date.

7. Permits and Compliance with Laws

7.1 To the Seller's Knowledge, the Companies are in possession of all material governmental approvals, licenses and permits necessary to operate the business of the Companies as it is conducted on the day hereof and material for the business of the Companies as currently conducted.

7.2 To the Seller's Knowledge, the business of the Companies has been conducted from 1 January 2017 until the date hereof in compliance with all applicable laws including anti-trust laws.

7.3 To the Seller's Knowledge, there has been no release of any hazardous material generated, used, owned, stored or controlled by any of the Companies on, at or under any property presently or formerly owned, leased or operated by any of the Companies, and there are to the Seller's Knowledge no hazardous materials located in, at, on or under such facility or property, or at any other location that could reasonably be expected to require investigation, removal, remedial or corrective action by any of the Companies or that would reasonably be likely, individually or in the aggregate, to result in material liabilities of, or losses, damages or costs to any of the Companies under any environmental law.

8. Employees and Benefit Plans

- 8.1 No written notice has been received by any of the Companies for the termination of the employment contracts with any of the Key Employees. None of the Companies has terminated the employment contract with any such Key Employee.
- 8.2 Except as set forth in Schedule 8, none of the Companies maintains, or contributes to, any employee pension benefit plan or other benefit plan, program, policy or individual agreement under which any of the Companies, as per the individual plan, program, policy or agreement, would be obliged to provide for employee benefits (with the exception of expat compensations and benefits), such as insurance coverage, pension payments, severance benefits, disability benefits, deferred compensation, bonuses or other forms of incentive compensation or pre-retirement compensation, including those benefits granted directly by Sellers or affiliated companies such as stock options, stock appreciation rights or similar rights, exceeding, per each of such plans, programs, policies or agreements and as calculated as of 28 February 2017 (unless another date is specified in Schedule 8, an amount of EUR 20,000 (in words: twenty thousand Euro) p.a. or with an accrued liability as calculated under US-GAAP exceeding an amount of EUR 100,000 (in words: one hundred thousand). The aggregate unfunded amount of the accrued liability of the Companies under such plans, programs, policies and individual agreements, as calculated under US-GAAP as of 28 February 2017 taking into account the most recent biometric data and the discount rates specified in Schedule 8, does not exceed the maximum amount specified in Schedule 8.
- 8.3 The consummation of the Transaction will not (i) entitle any current or former director, officer, employee or consultant of the Company or any Subsidiary to severance pay, unemployment compensation or any bonus or other payment due from any of the Companies except for certain transaction bonus payments granted, not exceeding a total sum of EUR 50,000 (in words: Euro fifty thousand) which will be fully accrued in the Closing Date Accounts, or (ii) accelerate the time of payment or vesting or increase the amount of compensation due to any current or former director, officer or employee under an employee benefit plan (including pension and other post-employment benefit plans) or otherwise or (iii) could cause such employee benefit plan to be changed, terminated and/or wound up or (iv) could cause any material increase in the liabilities of any of the Companies including such additional liabilities incurred by plan assets no longer being available for the Companies.
- 8.4 All compensation and withholding obligations of the Companies to or in respect of their current and former employees for periods prior to the Closing Date, including, for the avoidance of doubt, all contributions to applicable pension schemes and insolvency protection schemes (e.g. PSVaG), have been fulfilled by the Companies when due.

9. Assets and Material Agreements

- 9.1 To the Seller's Knowledge, except as set forth in Schedule 9 or as agreed in the Companies' ordinary course of business, each of the Companies is entitled to the full and unencumbered ownership of its assets, free and clear of any third party rights, including, without limitation, security rights, rights of lien, restraints on disposal and restrictions of owner's position. To the Seller's Knowledge, such assets are sufficient for the continuation of the business of each of the Companies after Closing in substantially the same manner as conducted before.
- 9.2 To the Seller's Knowledge the Companies' movable assets are in a satisfactory working order in all material respects and in line with their respective terms of use, except for normal wear and tear; the assets are suitable for their respective present use.
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- 9.3 All agreements of the following types (together the **Material Agreements**) the main obligations of which have not been completely fulfilled as at the Signing Date are listed in Schedule 10. None of the Companies is or has been in material breach of any Material Agreement that gives cause for a termination of such Material Agreement or claims for damages, penalties or other compensation exceeding (the equivalent of) EUR 175,000 (in words: hundred and seventy-five thousand Euro). To the Seller's Knowledge, no such breach of any Material Agreement has been asserted in writing by the other party or parties to the relevant Material Agreement:
- a. agreements to acquire, sell, transfer or dispose of equity interests in any of the Companies;
 - b. agreements on joint ventures;
 - c. long-term agreements (*Dauerschuldverhältnisse*) with customers or suppliers which cannot be regularly terminated within 12 months as of the date hereof, providing in the agreement itself (and not by any individual orders based on the agreement), in each case, for annual payment obligations in an amount, or annual supply obligations in a volume, exceeding EUR 500,000 (in words: five hundred thousand Euro);
 - d. agreements between any of the Companies and the Sellers or their other Affiliates;
 - e. agreements for the lease (*Miete oder Pacht*) of land or and/or buildings;
 - f. the agreements with the ten largest customers of the Companies (by sales for the business year ending 28 February 2017);
 - g. the agreements with the ten largest suppliers of the Companies (by turnover for the business year ending 28 February 2017);
 - h. agreements for the use of the name and/or trademark "HIRSCHMANN" and associated logos, in particular the Trademark License Agreement between Hirschmann Industries GmbH and Hirschmann Car Communication GmbH (dated January 22, 2007), as amended by the Agreement Supplementing the Trademark Licensing Agreement (dated March 20, 2007) regarding the licensing of the verbal trademark (*Wortmarke*) "HIRSCHMANN" and of the logo (*Bildmarke*) "h in circle"; and
 - i. agreements (other than agreements falling under this clause 9.3) not fully performed at the Signing Date and providing, in each case, for annual payments exceeding EUR 1,750,000 (in words: Euro one million and seven hundred and fifty thousand) except employment agreements.

10. Intellectual Property

- 10.1 The Companies own and are (or have filed to be) the registered owner or are legally entitled to use the trademarks, patents, registered designs and domains which they use in their businesses (the trademarks, patents, registered designs and domains - the **IP-Rights**). To the Seller's Knowledge, (i) the IP-Rights are not subject to any pending proceedings for opposition, cancellation, revocation or rectification which may materially negatively affect the operation of the business of the Companies as currently conducted nor have such proceedings been threatened in writing vis-à-vis the Companies since 1 January 2017 nor (ii) are they materially infringed by third parties. To the Seller's Knowledge, (i) all fees necessary to maintain the IP-Rights have been paid, (ii) all necessary renewal applications have been filed and (iii) all other material steps necessary for their maintenance (other than use) have been taken. To the Seller's Knowledge, none of the Companies does materially infringe any intellectual property rights of third parties. To the Seller's Knowledge (except for non-exclusive or exclusive licenses to customers solely with respect to such customers own products designed by the Companies and that are not relevant for other customers products licenses with customers entered into in the ordinary course of business),
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none of the IP-Rights material for the business of the Companies as currently conducted have been licensed to third parties.

11. Customer Relationships and Quality of Products

11.1 No regular major customer of the Companies has terminated in writing the business relationship with one or several of the Companies except as set forth in Schedule 11.

11.2 To the Seller's Knowledge, none of the Companies has produced or distributed products the quality of which could give rise to a claim of a third party against any of the Companies under the provisions of the German Product Liability Act (*Produkthaftungsgesetz - ProdHG*) or contractual product liability claims. None of the Companies had to recall a product produced or distributed by one of the Companies within the meaning of the German Product Liability Act (*Produkthaftungsgesetz - ProdHG*) during the past three years, nor is any such recall pending or, to the Seller's Knowledge, threatened to take place. During the past three years, except for the claims listed in Schedule 19, no warranty claim above EUR 100,000 (in words: one hundred thousand) has been made against any of the Companies in written form, nor to the Seller's Knowledge, is there a basis for such claim.

12. Litigation

12.1 Except as set forth in Schedule 12, there is no action, suit, investigation or proceeding pending against the Companies or the Sellers, or threatened in writing against the Companies or the Sellers before any court or arbitrator or governmental body, agency or official body, which in either case, challenges or seeks to prevent, enjoin, alter or materially delay the Transaction.

12.2 Except as set forth in Schedule 12, the Companies are not party to any court or administrative proceedings, including arbitration proceedings, either as plaintiff or defendant, having a litigation value (*Streitwert*) in each case exceeding EUR 175,000 (in words: hundred and seventy-five thousand Euro).

* * *

CERTIFICATION PURSUANT TO RULE 13a-14(a) AND RULE 15d-14(a) OF THE SECURITIES EXCHANGE ACT OF 1934

I, Patrick M. Lavelle, certify that:

1. I have reviewed this quarterly report on Form 10-Q of VOXX International Corporation (the "Company");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) designed such internal controls over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the three and six months ended August 31, 2017) that has materiality affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

October 10, 2017

/s/ Patrick M. Lavelle
Patrick M. Lavelle
President and Chief Executive Officer

CERTIFICATION PURSUANT TO RULE 13a-14(a) AND RULE 15d-14(a) OF THE SECURITIES EXCHANGE ACT OF 1934

I, Charles M. Stoehr, certify that:

1. I have reviewed this quarterly report on Form 10-Q of VOXX International Corporation (the "Company");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal controls over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the three and six months ended August 31, 2017) that has materiality affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

October 10, 2017

/s/ Charles M. Stoehr
Charles M. Stoehr
Senior Vice President and Chief Financial Officer

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of VOXX International Corporation (the "Company") on Form 10-Q for the three and six months ended August 31, 2017 (the "Report") as filed with the Securities and Exchange Commission on the date hereof, I, Patrick M. Lavelle, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

October 10, 2017

/s/Patrick M. Lavelle
Patrick M. Lavelle
President and Chief Executive Officer

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of VOXX International Corporation (the "Company") on Form 10-Q for the three and six months ended August 31, 2017 (the "Report") as filed with the Securities and Exchange Commission on the date hereof, I, C. Michael Stoehr, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

October 10, 2017

/s/ Charles M. Stoehr
Charles M. Stoehr
Senior Vice President and Chief Financial Officer

