

AUDIOVOX CORP  
Form 10-K/A  
October 07, 2004

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-K/A  
(Amendment No. 1)**

(Mark One)

☒ **Annual Report Pursuant to Section 13 or 15(d) of  
the Securities Exchange Act of 1934**

**For the fiscal year ended November 30, 2003**  
**Commission file number 0-28839**

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**AUDIOVOX 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.)

**150 Marcus Blvd., Hauppauge, New York**  
(Address of principal executive offices)

**11788**

(Zip Code)

**(631) 231-7750**

(Registrant's telephone number, including area code)

**Securities registered pursuant to Section 12(b) of the Act:**

**Name of Each Exchange on**

**Title of each class:**

**Class A Common Stock \$.01 par value**

**Which Registered**

**Nasdaq Stock Market**

Securities registered pursuant to Section 12(g) of the Act:

None

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 requirement for the past 90 days.

Yes ☒ No ☐

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Indicate by check mark whether Registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2).

Yes ☐ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (sec 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

The aggregate market value of the common stock held by non-affiliates of the Registrant was \$159,259,586 (based upon closing price on the Nasdaq Stock Market on May 30, 2003).

The number of shares outstanding of each of the registrant's classes of common stock, as of February 20, 2004 was:

Class	Outstanding
Class A common stock \$.01 par value	20,741,338
Class B common stock \$.01 par value	2,260,954

### DOCUMENTS INCORPORATED BY REFERENCE

(1)

Portions of the Registrant's Proxy Statement relating to its 2004 Annual Stockholders Meeting, to be filed subsequently Part III.

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**PART I**

**Item 1 Business**

All tabular presentation is in thousands unless otherwise indicated.

(a) *Restatement of Consolidated Financial Statements*

Audiovox Corporation (Audiovox or the Company) has previously restated its consolidated financial statements for the fiscal years ended November 30, 2000 and 2001 and for the fiscal quarters during the year ended November 30, 2001 and the fiscal 2002 quarters ended February 28, 2002, May 31, 2002 and August 31, 2002. In addition, the Company previously reclassified certain expenses from operating expenses to cost of sales for fiscal 2001 and for each of the quarters in the nine months ended August 31, 2002. Please refer to the Company's previously filed Form 10-K for the year ended November 30, 2002 for details.

(b) *General Development of Business*

The Company was incorporated in Delaware on April 10, 1987, as successor to a business founded in 1960 by John J. Shalam, our President, Chief Executive Officer and controlling stockholder. Its principal executive offices are located at 150 Marcus Boulevard, Hauppauge, New York 11788, and the telephone number is 631-231-7750.

On July 8, 2003, the Company, through a newly-formed, wholly-owned subsidiary, acquired in cash (i) certain accounts receivable, inventory and trademarks from the U.S. audio operations of Recoton Corporation (the "U.S. audio business") or (Recoton) and (ii) the outstanding capital stock of Recoton German Holdings GmbH (the "international audio business"), the parent holding company of Recoton Corporation's Italian, German and Japanese subsidiaries, for \$40,046, net of cash acquired, including transaction costs of \$1.9 million. The primary reason for this transaction was to expand the product offerings of Audiovox and to obtain certain long-standing trademarks such as Jensen®, Acoustic Research® and others. The Company also acquired an obligation with a German financial institution as a result of the purchase of the common stock of Recoton German Holdings GmbH.

The Company designs and markets a diverse line of products and provides related services throughout the world. These products and services include:

handsets and accessories for wireless communications

mobile entertainment and security products

mobile electronic products and accessories

consumer electronic products and accessories

The Company markets its products under the well-recognized Audiovox® brand name and others, such as Jensen®, Magnate®, Mac Audio®, Heco®, Acoustic Research® and Advent®, as well as private labels through a large and diverse distribution network both domestically and internationally. The Company was a pioneer in the wireless industry, selling its first vehicle-installed wireless telephone in 1984 as a natural expansion of its automotive aftermarket products business. The Company's extensive distribution network and its long-standing industry relationships have allowed the Company to benefit from growing market opportunities in the wireless industry and to exploit emerging niches in the consumer electronics business.

The Company operates in two primary markets:

*Wireless communications.* The Wireless Group (Wireless), which accounts for approximately 61% of revenues in fiscal 2003, sells wireless handsets and accessories through domestic and international wireless carriers and their agents, independent distributors and retailers.

*Mobile and consumer electronics.* The Electronics Group (Electronics), which accounts for approximately 39% of revenues in fiscal 2003, sells autosound, mobile electronics and consumer electronics through domestic and international distribution channels primarily to mass merchants, power retailers, specialty retailers, new car dealers, original equipment manufacturers (OEMs), independent installers of automotive accessories and the U.S. military.

Since 2001, several factors have affected the Wireless Group. New subscriber subscriptions have slowed, the consolidation within our wireless customer base has created a more competitive market with a smaller number of customers and there has been a slow down in the development of new technologies which have slowed consumer demand from one technology to another. In addition, testing for acceptances have become more complex which have caused a slow down in product introductions. However new technology, such as camera phones, is expected to have a favorable impact on the Wireless Group.

The Electronics Group has been positively influenced by an increase in the sale of consumer and mobile electronics. Specifically, sales for portable DVD players, DVD in a bag products, satellite radios and flat panel screens have increased due to higher customer demand. In addition, the recent acquisitions of Recoton trademarks (Jensen®, Magnate®, Mac Audio®, Heco®, Acoustic Research® and Advent®) and Code-Alarm have contributed to the increase in Electronic Group sales (see Note 6 to the consolidated financial statements).

The following table shows net sales by group:

	2001 (1)	2002	2003	Percent Change 2001/2003
Wireless	\$ 979	\$ 727	\$ 806	(17.7)%
Electronics	298	373	518	73.8%
Total	\$ 1,277	\$ 1,100	\$ 1,324	3.7%

(1)

See Note (2) of Notes to Consolidated Financial Statements.

To remain flexible and limit our research and fixed costs, the Company does not manufacture its products. Instead, the Company has relationships with a broad group of suppliers who manufacture its products. The Company works directly with its suppliers in feature design, development and testing of all of its products and performs certain software installations or upgrades for wireless products and some assembly functions for its electronics products.

The Company's product development efforts focus on meeting changing consumer demand for technologically-advanced, high-quality products, and the Company consults with customers throughout the design and development process. The Company stands behind all of its products by providing warranties and end-user service support.

## Strategy

The Company's objective is to leverage the well-recognized Audiovox® brand name, which now includes Jensen®, Acoustic Research® and Advent®, and its extensive international distribution network to capitalize on the growing worldwide demand for wireless products and continue to provide innovative mobile and consumer electronics products in response to consumer demand. The key elements of the Company's strategy are:

*Increase market penetration by enhancing and capitalizing on the Audiovox® brand name.* The Company believes that the "Audiovox®" brand name, which includes Prestige®, Pursuit®, Rampage , Jensen®, Magnate®, Mac Audio®, Heco®, Acoustic Research® and Advent®, is one of its greatest

strengths. During the past 43 years, the Company has invested to establish the Audiovox® name as a well-known consumer brand for wireless and electronics products. The Company's wireless handsets generally bear the Audiovox® brand name or are co-branded with either a wireless carrier or brand name of its supplier. To further benefit from the Audiovox® name, the Company continues to introduce new products using its brand name and licenses its brand name for selected consumer products.

*Expand wireless technology offerings to increase market opportunities.* The Company intends to continue to offer an array of technologically-advanced wireless products, including the planned introduction of wireless handsets with video, cameras and enhanced Internet capabilities. The Company's wide selection of wireless products will allow it to satisfy different carrier demands, both domestically and internationally.

*Capitalize on niche market opportunities in the electronics industry.* The Company intends to continue to use its extensive distribution and supply networks to capitalize on niche market opportunities, such as navigation, mobile video, satellite radio, DVD's, flat panel TV's, and vehicle tracking systems, in the electronics industry. The Company believes that focusing on high-demand, high-growth niche products results in better profit margins and growth potential for its electronics business.

*Continue to maintain an international presence.* During fiscal 2003, the Company expanded its international presence with its acquisition of Recoton's European assets, and the Company intends to expand its international business, both in the Wireless and Electronics Groups. The Company plans to introduce new products compatible with international wireless technologies, such as GSM (Global System for Mobile Communications), CDMA (Code Division Multiple Access) and GPRS (General Packet Radio Services) and expand the mobile electronics category.

*Continue to outsource manufacturing to increase operating leverage.* One of the key components of the Company's business strategy is outsourcing the manufacturing of its products. This allows the Company to deliver the latest technological advances without the fixed costs associated with manufacturing.

*Continue to provide value-added services to customers and suppliers.* The Company believes that it provides key services, such as product design, development and testing, sales support, product repair and warranty and software upgrading, more efficiently than its customers and suppliers could provide for themselves. The Company intends to continue to develop its value-added services as the market evolves and customer needs change.

(c) *Financial Information About Industry Segments*

The Company's industry segments are the Wireless Group and the Electronics Group. Net sales, income (loss) before provision for (recovery of) income taxes, net income (loss) and total assets attributable to each segment for each of the last three fiscal years are set forth in Note 19 of the Company's consolidated financial statements included herein.

(d) *Narrative Description of Business*

**Wireless Group**

Wireless, which accounts for approximately 61% of the Company's revenues in fiscal 2003, markets wireless handsets and accessories through domestic and international wireless carriers and their agents, independent distributors and retailers.

## **Wireless products**

Wireless sells an array of digital handsets, hand-held computing devices and accessories in a variety of technologies, principally CDMA. Digital products represented 99% of Wireless' 2003 total unit sales. Wireless generally markets its wireless products under the Audiovox® brand name or co-brands its products with its carrier customers, such as Verizon Wireless and Bell Distribution, Inc. or with the brand name of the supplier.

In addition to handsets, Wireless sells a complete line of accessories that includes batteries, hands-free kits, battery eliminators, cases and data cables. In fiscal 2004, Wireless intends to continue to broaden its digital product offerings and introduce handsets with new features such as wireless handsets with video, cameras and enhanced Internet capabilities.

## **Wireless distribution and marketing**

Wireless sells wireless products to wireless carriers and the carrier's respective agents, distributors and retailers. In addition, a majority of its handsets are designed to meet carrier specifications. In fiscal 2001, the five largest wireless customers were Verizon Wireless, PrimeCo Personal Communications LP, Sprint Spectrum LP, Bell Distribution Inc. and Brightpoint, Inc. One of these customers accounted for 44.8% of Wireless' net sales and 35.0% of consolidated net sales for fiscal 2001. In fiscal 2002, the five largest wireless customers (Verizon Wireless, Bell Distribution, Inc., Sprint Spectrum LP, Telus Mobility and AllTel Communications) represented 71% of Wireless' net sales and 47% of consolidated net sales during fiscal 2002. Three of these customers accounted for 36%, 11% and 10%, respectively, of Wireless' net sales for fiscal 2002. In fiscal 2003, the five largest wireless customers (Verizon Wireless, Bell Distribution, Inc., Virgin Mobile, Sprint Spectrum LP, and US Cellular) represented 72% of Wireless' net sales and 44% of consolidated net sales during fiscal 2003. Three of these customers accounted for 34%, 15% and 12%, respectively, of Wireless' net sales for fiscal 2003.

In addition, Wireless promotes its products through trade and consumer advertising, participation at trade shows and direct personal contact by its sales representatives. Wireless also assists wireless carriers with their marketing campaigns by scripting telemarketing presentations, funding co-operative advertising campaigns, developing and printing custom sales literature, logistic services, conducting in-house training programs for wireless carriers and their agents and providing assistance in market development.

Wireless operates approximately six retail facilities under the name Quintex. In addition, Wireless licenses the trade name Quintex® to ten outlets in selected markets in the United States. Wireless also serves as an agent (in activating cell phone numbers) for the following carriers in selected areas: Tmobile, Nextel, Suncom, NTelos, AT & T Wireless, Verizon Wireless, Sprint and Sprint Spectrum LP. For fiscal 2003, revenues from Quintex were 4.8% of total Wireless revenues and 2.9% of consolidated revenues.

Wireless' policy is to ship its products within 24 hours of a requested shipment date from public warehouses in Florida, New York, California, New Jersey, Canada and the Netherlands and from leased facilities located in New York and California.

## **Wireless product development, warranty and customer service**

Although Wireless does not have its own manufacturing facilities, it works closely with both customers and suppliers in feature design, development and testing of its products. In particular, Wireless:

with its wireless customers, determines future market feature requirements

works with its suppliers to develop products containing those features

participates in the design of the features and cosmetics of its wireless products

tests products in its own facilities to ensure compliance with Audiovox® standards

supervises testing of the products in its carrier markets to ensure compliance with carrier specifications

Wireless' Hauppauge facility is ISO-9001:2000 certified, which requires it to carefully monitor quality standards in all facets of its business.

Wireless believes customer service is an important tool for enhancing its brand name and its relationship with carriers. In order to provide full service to its customers, Wireless warrants its wireless products to the end-user for periods ranging from up to one year for portable handsets to up to three years for mobile car phones. To support its warranties, Wireless has approximately 2,600 independent warranty centers throughout the United States and Canada and has experienced technicians in its warranty repair stations at its headquarters facility. Wireless has experienced customer service representatives who interact directly with both end-users and its customers. These representatives are trained to respond to questions on handset operation and warranty and repair issues.

#### **Wireless suppliers**

Wireless purchases its wireless products from several manufacturers located in Pacific Rim countries, including Japan, China, South Korea, Taiwan and Malaysia. In selecting its suppliers, Wireless considers quality, price, service, market conditions and reputation. Wireless generally purchases its products under short-term purchase orders and does not enter into long-term contracts with its suppliers. Wireless considers its relations with its suppliers to be good. Wireless believes that alternative sources of supply are currently available, although there could be a time lag and increased costs if it were to have an unplanned shift to a new supplier which could have a material impact on the Company. One wireless vendor accounted for approximately 83% of Wireless' 2003 purchases. In addition, approximately 15% of Wireless' 2003 purchases were from Toshiba, a related party (see Related Party Transaction of Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations.)

#### **Wireless competition**

The market for wireless handsets and accessories is highly competitive and is characterized by intense price competition, significant price erosion over the life of a product whose life cycle has continued to shorten, demand for value-added services, rapid technological development and industry consolidation of both customers and manufacturers. Currently, Wireless' primary competitors for wireless handsets include Motorola, LG, Nokia, Kyocera and Samsung.

Wireless also competes with numerous established and new manufacturers and distributors, some of whom sell the same or similar products directly to its customers. Historically, Wireless' competitors have also included some of its own suppliers and customers. Many of Wireless' competitors offer more extensive advertising and promotional programs than it does.

Wireless competes for sales to carriers, agents and distributors on the basis of its products and services and price. As its customers are requiring greater value-added logistic services, Wireless believes that competition will continually be required to support an infrastructure capable of providing these services. Wireless' ability to continue to compete successfully will largely depend on its ability to perform these value-added services at a reasonable cost.

Wireless' products compete primarily on the basis of value in terms of price, features and reliability. There have been, and will continue to be, several periods of extreme price competition in the wireless industry, particularly when one or more of its competitors has sought to sell off excess inventory by lowering its prices significantly or carriers canceling or modifying sales programs.



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As a result of global competitive pressures, there have been significant consolidations in the domestic wireless industry which has caused extreme price competition. These consolidations may result in greater competition for a smaller number of large customers and may favor one or more of its competitors over Wireless.

### Electronics Group

#### Electronics Industry

The mobile and consumer electronics industry is large and diverse and encompasses a broad range of products. There are many large manufacturers in the industry, such as Sony, RCA, Panasonic, Kenwood, Motorola, Samsung and JVC, as well as other large companies that specialize in niche products. The Electronics Group participates in selected niche markets such as autosound, mobile video, vehicle security and selected consumer electronics.

The introduction of new products and technological advancements drives growth in the electronics industry. Some of these products include digital satellite radio, portable DVD, home and mobile video systems, flat panel TV's, navigation systems, MP3 players and two-way radios.

#### Electronics products

The Company's electronics products consist of three major categories: mobile electronics, sound and consumer electronics.

Mobile electronics products include:

- mobile video products, including overhead and mobile entertainment systems, video cassette and DVD players

- automotive security and remote start systems

- automotive power accessories

- navigation systems

Sound products include:

- autosound products, such as radios, speakers, amplifiers, CD changers and satellite radios

Consumer electronics include:

- home and portable stereos

- two-way radios

- LCD televisions

- DVD players

- MP3 players

- cordless telephones

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The Electronics Group markets its products under the Audiovox® brand name, as well as several other Audiovox-owned or usage right trade names that include Prestige®, Pursuit®, Jensen®, Acoustic Research®, Advent®, Rampage and Code-Alarm. In addition, sales by the Company's Malaysian,

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Venezuelan and American Radio subsidiaries fall under the Electronics Group. The Electronics Group's sales by product category were as follows:

	<u>2001(1)</u>	<u>2002</u>	<u>2003</u>	<u>Percent</u>
	<i>(millions)</i>			
Mobile electronics	\$ 157.7	\$ 229.3	\$ 294.5	86.7%
Sound	57.5	56.3	78.4	36.3
Consumer electronics	80.3	86.5	144.3	79.7
Other	2.2	0.6	0.5	(77.3)
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total	\$ 297.7	\$ 372.7	\$ 517.7	73.9%
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>

(1)

See Note (2) of Notes to Consolidated Financial Statements.

The increase in Electronic's sales reflects new product introductions in the mobile and consumer electronics categories. In addition, sound sales have increased as a result of the Recoton acquisition, offset by a continuing trend in lower sales for full-featured sound systems as automakers are incorporating these products at the factory instead of as an aftermarket option.

In the future, the Electronics Group will continue to focus its efforts on new technologies to take advantage of market opportunities created by the digital convergence of data, communications, navigation and entertainment products.

### ***Licensing and Royalties***

In the late 1990's, the Company began to license its brand name for use on selected products, such as home and portable stereo systems. Actual sales of licensed products are not included in the Company's reported net sales. However, licensed customers have reported sales of \$52.4 million in licensed goods in 2003 compared to \$43.6 million in 2002 for which the Company received license fees. License sales promote the Audiovox® brand name without adding any significant costs. License fees are recognized on a per unit basis upon sale to the end-user and are recorded in other income. License fees in fiscal 2003 approximated \$1,116 compared to approximately \$922 in fiscal 2002.

The Company has various license and royalty programs with manufacturers, customers and other electronic suppliers. Such agreements entitle the Company to receive license and royalty income for Audiovox products sold by the licensees. Depending on the agreement, income from these agreements is based on either a fixed amount per unit or percentage of net sales. Current license and royalty agreements have duration periods, which range from 1 to 8 years and certain agreements may be renewed at the end of termination of the agreement. Renewals of license and royalty agreements are dependent on negotiations with licensees as well as current Audiovox products being sold by the licensee.

### **Electronics distribution and marketing**

The Electronics Group sells its electronics products to:

mass merchants

chain stores

specialty retailers

distributors

new car dealers

the U.S. military

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The Electronics Group also sells its products under OEM arrangements with domestic and/or international subsidiaries of automobile manufacturers such as Ford Corporation, Daimler Chrysler, General Motors Corporation and Nissan. OEM projects accounted for approximately 10% of the Electronics Group's sales in 2003 versus 14.0% in 2002. These projects require a close partnership with the customer as the Electronics Group develops products to their specific requirements. Three of the largest auto makers, General Motors, Daimler Chrysler and Ford require QS registration for all of their vendors. The Electronics Group's Hauppauge facility is both QS 9000 and ISO 9001 registered. In addition, Audiovox Electronics is Q1 rated for the Ford Motor Company.

In fiscal 2001, the Electronics Group's five largest customers (Wal-Mart, Target, Ford, KMart and Circuit City) represented 27.0% of the Electronics Group's net sales and 6.3% of consolidated net sales. In fiscal 2002, the Electronics Group's five largest customers (Circuit City, Target, Walmart, Sam's Wholesale Club and Gulf States Toyota) represented 25% of the Electronics Group's net sales and 8% of the consolidated net sales. In fiscal 2003, the Electronics Group's five largest customers (Target, Circuit City, Best Buy, Costco Wholesale and Wal Mart) represented 34% of the Electronics Group's net sales and 13% of consolidated net sales.

As part of the Electronics Group's sales process, the Electronics Group provides value-added management services including:

product design and development

engineering and testing

technical and sales support

electronic data interchange (EDI)

product repair services and warranty

nationwide installation network

The Electronics Group has flexible shipping policies designed to meet customer needs. In the absence of specific customer instructions, the Electronics Group ships its products within 24 to 48 hours from the receipt of an order. The Electronics Group makes shipments from public warehouses in Virginia, Nevada, Florida, New Jersey, California and Venezuela and from leased facilities located in New York, Venezuela, Malaysia and Germany.

### **Electronics product development, warranty and customer service**

The Electronics Group works closely with its customers and suppliers in the design, development and testing of its products. For the Electronics Group's OEM automobile customers, the Electronics Group performs extensive validation testing to ensure that its products meet the special environmental and electronic standards of the manufacturer. The Electronics Group also performs final assembly of products in its Hauppauge and Europe locations. The Electronics Group's product development cycle includes:

working with key customers and suppliers to identify consumer trends and potential demand

working with the suppliers to design and develop products to meet those demands

evaluating and testing the products in our own facilities to ensure compliance with our standards

performing software design and validation testing

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The Electronics Group provides a warranty to the end-users of its electronics products, generally ranging from 90 days up to the life of the vehicle for the original owner on some of its automobile-installed products. To support its warranties, the Electronics Group has independent warranty centers throughout the United States, Canada, Europe, Venezuela and Malaysia. At its Hauppauge facility, the

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Electronics Group has a customer service group that provides product information, answers questions and serves as a technical hotline for installation help for both end-users and its customers.

The Electronics Group Hauppauge facility is QS-9000:1998 (ISO-9001:1994) ISO-14001/EN ISO 14001 certified, which requires it to carefully monitor quality standards in all facets of its business.

### **Electronics suppliers**

The Electronics Group purchases its electronics products from manufacturers located in several Pacific Rim countries, including Japan, China, South Korea, Taiwan, Singapore and Malaysia. The Electronics Group also uses several manufacturers in the United States for cruise controls, mobile video and power amplifiers. In selecting its manufacturers, the Electronics Group considers quality, price, service, market conditions and reputation. The Electronics Group maintains buying offices or inspection offices in Taiwan, South Korea, China and Hong Kong to provide local supervision of supplier performance such as price negotiations, delivery and quality control. The Electronics Group generally purchases its products under short-term purchase orders and does not have long-term contracts with its suppliers. The Electronics Group believes that alternative sources of supply are currently available, although there could be a time lag and increased costs if it were to have an unplanned shift to a new supplier which may have a material impact on the Company.

The Electronics Group considers relations with its suppliers to be good. In addition, the Electronics Group believes that alternative sources of supply are generally available within 120 days.

### **Electronics competition**

The Electronics Group's business is highly competitive across all of its product lines and competes with a number of well-established companies that manufacture and sell similar products. The Electronics Group's mobile electronics products compete against factory-supplied radios (including General Motors, Ford and Daimler Chrysler), security and mobile video systems. The Electronics Group's mobile electronics products also compete in the automotive aftermarket against major companies such as Sony, Panasonic, Kenwood, Alpine and Pioneer. The Electronics Group's consumer electronics product lines compete against major consumer electronic companies, such as JVC, Sony, Panasonic, Motorola, RCA, Samsung and AIWA. Brand name, design, features and price are the major competitive factors across all of its product lines.

### *(e) Financial Information About Foreign and Domestic Operations and Export Sales*

The amounts of net sales and long-lived assets, attributable to each of the Company's geographic segments for each of the last three fiscal years are set forth in Note 19 to the Company's consolidated financial statements included herein. During fiscal 2001, 2002 and 2003, the Company exported approximately \$215, \$233 and \$249 million, respectively, in product sales.

### **Trademarks**

The Company markets products under several trademarks, including Audiovox®, Prestige®, Pursuit®, Rampage®, Jensen®, Acoustic Research®, Code-Alarm®, Car Link®, Movies 2 Go® and Advent®. The trademark Audiovox® is registered in approximately 67 countries. The Company believes that these trademarks are recognized by customers and are therefore significant in marketing its products.

### *(f) Availability of Reports*

We make available financial information, news releases and other information on our Web site at [www.audiovox.com](http://www.audiovox.com). There is a direct link from the Web site to a third party Securities and Exchange Commissions (SEC) filings Web site, where our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and any amendments to these reports filed or furnished

pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 are available free of charge as soon as reasonably practicable after we file such reports and amendments with, or furnish them to the SEC. In addition, the Company has adopted a code of ethics which is available free of charge upon request. Any such request should be directed to the attention of: Chris Lis Johnson, Company Secretary, 150 Marcus Boulevard, Hauppauge, New York 11788, (631) 231-7750.

## Other Matters

### Equity Investments

The Company has investments in unconsolidated joint ventures which were formed to market its products in specific market segments or geographic areas. The Company seeks to blend its financial and product resources with local operations to expand its distribution and marketing capabilities. The Company believes its joint ventures provide a more cost-effective method of focusing on specialized markets. The Company does not participate in the day-to-day management of these joint ventures.

The Company's significant joint ventures are:

Venture	Percentage	Formation	Function
Audiovox Specialized Applications	50.0	% 1997	Distribution of products for marine, van, RV and other specialized vehicles
Bliss-Tel Company, Ltd.	20.0	% 1997	Distribution of wireless products and accessories in Thailand

### Employees

The Company employs approximately 1,000 people. The Company's headcount has been relatively stable for the past several years, but will change based upon economic conditions within the two groups. The Company considers its relations with its employees to be good. No employees are covered by collective bargaining agreements.

### Directors and Executive Officers of the Registrant

The directors and executive officers of the Company are listed below. All officers of the Company are elected by the Board of Directors to serve one-year terms. There are no family relationships among officers, or any arrangement or understanding between any officer and any other person pursuant to which the officer was selected. Unless otherwise indicated, positions listed in the table have been held for more than five years.

Name	Age	Current Position
John J. Shalam	70	President, Chief Executive Officer and Chairman of the Board of Directors
Philip Christopher	55	Executive Vice President and a Director
Charles M. Stoehr	57	Senior Vice President, Chief Financial Officer and a Director
Patrick M. Lavelle	52	Senior Vice President and a Director
Ann M. Boutcher	53	Vice President, Marketing and a Director
Richard A. Maddia	45	Vice President, MIS and a Director
Paul C. Kreuch, Jr.*	65	Director
Dennis F. McManus*	53	Director
Irving Halevy*	87	Director
Peter A. Lesser*	68	Director

\*

Member of the Audit and Compensation Committees



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John J. Shalam has served as President, Chief Executive Officer and as Director of Audiovox or its predecessor since 1960. Mr. Shalam also serves as President and a Director of most of Audiovox's operating subsidiaries. Mr. Shalam is on the Board of Directors of the Electronics Industry Association and is on the Executive Committee of the Consumer Electronics Association.

Philip Christopher, our Executive Vice President, has been with Audiovox since 1970 and has held his current position since 1983. Before 1983, he served as Senior Vice President of Audiovox. Mr. Christopher is Chief Executive Officer of Audiovox's wireless subsidiary, Audiovox Communications Corp. From 1973 through 1987, he was a Director of our predecessor, Audiovox Corp. Mr. Christopher serves on the Executive Committee of the Cellular Telephone Industry Association.

Charles M. Stoehr has been our Chief Financial Officer since 1979 and was elected Senior Vice President in 1990. Mr. Stoehr has been a Director of Audiovox since 1987. From 1979 through 1990, he was a Vice President of Audiovox.

Patrick M. Lavelle has been a Vice President of the Company since 1980 and was appointed Senior Vice President in 1991. He was elected to the Board of Directors in 1993. Mr. Lavelle is Chief Executive Officer and President of the Company's subsidiary, Audiovox Electronics Corp. Mr. Lavelle is also a member of the Board of Directors and Executive Committee of the Consumer Electronics Board and serves as Chairman of its Mobile Electronics Division.

Ann M. Boutcher has been our Vice President of Marketing since 1984. Ms. Boutcher's responsibilities include the development and implementation of our advertising, sales promotion and public relations programs. Ms. Boutcher was elected to the Board of Directors in 1995.

Richard A. Maddia has been our Vice President of Information Systems since 1992. Prior thereto, Mr. Maddia was Assistant Vice President, MIS. Mr. Maddia's responsibilities include development and maintenance of information systems. Mr. Maddia was elected to the Board of Directors in 1996.

Paul C. Kreuch, Jr. was elected to the Board of Directors in February 1997. Mr. Kreuch is a Managing Director of WJM Associates, Inc., a leading executive development firm. Prior career responsibilities include Executive Vice President of NatWest Bank, N.A. from 1993 to 1996, and, before that, President of National Westminster Bank, USA.

Dennis F. McManus was elected to the Board of Directors in March 1998. Mr. McManus is currently the Vice President New Product Marketing at the LSSi Corporation. Prior to that Mr. McManus had been self-employed as a telecommunications consultant. Before that, he was employed by NYNEX Corp. for over 27 years, most recently as a Senior Vice President and Managing Director. Mr. McManus held this position from 1991 through December 31, 1997.

Irving Halevy served on the Board of Directors from 1987 to 1997 and was re-elected to the Board of Directors in 2001. Mr. Halevy is a retired professor of Industrial Relations and Management at Fairleigh Dickinson University where he taught from 1952 to 1986. He was also a panel member of the Federal Mediation and Conciliation Service.

Peter A. Lesser is the President of X-10 (USA), Inc., a wholesaler of electronic home control and security systems. Mr. Lesser is founder of and has also served as a director and stockholder of X-10 Limited, the Hong Kong parent company of X-10- (USA), Inc. since 1979. He is a Member-at-Large of the Executive Board of the Consumer Electronics Association. From 1997 through 1999, Mr. Lesser served as the President of the Security Industry Association.

All of our executive officers hold office at the discretion of the Board of Directors.

### Cautionary Factors That May Affect Future Results

We have identified certain risk factors that apply to either Audiovox as a whole or one of our specific business units. You should carefully consider each of the following risk factors and all of the

other information included or incorporated by reference in this Form 10-K. If any of these risks, or other risks not presently known to us or that we currently believe not to be significant, develop into actual events, then our business, financial condition, liquidity, or results of operations could be materially adversely affected. If that happens, the market price of our common stock would likely decline, and you may lose all or part of your investment.

***We May Not Be Able to Compete Successfully in the Highly Competitive Wireless Industry.***

The market for wireless handsets and accessories is highly competitive and is characterized by:

intense price competition

shorter product life cycles

significant price erosion over the life of a product

inventory write-downs

industry consolidation

rapid technological development

the demand by wireless carriers for value-added services provided by their suppliers

Our primary competitors for wireless handsets currently are Motorola, LG, Nokia, Kyocera and Samsung. In addition, we compete with numerous other established and new manufacturers and distributors, some of whom sell the same or similar products directly to our customers. Historically, our competitors have also included some of our own suppliers and customers. Many of our competitors offer more extensive advertising and promotional programs than we do.

During the last decade, there have been several periods of extreme price competition, particularly when one or more of our competitors has sought to sell off excess inventory by lowering its prices significantly. In particular, when technologies changed in 2000 from analog to digital, several of our larger competitors lowered their prices significantly to reduce their inventories, which required us to similarly reduce our prices. These price reductions had a material adverse effect on our profitability. There can be no assurance that our competitors will not do this again, because, among other reasons, many of them have significantly greater financial resources than we do and can withstand substantial price competition. Since we sell products that tend to have low gross profit-margins, price competition has had, and may in the future have, a material adverse effect on our financial performance.

***The Electronics Business Is Highly Competitive; Our Electronics Business Also Faces Significant Competition from Original Equipment Manufacturers (OEMs).***

The market for electronics is highly competitive across all three of our product lines. We compete against many established companies who have substantially greater resources than us. In addition, we compete directly with OEMs, including divisions of well-known automobile manufacturers, in the autosound, auto security, mobile video and accessories industry. Most of these companies have substantially greater financial and other resources than we do. We believe that OEMs have increased sales pressure on new car dealers with whom they have close business relationships to purchase OEM-supplied equipment and accessories. OEMs have also diversified and improved their product lines and accessories in an effort to increase sales of their products. To the extent that OEMs succeed in their efforts, this success would have a material adverse effect on our sales of automotive entertainment and security products to new car dealers.

***Wireless Carriers and Suppliers May Not Continue to Outsource Value-Added Services; We May Not Be Able to Continue to Provide Competitive Value-Added Services.***

Wireless carriers purchase from us, rather than directly from our suppliers, because, among other reasons, we provide added services valued by our customers. In order to maintain our sales levels, we must continue to provide these value-added services at reasonable costs to our carrier-customers and suppliers, including:

product sourcing

product distribution

marketing

custom packaging

warranty support

programming wireless handsets

testing for carrier system acceptance

Our success depends on the wireless equipment manufacturers, wireless carriers, network operators and resellers continuing to outsource these functions rather than performing them in-house. To encourage the use of our services, we must keep our prices reasonable. If our internal costs of supplying these services increase, we may not be able to raise our prices to pass these costs along to our customers and suppliers. As a result of the consolidations in the telecommunications industry, wireless carriers, which are the largest customers of our wireless business, may attempt to perform these services themselves. Alternatively, our customers and suppliers may transact business directly with each other rather than through us. If our customers or suppliers begin to perform these services internally or do business directly with each other, it could have a material adverse effect on our sales and our profits.

***Our Success Depends on Our Ability to Keep Pace with Technological Advances in the Wireless Industry.***

Rapid technological change and frequent new product introductions characterize the wireless product market. Our success depends upon our ability to:

identify the new products necessary to meet the demands of the wireless marketplace and

locate suppliers who are able to manufacture those products on a timely and cost-effective basis.

Since we do not make any of our own products and do not conduct our own research, we cannot assure you that we will be able to source the products that advances in technology require to remain competitive. Furthermore, the introduction or expected introduction of new products or technologies may depress sales of existing products and technologies. This may result in declining prices and inventory obsolescence. Since we maintain a substantial investment in product inventory, declining prices and inventory obsolescence could have a material adverse effect on our business and financial results. (see further discussions in Business Overview Page 32).

As a result of the emergence of the digital market, which resulted in the reduction of selling prices of analog hand-held phones, we recorded an analog inventory write-down to market of \$13.5 million in fiscal 2001. This write-down had a material adverse effect on our profitability. As a result of increasing pricing pressures and a surplus of supply created by other manufacturers also attempting to sell off analog inventories, there was a drop off in demand for analog products. The write-down was based upon the drop in demand, as carriers no longer promoted analog product and notified the Company that previous indications for orders of analog phones were no longer viable. Also during 2001, the Company

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recorded an additional inventory write-down to market of \$7,150 associated with older digital products as newer products were being introduced.

During fiscal 2002 and 2003, Wireless recorded inventory write-downs of \$13.8 and \$2.8 million, respectively, due to more current technological advances in the market. These write-downs were made based upon open purchase orders from customers and selling prices subsequent to the respective balance sheet dates as well as indications from customers based upon the then current negotiations. There can be no assurance that this will not occur again given the emergence of new technologies.

***We Depend on a Small Number of Key Customers For a Large Percentage of Our Sales.***

The wireless industry is characterized by a small number of key customers. Specifically, 70%, 71% and 72% of our wireless sales were to five wireless customers in fiscal 2001, 2002 and 2003, respectively. The loss of one or more of these customers would have a material impact on our business.

***We Do Not Have Long-term Sales Contracts with Any of Our Customers.***

Sales of our wireless products are made by written purchase orders and are terminable at will by either party. The unexpected loss of all or a significant portion of sales to any one of our large customers could have a material adverse effect on our performance. Sales of our electronics products are made by purchase order and are terminated at will at the option of either party. We do not have long-term sales contracts with any of our customers. The unexpected loss of all or a significant portion of sales to any one of these customers could result in a material adverse effect on our performance.

***We Could Lose Customers or Orders as a Result of Consolidation in the Wireless Telecommunications Carrier Industry.***

As a result of global competitive pressures, there has been significant consolidation in the wireless industry which has caused extreme price competition. Future consolidations could cause us to lose business if any of the new consolidated entities do not perform as they expect to because of integration or other problems. In addition, these consolidations will result in a smaller number of wireless carriers, leading to greater competition in the wireless handset market and may favor one or more of our competitors over us. This could also lead to fluctuations in our quarterly results and carrying value of our inventory. If any of these new entities orders less product from us or elects not to do business with us or demands pricing changes in order to compete, it would have a material adverse effect on our business. In fiscal 2003, the five largest wireless customers (Verizon Wireless, Bell Distribution, Inc., Virgin Mobile, Sprint Spectrum LP and US Cellular) represented 72% of Wireless' net sales and 44% of consolidated net sales during fiscal 2003. Three customers each accounted for 34%, 15% and 12%, respectively, of Wireless' net sales for fiscal 2003.

***Sales in Our Electronics Business Are Dependent on New Products and Consumer Acceptance.***

Our electronics business depends, to a large extent, on the introduction and availability of innovative products and technologies. Significant sales of new products in niche markets, such as navigation, portable DVD players and mobile video systems, have fueled the recent growth of our electronics business. If we are not able to continually introduce new products that achieve consumer acceptance, our sales and profit margins will decline.

***Since We Do Not Manufacture Our Products, We Depend on Our Suppliers to Provide Us with Adequate Quantities of High Quality Competitive Products on a Timely Basis.***

We do not manufacture our products. We do not have long-term contracts but have exclusive distribution arrangements with certain suppliers. The suppliers can only sell their products through the Company for a given geographic or designated market area. Most of our products are imported from suppliers under short-term purchase orders. Accordingly, we can give no assurance that:

our supplier relationships will continue as presently in effect

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our suppliers will be able to obtain the components necessary to produce high-quality, technologically-advanced products for us

we will be able to obtain adequate alternatives to our supply sources should they be interrupted

if obtained, alternatively sourced products of satisfactory quality would be delivered on a timely basis, competitively priced, comparably featured or acceptable to our customers

exclusive geographic or market area distribution agreements will be renewed

Because of the increased demand for wireless and consumer electronics products, there have been, and still could be, industry-wide shortages of components. As a result, on occasion our suppliers have not been able to produce the quantities of these products that we desire. Our inability to supply sufficient quantities of products that are in demand could reduce our profitability and have a material adverse effect on our relationships with our customers. If any of our supplier relationships were terminated or interrupted, we could experience an immediate or long-term supply shortage, which could have a material adverse effect on us. It is likely that our supply of wireless products would be interrupted before we could obtain alternative products.

***Because We Purchase a Significant Amount of Our Products from Suppliers in Pacific Rim Countries, We Are Subject to the Economic Risks Associated with Changes in the Social, Political, Regulatory and Economic Conditions Inherent in These Countries.***

We import most of our products from suppliers in the Pacific Rim. Countries in the Pacific Rim have experienced significant social, political and economic upheaval over the past several years. Because of the large concentrations of our purchases in Pacific Rim countries, particularly Japan, China, South Korea, Taiwan and Malaysia, any adverse changes in the social, political, regulatory and economic conditions in these countries may materially increase the cost of the products that we buy from our foreign suppliers or delay shipments of products, which could have a material adverse effect on our business. In addition, our dependence on foreign suppliers forces us to order products further in advance than we would if our products were manufactured domestically. This increases the risk that our products will become obsolete or face selling price reductions before we can sell our inventory.

***We Plan to Expand the International Marketing and Distribution of Our Products, Which Will Subject Us to Additional Business Risks.***

As part of our business strategy, we intend to increase our international sales, although we cannot assure you that we will be able to do so. Conducting business outside of the United States subjects us to significant additional risks, including:

export and import restrictions, tax consequences and other trade barriers

currency fluctuations

greater difficulty in accounts receivable collections

economic and political instability

foreign exchange controls that prohibit payment in U.S. dollars

increased complexity and costs of managing and staffing international operations

For instance, our international sales have been affected by political unrest and currency fluctuation in Venezuela. Any of these factors could have a material adverse effect on our business, financial condition and results of operations.



***Fluctuations in Foreign Currencies Could Have a Material Adverse Impact on Our Business.***

We cannot predict the effect of exchange rate fluctuations on our future operating results. Also, due to the short-term nature of our supply arrangements, the relationship of the U.S. dollar to foreign currencies will impact price quotes when negotiating new supply arrangements denominated in U.S. dollars. As a result, we could experience declining selling prices in our market without the benefit of cost decreases on purchases from suppliers or we could experience increasing costs without an ability to pass the costs to the customers. We cannot assure you that we will be able to effectively limit our exposure to foreign currencies. Foreign currency fluctuations could cause our operating results to decline and have a material adverse effect on our ability to compete. Many of our competitors manufacture products in the United States or outside the Pacific Rim, which could place us at a competitive disadvantage if the value of the Pacific Rim currencies increased relative to the currency in the countries where our competitors obtain their products.

***Trade Sanctions Against Foreign Countries or Foreign Companies Could Have a Material Adverse Impact on Our Business.***

As a result of trade disputes, the United States and foreign countries have occasionally imposed tariffs, regulatory procedures and importation bans on certain products, including wireless handsets that have been produced in foreign countries. Trade sanctions or regulatory procedures involving a country in which we conduct a substantial amount of business could have a material adverse effect on our operations. Some of the countries we purchase products from are: China, Japan, South Korea, Taiwan and Malaysia. China and Japan have been affected by such sanctions in the past. In addition, the United States has imposed, and may in the future impose, sanctions on foreign companies for anti-dumping and other violations of U.S. law. If sanctions were imposed on any of our suppliers or customers, it could have a material adverse effect on our operations.

***We May Not Be Able to Sustain Our Recent Growth Rates or Maintain Profit Margins.***

Sales of our wireless products, a large portion of our business that operates on a high-volume, low-margin basis, have varied significantly over the past several years, from approximately \$423 million in fiscal 1998 to approximately \$1.4 billion for fiscal 2000 back to approximately \$806 million in 2003. Sales of our electronics products also increased significantly from approximately \$182 million for fiscal 1998 to approximately \$518 million for fiscal 2003. We may not be able to continue to achieve this overall revenue growth rate or maintain profit margins because, among other reasons, of increased competition and technological changes, which can be seen in the decline of our Wireless Group. In addition, we expect that our operating expenses will continue to increase as we seek to expand our business, which could also result in a reduction in profit margins if we do not concurrently increase our sales proportionately.

***If Our Sales During the Holiday Season Fall below Our Expectations, Our Annual Results Could Also Fall below Expectations.***

Seasonal consumer shopping patterns significantly affect our business. We generally make a substantial amount of our sales and net income during September, October and November, our fourth fiscal quarter. We expect this trend to continue. December is also a key month for us, due largely to the increase in promotional activities by our customers during the holiday season. If the economy faltered in these periods, if our customers altered the timing or frequency of their promotional activities or if the effectiveness of these promotional activities declined, particularly around the holiday season, it could have a material adverse effect on our annual financial results.



***A Decline in General Economic Conditions Could Lead to Reduced Consumer Demand for the Discretionary Products We Sell.***

Consumer spending patterns, especially discretionary spending for products such as consumer electronics and wireless handsets, are affected by, among other things, prevailing economic conditions, wage rates, inflation, consumer confidence and consumer perception of economic conditions. A general slowdown in the U.S. economy or an uncertain economic outlook could have a material adverse effect on our sales.

***We Depend Heavily on Existing Management and Key Personnel and Our Ability to Recruit and Retain Qualified Personnel.***

Our success depends on the continued efforts of John J. Shalam, Philip Christopher, C. Michael Stoehr and Patrick Lavelle, each of whom has worked with Audiovox for over two decades, as well as our other executive officers and key employees. We only have one employment contract, with Philip Christopher and none with any other executive officers or key employees. The loss or interruption of the continued full-time service of certain of our executive officers and key employees could have a material adverse effect on our business.

In addition, to support our continued growth, we must effectively recruit, develop and retain additional qualified personnel both domestically and internationally. Our inability to attract and retain necessary qualified personnel could have a material adverse effect on our business.

***We Are Responsible for Product Warranties and Defects.***

Even though we outsource manufacturing, we provide warranties for all of our products for which we have provided an estimated liability. Therefore, we are highly dependent on the quality of our suppliers. The warranties for our electronics products range from 90 days to the lifetime of a vehicle for the original owner. The warranties for our current wireless products generally range from 12 to 15 months. In addition, if we are required to repair a significant amount of product, the value of the product could decline while we are repairing the product.

***Our Capital Resources May Not Be Sufficient to Meet Our Future Capital and Liquidity Requirements.***

We believe that we currently have sufficient resources to fund our existing operations for the foreseeable future through our cash flows and borrowings under our credit facility. However, we may need additional capital to operate our business if:

market conditions change

our business plans or assumptions change

we make significant acquisitions

we need to make significant increases in capital expenditures or working capital

The Company's principal source of liquidity expires in July 2004, and the Company is currently in negotiations with the bank to extend this facility. We cannot assure you that we would be able to raise additional capital on favorable terms, if at all. If we could not obtain sufficient funds to meet our capital requirements, we would have to curtail our business plans. We may also raise funds to meet our capital requirements by issuing additional equity, which could be dilutive to our stockholders, though there can be no assurance that we would be able to do this.

***Restrictive Covenants in Our Credit Facility May Restrict Our Ability to Implement Our Growth Strategy, Respond to Changes in Industry Conditions, Secure Additional Financing and Make Acquisitions.***

Our credit facility contains restrictive covenants that:

require us to attain specified pre-tax income

limit our ability to incur additional debt

require us to achieve specific financial ratios

restrict our ability to make capital expenditures or acquisitions

If our business needs require us to take on additional debt, secure financing or make significant capital expenditures or acquisitions, and we are unable to comply with these restrictions, we would be forced to negotiate with our lenders to waive these covenants or amend the terms of our credit facility. At May 31, 2001, November 30, 2001 and the first quarter ended February 28, 2002, the Company was not in compliance with certain of its pre-tax income covenants. The Company received a waiver for the November 30, 2001 pre-tax income violation subsequent to its issuance of the November 30, 2001 financial statements. In addition, the Company received waivers for the May 31, 2001 and February 28, 2002 violations.

At November 30, 2002, the Company was not in compliance with certain of its pre-tax income covenants. Furthermore, as of November 30, 2002, the Company was also not in compliance with the requirement to deliver audited financial statements 90 days after the Company's fiscal year end, and as of February 28, 2003, the requirement to deliver unaudited quarterly financial statements 45 days after the Company's quarter end and had not received a waiver. The Company subsequently obtained a waiver for the November 30, 2002 and February 28, 2003 violations. The Company was in compliance with all its bank covenants at November 30, 2003. While the Company has historically been able to obtain waivers for such violations, there can be no assurance that future negotiations with its lenders would be successful or that the Company will not violate covenants in the future, therefore, resulting in amounts outstanding to be payable upon demand. This credit agreement has no cross covenants with other credit facilities.

Achieving pre-tax income is significantly dependant upon the timing of customer acceptance of new technologies, customer demand and the ability of our vendors to supply sufficient quantities to fulfill anticipated customer demand, among other factors.

***There Are Claims of Possible Health Risks from Wireless Handsets.***

Claims have been made alleging a link between the non-thermal electromagnetic field emitted by wireless handsets and the development of cancer, including brain cancer. The television program <sup>20/20</sup> on ABC reported that several of the handsets available on the market, when used in certain positions, emit radiation to the user's brain in amounts higher than permitted by the Food and Drug Administration. The scientific community is divided on whether there is any risk associated with the use of wireless handsets and, if so, the magnitude of the risk. Unfavorable publicity, whether or not warranted, medical studies or findings or litigation could have a material adverse effect on our growth and financial results.

In the past, several plaintiffs' groups have brought class actions against wireless handset manufacturers and distributors, including us, alleging that wireless handsets have caused cancer. To date, none of these actions has been successful. However, actions based on these or other claims may succeed in the future and have a material adverse effect on us.

***Several Domestic and Foreign Governments Are Considering, or Have Recently Adopted, Legislation That Restricts the Use of Wireless Handsets While Driving.***

Several foreign governments have adopted, and a number of U.S. state and local governments are considering or have recently enacted, legislation that would restrict or prohibit the use of a wireless handset while driving a vehicle or, alternatively, require the use of a hands-free telephone. For example, Ohio and New York have adopted statutes that restricts the use of wireless handsets or requires the use of a hands-free kit while driving. Widespread legislation that restricts or prohibits the use of wireless handsets while operating a vehicle could have a material adverse effect on our future growth.

***Our Stock Price Could Fluctuate Significantly.***

The market price of our common stock could fluctuate significantly in response to various factors and events, including:

operating results being below market expectations

announcements of technological innovations or new products by us or our competitors

loss of a major customer or supplier

changes in, or our failure to meet, financial estimates by securities analysts

industry developments

economic and other external factors

period-to-period fluctuations in our financial results

financial crises in foreign countries

general downgrading of our industry sector by securities analysts

In addition, the securities markets have experienced significant price and volume fluctuations over the past several years that have often been unrelated to the operating performance of particular companies. These market fluctuations may also have a material adverse effect on the market price of our common stock.

***Our Securities Will Continue to be Listed on the Nasdaq National Market Pursuant to Exceptions.***

Following the Company's hearing with the Nasdaq related to its late filing of certain annual and quarterly forms with the SEC, the Company was notified that it must become timely in its filings and continue in the future to be timely to insure its continued listing on the Nasdaq National Market.

***John J. Shalam, Our President and Chief Executive Officer, Owns a Significant Portion of Our Common Stock and Can Exercise Control over Our Affairs.***

Mr. Shalam beneficially owns approximately 54% of the combined voting power of both classes of common stock. This will allow him to elect our Board of Directors and, in general, to determine the outcome of any other matter submitted to the stockholders for approval. Mr. Shalam's voting power may have the effect of delaying or preventing a change in control of Audiovox.

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We have two classes of common stock: Class A common stock is traded on the Nasdaq Stock Market under the symbol VOXX, and Class B common stock, which is not publicly traded and substantially all of which is beneficially owned by Mr. Shalam. Each share of Class A common stock is entitled to one vote per share and each share of Class B common stock is entitled to ten votes per share. Both classes vote together as a single class, except in certain circumstances, for the election and

removal of directors and as otherwise may be required by Delaware law. Since our charter permits shareholder action by written consent, Mr. Shalam may be able to take significant corporate actions without prior notice and a shareholder meeting.

## Item 2 Properties

As of November 30, 2003, the Company leased a total of twenty-nine operating facilities located in eleven states. The leases have been classified as operating leases, with the exception of one, which is recorded as a capital lease. Wireless utilizes eight of these facilities located in California, New York, Virginia and Canada. The Electronics Group utilizes twenty-one of these facilities located in California, Florida, Georgia, Massachusetts, New York, Ohio, Tennessee, Texas and Michigan. These facilities serve as offices, warehouses, distribution centers or retail locations for both Wireless and Electronics. Additionally, the Company utilizes public warehouse facilities located in Norfolk, Virginia and Sparks, Nevada for its Electronics Group and in Miami, Florida, Toronto, Canada, Farmingdale, New York, Rancho Dominguez, California and Tilburg, Netherlands for its Wireless Group. The Company also leases facilities in Germany and Venezuela for its Electronics Group.

## Item 3 Legal Proceedings

The Company is currently, and has in the past been, a party to routine litigation incidental to its business. From time to time, the Company receives notification of alleged violations of registered patent holders' rights. The Company has either been indemnified by its manufacturers in these matters, obtained the benefit of a patent license or has decided to vigorously defend such claims.

On September 17, 2003, Audiovox Electronics Corporation ("AEC") settled the action for patent infringement that was instituted by Nissho Iwai American Corporation against AEC in the United State District Court for the Southern District of New York. Pursuant to the settlement Nissho granted AEC a non-exclusive license for a payment covering any alleged past infringements and a per unit payment for future infringement. Neither party to the lawsuit admitted any liability or any merit to the allegations of either party.

The Company and Audiovox Communications Corp. ("ACC"), along with other manufacturers of wireless phones and cellular service providers, were named as defendants in two class action lawsuits alleging non-compliance with FCC ordered emergency 911 call processing capabilities. These lawsuits were consolidated and transferred to the United States District Court for the Northern District of Illinois, which in turn referred the cases to the Federal Communications Commission ("FCC") to determine if the manufacturers and service providers are in compliance with the FCC's order on emergency 911 call processing capabilities. The Company and ACC intend to vigorously defend this matter. However, no assurances regarding the outcome of this matter can be given at this point in the litigation.

In June 2003, Audiovox Communications Corp. settled the litigation it had instituted against Northcoast Communications, LLC ("Northcoast"). ACC received a partial payment of its claimed amount from Northcoast. In addition, Northcoast withdrew its counterclaims with prejudice. A Stipulation of Discontinuance with prejudice was filed in the Supreme Court of the State of New York, County of Suffolk.

During 2001, the Company, along with other suppliers, manufacturers and distributors of hand-held wireless telephones, was named as a defendant in five class action lawsuits alleging damages relating to exposure to radio frequency radiation from hand-held wireless telephones. These class actions have been consolidated and transferred to a Multi-District Litigation Panel before the United States District Court of the District of Maryland. On March 5, 2003, Judge Catherine C. Blake of the United States District Court for the District of Maryland granted the defendants' consolidated motion to dismiss these complaints. Plaintiffs have appealed to the United States Circuit Court of Appeals,

Fourth Circuit. The appeal pending before the United States Circuit Court of Appeals, Fourth Circuit in the consolidated class action lawsuits (*Pinney, Farina, Gilliam, Gimpelson and Naquin*) against ACC and other suppliers, manufacturers and distributors as well as wireless carriers of hand-held wireless telephones alleging damages relating to risk of exposure to radio frequency radiation from the wireless telephones has not yet been heard. It is anticipated that the appeal will be heard in May 2004.

The Company had been the subject of an administrative agency investigation involving alleged reimbursement of a fixed nominal amount of federal campaign contributions during the years 1995 and 1996. During the third quarter of fiscal 2003, the Company entered into a Conciliation Agreement and paid a civil penalty in the amount of \$620.

During the third quarter of fiscal 2003, a certain Venezuelan employee, who is also a minority shareholder in Audiovox Venezuela, submitted a claim to the Venezuela Labor Court for severance compensation of approximately \$560. The Court approved the claim and it was paid and expensed by Audiovox Venezuela in the third quarter of fiscal 2003. The Company is challenging the payment of this claim and will seek reimbursement from the Venezuelan shareholder or the Company's insurance carrier.

The Company does not expect the outcome of any pending litigation, separately and in the aggregate, to have a material adverse effect on its business, consolidated financial position or results of operations.

#### Item 4 Submission of Matters to a Vote of Security Holders

No matters were submitted to a vote of security holders during the fourth quarter of fiscal 2003.

## PART II

#### Item 5 Market for the Registrant's Common Equity and Related Stockholder Matters

##### *Summary of Stock Prices and Dividend Data*

The Class A Common Stock of Audiovox are traded on the Nasdaq Stock Market under the symbol VOXX. No dividends have been paid on the Company's common stock. The Company is restricted by agreements with its financial institutions from the payment of common stock dividends while certain loans are outstanding (see Liquidity and Capital Resources of Management's Discussion and Analysis). There are approximately 617 holders of record of our Class A Common Stock and four holders of Class B Convertible Common Stock.

##### *Class A Common Stock*

Fiscal Period	High	Low	Average Daily Trading Volume
<b>2002</b>			
First Quarter	8.25	6.00	117,420
Second Quarter	8.93	6.50	82,356
Third Quarter	9.05	5.95	91,708
Fourth Quarter	11.53	6.30	71,940
<b>2003</b>			
First Quarter	11.60	7.77	167,418
Second Quarter	9.70	6.10	95,459
Third Quarter	14.03	9.15	123,680
Fourth Quarter	14.90	11.00	95,333

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We have not paid or declared any cash dividends on our common stock. We have retained, and currently anticipate that we will continue to retain, all of our earnings for use in developing our business. Future cash dividends, if any, will be paid at the discretion of our Board of Directors and will depend, among other things, upon our future operations and earnings, capital requirements and surplus, general financial condition, contractual restrictions and such other factors as our Board of Directors may deem relevant.

### *Equity Compensation Table*

The following table sets forth information regarding the Company's equity compensation plans in effect as of November 30, 2003:

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in first reporting column)
Equity compensation plans approved by security holders	2,569,864	\$ 11.77	234,253
Equity compensation plans not approved by security holders(a)	150,000	11.12	
<b>Total</b>	<b>2,719,864</b>	<b>\$ 11.76</b>	<b>234,253</b>

(a) Represents 30,000 stock options issued to outside directors and 120,000 warrants issued to outside legal counsel. See Note 16 of Notes to Consolidated Financial Statements.

### **Item 6 Selected Consolidated Financial Data**

The following selected consolidated financial data should be read in conjunction with the consolidated financial statements, the notes to consolidated financial statements and "Management's Discussion and Analysis of Financial Condition and Results of Operations", which are included elsewhere in this report. The consolidated statements of operations data for each of the five fiscal years in the period ended November 30, 2003, and the consolidated balance sheet data as of the end of each such fiscal year, are derived from our audited consolidated financial statements (in thousands except per share data).

See "Management's Discussion and Analysis of Financial Condition and Results of Operations Recent Event" and Note 2, "Restatement of Consolidated Financial Statements", and Note 22, "Unaudited Quarterly Financial Data" of Notes to Consolidated Financial Statements for more detailed information regarding the restatement of our consolidated financial statements for the fiscal years ended November 30, 2000 and 2001 and restated unaudited quarterly data for fiscal quarters during the year ended November 30, 2001 and the fiscal 2002 quarters ended February 28, 2002,

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May 31, 2002 and August 31, 2002. The Company did not restate the year ended November 30, 1999 as any restatement amounts applicable to that year were not material and were recorded in fiscal 2000.

	Years Ended November 30,				
	1999	2000(1)	2001(1)	2002	2003
<b>Consolidated Statement of Operations Data</b>					
Net sales(2)(3)	\$ 1,149,537	\$ 1,670,291	\$ 1,276,591	\$ 1,100,382	\$ 1,323,902
Operating income	38,237	39,629	(9,236)	(14,076)	21,803
Income (loss) before extraordinary item and cumulative effect of a change in accounting for negative goodwill	27,246	25,303	(7,198)	(14,280)	11,239
Extraordinary item		2,189			
Cumulative effect of a change in accounting for negative goodwill				240	
Net income (loss)	27,246	27,492	(7,198)	(14,040)	11,239
Income (loss) per common share before extraordinary item and cumulative effect of a change in accounting for negative goodwill:					
Basic	1.43	1.19	(0.33)	(0.65)	0.51
Diluted	1.39	1.12	(0.33)	(0.65)	0.51
Net income (loss) per common share:					
Basic	1.43	1.29	(0.33)	(0.64)	0.51
Diluted	1.39	1.22	(0.33)	(0.64)	0.51
<b>Consolidated Balance Sheet Data</b>					
Total assets	\$ 486,220	\$ 517,586	\$ 544,497	\$ 551,235	\$ 579,703
Working capital	272,081	305,369	284,166	292,687	304,354
Long-term obligations, less current installments	122,798	23,468	10,040	18,250	29,639
Stockholders' equity	216,744	330,766	323,220	309,513	325,728

- (1) See Note (2) of Notes to Consolidated Financial Statements.
- (2) Effective March 1, 2002, the Company adopted Emerging Issues Task Force (EITF) Issue No. 01-9, "Accounting for Consideration Given by a Vendor to a Customer". Upon adoption of this Issue, the Company reclassified its sales incentives offered to its customers from selling expenses to net sales. For purposes of comparability, these reclassifications have been reflected retroactively for all periods presented.
- (3) In fiscal 2001, the Company adopted the provisions of EITF Issue No. 00-10, "Accounting for Shipping and Handling Fees and Costs", which requires the Company to report all amounts billed to a customer related to shipping and handling as revenue. The Company has reclassified such billed amounts, which were previously netted in cost of sales, to net sales. Gross profit has remained unchanged by this adoption. For purposes of comparability, these reclassifications have been reflected retroactively for all periods presented.

## Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations

### Forward-looking Statements

This Report on Form 10-K contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as





amended. Words such as "may," "believe," "estimate," "expect," "plan," "intend," "project," "anticipate," "continues," "could," "potential," "predict" and similar expressions may identify forward- looking statements. The Company has based these forward-looking statements on its current expectations and projections about future events, activities or developments. The Company's actual results could differ materially from those discussed in or implied by these forward-looking statements. Forward-looking statements include statements relating to, among other things:

growth trends in the wireless, mobile and consumer electronic businesses

technological and market developments in the wireless, automotive, mobile and consumer electronics businesses

liquidity

availability of key employees

expansion into international markets

the availability of new consumer electronic products

the availability of new wireless products

These forward-looking statements are subject to numerous risks, uncertainties and assumptions about the Company including, among other things:

the ability to keep pace with technological advances

impact of future selling prices on Company profitability and inventory carrying value

significant competition in the wireless, automotive, mobile and consumer electronics businesses

quality and consumer acceptance of newly introduced products

the relationships with key suppliers

the relationships with key customers

possible increases in warranty expense

changes in the Company's business operations

the loss of key employees

foreign currency risks

political instability

changes in U.S. federal, state and local and foreign laws

changes in regulations and tariffs

seasonality and cyclical

inventory obsolescence and availability

consolidations in the wireless and retail industries, causing a decrease in the number of carriers and retail stores that carry our products

changes in global or local economic conditions

*Restatement of Consolidated Financial Statements*

The Company has previously restated its consolidated financial statements for the fiscal years ended November 30, 2000 and 2001 and for the fiscal quarters during the year ended November 30,

2001 and the fiscal 2002 quarters ended February 28, 2002, May 31, 2002 and August 31, 2002. In addition, the Company previously reclassified certain expenses from operating expenses to cost of sales for fiscal 2001 and for each of the quarters in the nine months ended August 31, 2002. Please refer to the Company's previously filed Form 10-K for the year ended November 30, 2002 for details.

#### *Business Overview*

The Company markets its products under the Audiovox® brand name and other brand names such as Jensen®, Acoustic Research® and Advent®, as well as private labels through a large and diverse distribution network both domestically and internationally. The Company operates through two marketing groups: Wireless and Electronics.

Wireless consists of Audiovox Communications Corp. (ACC), a 75%-owned subsidiary of Audiovox, and Quintex Mobile Communications Corp. (Quintex), which is a wholly-owned subsidiary of ACC. ACC markets wireless handsets and accessories primarily on a wholesale basis to wireless carriers in the United States and carriers overseas primarily in the CDMA (Code Division Multiple Access) market. Based on unit sales, ACC has a substantial share of the CDMA market, which is directly impacted by new product introductions and high customer concentration (see Cautionary Factors that May Affect Future Results). Quintex is a small operation for the direct sale of handsets, accessories and wireless telephone service. Quintex also receives residual fees and activation commissions from the carriers. Residuals are paid by the carriers based upon a percentage of usage of customers activated by Quintex for a period of time (1-5 years). Quintex also sells a small volume of electronics products not related to wireless which are categorized as "other" sales.

The Electronics Group consists of four wholly-owned subsidiaries: Audiovox Electronics Corporation (AEC), American Radio Corp., Code Systems, Inc. (Code) and Audiovox Europe Holdings GmbH (Audiovox Europe) and three majority-owned subsidiaries, Audiovox Communications (Malaysia) Sdn. Bhd., Audiovox Holdings (M) Sdn. Bhd. and Audiovox Venezuela, C.A. The Electronics Group markets, both domestically and internationally, automotive sound and security systems, electronic car accessories, home and portable sound products, two-way radios, in-vehicle video systems, flat-screen televisions, DVD players and navigation systems. Sales are made through an extensive distribution network of mass merchandisers and others. In addition, the Company sells some of its products directly to automobile manufacturers on an OEM basis. American Radio Corp. is also involved on a limited basis in the wireless marketplace and these sales are categorized as "other".

The Company allocates interest and certain shared expenses, including treasury, legal, human resources and information systems, to the marketing groups based upon both actual and estimated usage. General expenses and other income items that are not readily allocable are not included in the results of the two marketing groups.

From fiscal 1999 through 2003, several major events and trends have affected the Company's results and financial conditions. Such events and trends are discussed below.

Handset sales in our Wireless Group increased from 6.1 million units in fiscal 1999 to an all-time high of 8.9 million units in fiscal 2000 as a result of the introduction of digital technology, reduced cost of service plans and expanded feature options which attracted more subscribers to the carriers systems. During 2001 through 2003, as a result of the change in technology from analog to digital, the consolidation of our carrier customer base and increased price competition from our competitors, the Wireless Group's overall growth was impacted. Further during this period, the addition of several new competitors had an effect on the Company's sales. These factors resulted in a reduction of our net

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sales to 4.7 million units in 2003. This overall trend in our wireless business from 1999 was impacted by:

the introduction of digital technology, which has allowed carriers to significantly increase subscriber capacity

reduced cost of service and expanded feature options

consolidation of carrier customers

price competition

increased competition

shortened product life cycle

product testing and acceptance complexity

In fiscal 2001, 2002 and 2003, the Company recorded inventory write-downs to market of \$20,650, \$13,823 and \$2,817, respectively. These write-downs were primarily due to increased pricing pressures, competition and changing technologies. Wireless' gross profit margins were negatively impacted by 2.1, 1.9 and 0.3 percentage points, respectively, as a result of these write-downs. As the life cycle for wireless products shortens, the timing of product testing and acceptance for new wireless technology has become critical. Complex wireless technology has caused delays in product testing and acceptance which may result in delayed product introductions. This trend of product testing, competition, price erosion, and changing technologies will continue to affect the overall wireless business segment.

In fiscal 2001, 2002 and 2003, Wireless recorded \$12,555, \$3,216 and \$1,137, respectively, into income due to reversals of previously established sales incentive accruals. Wireless' gross profit margins were positively impacted by 1.3, 0.4 and 0.1 percentage points, respectively, as a result of these reversals. See further discussion in critical accounting policies.

In our Electronics Group, sales were \$239.6 million in 1999 and \$517.7 million in 2003. During this period, the Company's sales were impacted by the following items:

the growth of our consumer electronic products business from \$38.2 million in fiscal 1999 to \$144.3 million in fiscal 2003 was a result of the introduction of new consumer goods

the introduction of mobile video entertainment systems and other new technologies

growth of OEM business

acquisition of Recoton in fiscal 2003 and the formation of Audiovox Europe

Both of the Company's segments, Electronics and Wireless, are influenced by the introduction of new products and changes in technology (see Cautionary Factors That May Affect Future Results: Our success depends on our ability to keep pace with technological advances in the wireless industry).

During fiscal 2002 and 2003, the Company introduced several new products in our Electronics segment, which included an extended line of portable DVD products for the consumer market, new flat panel TV's and satellite radios. In our Wireless group, the technology has evolved to new 1X technology, color view screens and camera phones, PDA's with built-in wireless capabilities and certain 1X phones have the availability to utilize the new GPS locator systems. As a result of the continuous introduction of new products, the Company must sell existing older models

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prior to new product introduction or the value of the inventory may be impacted (see Critical Accounting Policies Inventory, MD&A Discussions).

Gross margins in the Company's electronics business have decreased to 16.6% for fiscal 2003 from 18.1% in 2000 due to increased sales to mass merchants and a change in the product mix, partially

offset by higher margins in mobile video products, other new technologies and products and the growth of the international business.

In fiscal 2001, 2002 and 2003, Electronics recorded \$298, \$716 and \$886, respectively, into income upon the expiration of unclaimed sales incentive accruals. As a result, Electronics' gross profit margins were positively impacted by 0.1, 0.2 and 0.2 percentage points, respectively.

The Company's total operating expenses have increased at a slower rate than sales since 1999. Total consolidated operating expenses were \$96.4 million in 1999 and \$102.4 million in 2003. In fiscal 2003, operating expenses have increased 6.2% since 1999, compared to sales growth of 15.2% since 1999. The Company has invested in management information systems and its operating facilities to increase its efficiency.

During fiscal 2002, the Company's financial position was improved by the sale of 20% of its previously 95%-owned subsidiary, ACC, to Toshiba for \$27.2 million. This sale was offset by the Recoton acquisition in fiscal 2003 which approximated \$40.0 million, net of cash acquired.

All financial information, except share and per share data, is presented in thousands.

### *Critical Accounting Policies and Estimates*

#### *General*

The consolidated financial statements of the Company are prepared in conformity with accounting principles generally accepted in the United States of America. As such, the Company is required to make certain estimates, judgments and assumptions that management believes are reasonable based upon the information available. These estimates and assumptions, which can be subjective and complex, affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the dates of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting periods. As a result, actual results could differ from such estimates and assumptions. The significant accounting policies which the Company believes are the most critical to aid in fully understanding and evaluating the reported consolidated financial results include the following:

#### *Revenue Recognition*

The Company recognizes revenue from product sales at the time of passage of title and risk of loss to the customer either at FOB Shipping Point or FOB Destination, based upon terms established with the customer. Any customer acceptance provisions, which are related to product testing, are satisfied prior to revenue recognition. There are no further obligations on the part of the Company subsequent to revenue recognition except for returns of product from the Company's customers. The Company does accept returns of products, if properly requested, authorized, and approved by the Company. The Company records an estimate of returns of products to be returned by its customers. Management continuously monitors and tracks such product returns and records the provision for the estimated amount of such future returns, based on historical experience and any notification the Company receives of pending returns. The Electronics segment's selling price to its customers is a fixed amount that is not subject to refund or adjustment or contingent upon additional rebates.

The Wireless segment has sales agreements with certain customers that provide for a rebate of the selling price to such customers if the particular product is subsequently sold at a lower price to the same customer or to a different customer. The rebate period extends for a relatively short period of time. Historically, the amounts of such rebates paid to customers have not been material. The Company estimates the amount of the rebate based upon the terms of each individual arrangement, historical experience and future expectations of price reductions, and the Company records its estimate of the rebate amount at the time of the sale.

### *Sales Incentives*

Both of the Company's segments, Wireless and Electronics, offer sales incentives to its customers in the form of (1) co-operative advertising allowances; (2) market development funds and (3) volume incentive rebates. The Electronics segment also offers other trade allowances to its customers. The terms of the sales incentives vary by customer and are offered from time to time. Except for other trade allowances, all sales incentives require the customer to purchase the Company's products during a specified period of time. All sales incentives require the customer to claim the sales incentive within a certain time period. Although all sales incentives require customers to claim the sales incentive within a certain time period (referred to as the "claim period"), the Wireless segment historically has settled sales incentives claimed after the claim period has expired if a customer demands payment. The sales incentive liabilities are settled either by the customer claiming a deduction against an outstanding account receivable owed to the Company by the customer or by the customer requesting a check from the Company. The Company is unable to demonstrate that an identifiable benefit of the sales incentives has been received as such, all costs associated with sales incentives are classified as a reduction of net sales. The following is a summary of the various sales incentive programs offered by the Company and the related accounting policies:

Co-operative advertising allowances are offered to customers as reimbursement towards their costs for print or media advertising in which our product is featured on its own or in conjunction with other companies' products (e.g., a weekly advertising circular by a mass merchant). The amount offered is either based upon a fixed percentage of the Company's sales revenue or is a fixed amount per unit sold to the customer during a specified time period. Market development funds are offered to customers in connection with new product launches or entering into new markets. Those new markets can be either new geographic areas or new customers. The amount offered for new product launches is based upon a fixed percentage of the Company's sales revenue to the customer or is a fixed amount per unit sold to the customer during a specified time period. The Company accrues the cost of co-operative advertising allowances and market development funds at the later of when the customer purchases our products or when the sales incentive is offered to the customer.

Volume incentive rebates offered to customers require that minimum quantities of product be purchased during a specified period of time. The amount offered is either based upon a fixed percentage of the Company's sales revenue to the customer or is a fixed amount per unit sold to the customer. Certain of the volume incentive rebates offered to customers include a sliding scale of the amount of the sales incentive with different required minimum quantities to be purchased. The customer's achievement of the sales threshold and consequently the measurement of the total rebate for the Wireless segment cannot be reasonably estimated. Accordingly, the Wireless segment recognizes a liability for the maximum potential amount of the rebate with the exception of certain volume incentive rebates that include very aggressive tiered levels of volume purchases. For volume incentive rebates that include very aggressive tiered levels of volume purchase, the Wireless segment recognizes a liability for the rebate as the underlying revenue transactions that result in progress by the customer toward earning the rebate or refund on a program by program basis are recognized. The Electronics segment makes an estimate of the ultimate amount of the rebate their customers will earn based upon past history with the customer and other facts and circumstances. The Electronics segment has the ability to estimate these volume incentive rebates, as there does not exist a relatively long period of time for a particular rebate to be claimed, the Electronics segment does have historical experience with these sales incentive programs and the Electronics segment does have a large volume of relatively homogenous transactions. Any changes in the estimated amount of volume incentive rebates are recognized immediately using a cumulative catch-up adjustment.



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With respect to the accounting for co-operative advertising allowances, market development funds and volume incentive rebates, there was no impact upon the adoption of EITF 01-9, "Accounting for Consideration Given by a Vendor to a Customer (Including a Reseller of Vendor's Products)" (EITF 01-9), as the Company's accounting policy prior to March 1, 2002 was consistent with its accounting policy after the adoption of EITF 01-9.

Other trade allowances are additional sales incentives that the Company provides to the Electronics segment customers subsequent to the related revenue being recognized. In accordance with EITF 01-9, the Company records the provision for these additional sales incentives at the later of when the sales incentive is offered or when the related revenue is recognized. Such additional sales incentives are based upon a fixed percentage of the selling price to the customer, a fixed amount per unit, or a lump-sum amount.

The accrual for sales incentives at November 30, 2002 and 2003 was \$12,151 and \$21,894, respectively. The Company's sales incentive liability may prove to be inaccurate, in which case the Company may have understated or overstated the provision required for these arrangements. Therefore, although the Company makes its best estimate of its sales incentive liability, many factors, including significant unanticipated changes in the purchasing volume of its customers and the lack of claims made by customers of offered and accepted sales incentives, could have significant impact on the Company's liability for sales incentives and the Company's reported operating results.

For the fiscal years ended November 30, 2001, 2002 and 2003, reversals of previously established sales incentive liabilities amounted to \$14,369, \$4,716 and \$2,940, respectively. These reversals include unearned sales incentives and unclaimed sales incentives. Unearned sales incentives are volume incentive rebates where the customer did not purchase the required minimum quantities of product during the specified time. Volume incentive rebates for both segments are reversed into income in the period when the customer did not purchase the required minimum quantities of product during the specified time. Unearned sales incentives for fiscal years ended November 30, 2001, 2002 and 2003 amounted to \$9,051, \$1,354 and \$1,310, respectively. Unclaimed sales incentives are sales incentives earned by the customer but the customer has not claimed payment of the earned sales incentive from the Company. Unclaimed sales incentives for fiscal years ended November 30, 2001, 2002 and 2003 amounted to \$5,318, \$3,362 and \$1,630, respectively.

The accrual for earned but unclaimed sales incentives is reversed by Wireless only when management is able to conclude, based upon an individual judgment of each sales incentive, that it is remote that the customer will claim the sales incentive. The methodology applied for determining the amount and timing of reversals for the Wireless segment is disciplined, consistent and rational. The methodology is not systematic (formula based), as the Company makes an estimate as to when it is remote that the sales incentive will not be claimed. Reversals by the Wireless segment of unclaimed sales incentives have historically occurred in varying periods up to 12 months after the recognition of the accrual. In deciding on whether to reverse the sales incentive liability into income, the Company makes an assessment as to the likelihood of the customer ever claiming the funds after the claim period has expired and considers the specific facts and circumstances pertaining to the individual sales incentive. The factors considered by management in making the decision to reverse accruals for unclaimed sales incentives include (i) past practices of the customer requesting payments after the expiration of the claim period; (ii) recent negotiations with the customer for new sales incentives; (iii) subsequent communications with the customer with regard to the status of the claim; and (iv) recent activity in the customer's account.

The Electronics segment reverses earned but unclaimed sales incentives upon the expiration of the claim period. The Company believes that the reversal of earned but unclaimed sales incentives for Electronics upon the expiration of the claim period is a disciplined, rational, consistent and systematic method of reversing unclaimed sales incentives. For the Electronics segment, the majority of sales

incentive programs are calendar-year programs. Accordingly, the program ends on the month following the fiscal year end and the claim period expires one year from the end of the program.

#### *Accounts Receivable*

The Company performs ongoing credit evaluations of its customers and adjusts credit limits based upon payment history and the customer's current credit worthiness, as determined by a review of their current credit information. The Company continuously monitors collections and payments from its customers and maintains a provision for estimated credit losses based upon historical experience and any specific customer collection issues that have been identified. The Company's reserve for estimated credit losses at November 30, 2003 was \$6,947. While such credit losses have historically been within management's expectations and the provisions established, the Company cannot guarantee that it will continue to experience the same credit loss rates that have been experienced in the past. Since the Company's accounts receivable are concentrated in a relatively few number of customers, a significant change in the liquidity or financial position of any one of these customers could have a material adverse impact on the collectability of the Company's accounts receivables and future operating results.

#### *Inventories*

The Company values its inventory at the lower of the actual cost to purchase (primarily on a weighted moving average basis) and/or the current estimated market value of the inventory less expected costs to sell the inventory. The Company regularly reviews inventory quantities on-hand and records a provision for excess and obsolete inventory based primarily on open purchase orders from customers and selling prices subsequent to the balance sheet date as well as indications from customers based upon the then current negotiations. As demonstrated in recent years, demand for the Company's products can fluctuate significantly. A significant sudden increase in the demand for the Company's products could result in a short-term increase in the cost of inventory purchases while a significant decrease in demand could result in an increase in the amount of excess inventory quantities on-hand. In addition, the Company's industry is characterized by rapid technological change and frequent new product introductions that could result in an increase in the amount of obsolete inventory quantities on-hand. In such situations, the Company generally does not obtain price protection from its vendors, however, on occasion, the Company has received price protection which reduces the cost of inventory. Since price protection reduces the cost of inventory, as the Company sells the inventory for which it has received price protection, the amount is reflected as a reduction to cost of sales. There can be no assurances that the Company will be successful in negotiating such price protection from its vendors in the future.

The Company has, on occasion, performed upgrades on certain inventory on behalf of its vendors. The reimbursements the Company receives to perform these upgrades are reflected as a reduction to the cost of inventory and is recognized as a reduction to cost of sales as the related inventory is sold. Additionally, the Company's estimates of excess and obsolete inventory may prove to be inaccurate, in which case the Company may have understated or overstated the provision required for excess and obsolete inventory. In the future, if the Company's inventory is determined to be overvalued, it would be required to recognize such costs in its cost of goods sold at the time of such determination. Likewise, if the Company does not properly estimate the lower of cost or market of its inventory and it is therefore determined to be undervalued, it may have over-reported its cost of goods sold in previous periods and would be required to recognize such additional operating income at the time of sale. Therefore, although the Company makes every effort to ensure the accuracy of its forecasts of future product demand, any significant unanticipated changes in demand or technological developments could have a significant impact on the value of the Company's inventory and its reported operating results.

The Company maintains a significant investment in inventory and, therefore, is subject to the risk of losses on write-downs to market and inventory obsolescence. The Company decided to substantially

exit the analog phone line of business to reflect the shift in the wireless industry from analog to digital technology and recorded a charge of approximately \$13,500 during the second quarter of 2001 to reduce its carrying value of its analog inventory to estimated market value. During the fourth quarter of 2001, Wireless recorded inventory write-downs to market of \$7,150 as a result of the reduction of selling prices primarily related to digital hand-held phones during the first quarter of 2002 in anticipation of new digital technologies. During the year ended November 30, 2002, Wireless recorded inventory write-downs to market of \$13,823.

During fiscal 2003, Wireless recorded inventory write-downs of \$2,817 based upon open purchase orders from customers and selling prices subsequent to the respective balance sheet dates as well as indications from our customers based upon current negotiations. It is reasonably possible that additional write-downs to market may be required in the future given the continued emergence of new technologies, however, no estimate can be made of such write-downs. At November 30, 2003, Wireless had on hand approximately 15,600 units of previously written-down inventory, with an extended value of approximately \$800.

For certain inventory items, the Company is entitled to receive price protection in the event the selling price to its customers is less than the purchase price from the manufacturer. The Company records such price protection, as necessary, at the time of the sale of the units. For fiscal 2001, 2002 and 2003, price protection of \$4,550, \$27,683 and \$13,031, respectively, was recorded as a reduction to cost of sales as the related inventory was sold. (see Cautionary Factors That May Affect Future Results: Our success depends on our ability to keep pace with technological advances in the wireless industry.)

#### *Goodwill and Other Intangible Assets*

Goodwill and Other Intangible assets consist of the excess cost over fair value of assets acquired and (goodwill) and other intangible assets (patents and trademarks). Goodwill, which includes equity investment goodwill, is calculated as the excess of the cost of purchased businesses over the value of their underlying net assets. Goodwill and other intangible assets that have an indefinite life are not amortized.

On an annual basis, we test goodwill and other intangible assets for impairment. To determine the fair value of these intangible assets, there are many assumptions and estimates used that directly impact the results of the testing. We have the ability to influence the outcome and ultimate results based on the assumptions and estimates we choose. To mitigate undue influence, we set criteria that are reviewed and approved by various levels of management. Additionally, we evaluate our recorded intangible assets with the assistance of a third-party valuation firm, as necessary.

#### *Warranties*

The Company offers warranties of various lengths depending upon the specific product. The Company's standard warranties require the Company to repair or replace defective product returned to the Company by both end users and its customers during such warranty period at no cost to the end users or customers. The Company records an estimate for warranty related costs based upon its actual historical return rates and repair costs at the time of sale, which are included in cost of sales. The estimated liability for future warranty expense amounted to \$12,006 at November 30, 2003, which has been included in accrued expenses and other current liabilities. While the Company's warranty costs have historically been within its expectations and the provisions established, the Company cannot guarantee that it will continue to experience the same warranty return rates or repair costs that have been experienced in the past. A significant increase in product return rates, or a significant increase in the costs to repair the Company's products, could have a material adverse impact on its operating results for the period or periods in which such returns or additional costs materialize.

*Income Taxes*

The Company accounts for income taxes in accordance with Statement of Financial Accounting Standards (SFAS) No. 109, "Accounting for Income Taxes". This Statement establishes financial accounting and reporting standards for the effects of income taxes that result from an enterprise's activities during the current and preceding years. It requires an asset and liability approach for financial accounting and reporting of income taxes.

The realization of tax benefits of deductible temporary differences and operating loss or tax credit carryforwards will depend on whether the Company will have sufficient taxable income of an appropriate character within the carryback and carryforward period permitted by the tax law to allow for utilization of the deductible amounts and carryforwards. Without sufficient taxable income to offset the deductible amounts and carryforwards, the related tax benefits will expire unused. The Company has evaluated both positive and negative evidence in making a determination as to whether it is more likely than not that all or some portion of the deferred tax asset will not be realized. Effective May 29, 2002, the Company's ownership in the Wireless Group was decreased to 75% (see Note 3). As such, the Company no longer files a consolidated U.S. Federal tax return. As a result, the realizability of the Wireless Group's deferred tax assets are assessed on a stand-alone basis. The Company's Wireless Group has incurred cumulative losses in recent years, and therefore based upon these cumulative losses and other material factors (including the Wireless Group's inability to reasonably and accurately estimate future operating and taxable income based upon the volatility of their historical operations), the Company has determined that it is more likely than not that some of the benefits of the Wireless Group's deferred tax assets and carryforwards will expire unused. Accordingly, the Company recorded an additional valuation allowance of \$13,090 during fiscal year ended November 30, 2002 related to the Wireless Group's deferred tax assets. During the fiscal year ended November 30, 2003, the valuation allowance was reduced by \$641 due to a reduction in various temporary differences.

Furthermore, the Company provides tax reserves for Federal, state and international exposures relating to potential tax examination issues, planning initiatives and compliance responsibilities. The development of these reserves requires judgments about tax issues, potential outcomes and timing and is a subjective critical estimate.

# Results of Operations

The following table sets forth for the periods indicated certain statements of operations data for the Company expressed as a percentage of net sales:

	Percentage of Net Sales Years Ended November 30,		
	2001(1)	2002	2003
Net sales(2):			
Wireless			
Wireless products	74.3%	63.7%	59.4%
Activation commissions	2.1	2.2	1.3
Residual fees	0.2	0.2	0.2
Other	0.1	0.1	
Total Wireless	76.7	66.1	60.9
Electronics			
Mobile electronics	12.4	20.8	22.2
Sound	4.5	5.1	5.9
Consumer electronics	6.3	7.9	10.9
Other	0.1	0.1	0.1
Total Electronics	23.3	33.9	39.1
Total net sales	100.0	100.0	100.0
Cost of sales	(94.4)	(93.2)	(90.6)
Gross profit	5.6	6.8	9.4
Selling	(2.4)	(2.7)	(2.8)
General and administrative	(3.6)	(5.0)	(4.5)
Warehousing and technical support	(0.3)	(0.4)	(0.5)
Total operating expenses	(6.3)	(8.1)	(7.8)
Operating income (loss)	(0.7)	(1.3)	1.6
Interest and bank charges	(0.5)	(0.4)	(0.3)
Equity in income in equity investments	0.3	0.2	0.2
Gain on issuance of subsidiary shares		1.3	
Other, net		(0.4)	0.1
Income (loss) before provision for (recovery of) income taxes, minority interest and cumulative effect	(0.9)	(0.6)	1.6
Provision for (recovery of) income taxes	(0.3)	1.2	0.7
Minority interest	0.1	0.4	
Cumulative effect			
Net income (loss)	(0.6)%	(1.3)%	0.9%

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(1)

See Note (2) of Notes to Consolidated Financial Statements.

(2)

Effective March 1, 2002, the Company adopted Emerging Issues Task Force (EITF) Issue No. 01-9, "Accounting for Consideration Given by a Vendor to a Customer". Upon adoption of this Issue, the Company reclassified its sales incentives offered to its customers from selling expenses to net sales. Previously reported operating income (loss) has remained unchanged by this adoption. For purposes of comparability, these reclassifications have been reflected retroactively for all periods presented.

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The net sales and percentage of net sales by product line and marketing group for the fiscal years ended November 30, 2001, 2002 and 2003 are reflected in the following table. Certain reclassifications and recaptionings have been made to the data for periods prior to fiscal 2003 in order to conform to fiscal 2003 presentation.

	Fiscal Years Ended November 30,					
	2001(1)		2002		2003	
Net sales:						
Wireless						
Products	\$	948,921	74.3%	\$	700,658	63.7%
Activation commissions		26,879	2.1		24,393	2.2
Residual fees		2,396	0.2		2,187	0.2
Other		692	0.1		420	0.1
Total Wireless		978,888	76.7		727,658	66.1
Electronics						
Mobile electronics		157,706	12.4		229,327	20.8
Sound		57,456	4.5		56,281	5.1
Consumer electronics		80,380	6.3		86,472	7.9
Other		2,160	0.1		644	0.1
Total Electronics		297,702	23.3		372,724	33.9
Total	\$	1,276,591	100.0%	\$	1,100,382	100.0%

(1)

See Note (2) of Notes to Consolidated Financial Statements.

### Management Key Indicators

Management reviews the following financial and non-financial indicators to assess the performance of the Company's operating results:

*Net Sales by product class* Management reviews this indicator in order to determine sales trends for certain product classes as this indicator is directly impacted by unit sales and new product introductions.

*Gross profit margin* This indicator allows management to assess the effectiveness of product introductions, timing of product acceptances and significance of inventory write-downs.

*Operating Expenses as a % of net sales* This indicator is reviewed to determine the efficiency of operating expenses in relation to the Company's operations and identify significant fluctuations or possible future trends.

*Inventory and Accounts Receivable turnover* Inventory purchases and accounts receivable collections are two significant liquidity factors that determine the Company's ability to fund current operations and determine if additional borrowings may be necessary for future capital outlays.

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*Major acquisitions and transactions* Management consistently monitors the aforementioned key indicators as well as economic and industry conditions during consideration of major acquisitions and transactions, such as the recent Recoton acquisition.



*Fiscal 2002 Compared to Fiscal 2003*

**Consolidated Results**

*Net Sales*

Consolidated net sales for fiscal 2003 increased \$223,520 or 20.3% to \$1,323,902 as compared with \$1,100,382 in fiscal 2002 and were impacted by a \$135 increase in sales incentives expense.

Wireless Group sales were \$806,210 in fiscal 2003, a 10.8% increase from sales of \$727,658 in fiscal 2002. Unit sales of wireless handsets decreased 5.9% to approximately 4,657,000 units in fiscal 2003 from approximately 4,950,000 units in fiscal 2002. However, the average selling price of the Company's handsets increased to \$163 per unit in fiscal 2003 from \$136 per unit in fiscal 2002 due to higher selling prices of new product introductions.

Electronics Group sales were \$517,692 in fiscal 2003, a 38.9% increase from sales of \$372,724 in fiscal 2002. This increase was largely due to increased sales in the mobile video and consumer electronics product lines as a result of new product introductions in digital video. Furthermore, this increase was also due to the addition of \$26,377 in sales by Audiovox Europe (see Note 6) from the Recoton acquisition. Sound sales increased as a result of the Jensen®, Magnate®, Mac Audio®, Heco®, Acoustic Research® and Advent®, trademarks which was acquired during the Recoton acquisition. This increase in sound was partially offset by a change in the marketplace as fully-featured sound systems are being incorporated into vehicles at the factory rather than being sold in the aftermarket. This declining trend in fully-featured sound systems is expected to continue except in the satellite radio product line. Excluding Audiovox Europe, sales by the Company's international subsidiaries decreased \$12,128 or 55.2% in fiscal 2003 due to a 68.1% decrease in Venezuela due to the temporary shut-down of the operations attributable to political and economic instability and a 41.6% decrease in Malaysia as a result of lower OEM sales.

*Gross Profit*

Gross profit margin for fiscal 2003 was 9.4%, compared to 6.8% in fiscal 2002. This increase in profit margin resulted primarily from lower Wireless inventory write-downs and a change in the mix of sales from Wireless to Electronics, which carries a higher gross margin. Margins for the Wireless Group increased to 4.7% from 2.0% due to lower inventory write-downs as a result of maintaining lower inventory levels and improved inventory management. Specifically, Wireless inventory write-downs were \$2,817 for fiscal 2003 compared to \$13,823 in fiscal 2002. During fiscal 2003, there was no significant impact to our gross profit margins on the subsequent sale of previously written-down inventory. Margins for the Electronics Group increased to 16.6% from 16.1% due to margins achieved from Audiovox Europe from the sale of Magnate®, Mac Audio®, Heco®, Acoustic Research® and Advent® products. Consolidated gross margins were also adversely impacted by late wireless product introductions and increased sales incentives. Further trends in the operations will be discussed in detail in each individual marketing group MD&A discussion.

*Operating Expenses*

Operating expenses increased \$13,728 to \$102,403 in fiscal 2003, compared to \$88,675 in fiscal 2002. As a percentage of net sales, operating expenses decreased to 7.8% in fiscal 2003 from 8.1% in fiscal 2002. Major components of this increase were a \$2,848 increase in advertising due to an increase in general promotions to support the growing business and \$7,755 of operating expenses for Audiovox Europe which was acquired in the third quarter of fiscal 2003. In addition, direct labor costs increased \$1,771 as a result of increased production, primarily in the Electronics Group, and employee benefits increased \$2,785 due to a payment made to certain Venezuela executives, increased profit sharing accruals and health care costs. The above increases were offset by a \$4,318 decrease in bad debt

expense, primarily as a result of recoveries of former customers and improved credit worthiness of current customers as compared to the prior year. Operating income for fiscal 2003 was \$21,803, compared to an operating loss of \$14,076 in 2002.

*Net Income (Loss)*

As a result of new product introductions, a growing economy and improved gross profit margins, net income for fiscal 2003 was \$11,239 compared to a net loss of \$14,040 in fiscal 2002. Net income per share for fiscal 2003 was \$0.51, basic and diluted compared to a net loss per share of \$0.64 for fiscal 2002, basic and diluted.

**Wireless Results**

The following table sets forth for the fiscal years indicated certain statements of operations data for Wireless expressed as a percentage of net sales:

	2002	2003
Net sales:		