

AUDIOVOX CORP
Form 10-K
May 16, 2011

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

FORM 10-K

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

For the fiscal year ended February 28, 2011

Commission file number 0-28839

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.)

180 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:

| Title of each class: | Name of Each Exchange on which Registered |
|--------------------------------------|---|
| Class A Common Stock \$.01 par value | The Nasdaq Stock Market LLC |

Securities registered pursuant to Section 12(g) of the Act:
None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.
Yes No

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

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Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K 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.

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Indicate by check mark whether registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer or a smaller reporting company. See definition of "accelerated filer", "large accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (check one):

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

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

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Yes No

The aggregate market value of the common stock held by non-affiliates of the Registrant was \$118,252,382 (based upon closing price on the Nasdaq Stock Market on August 31, 2010).

The number of shares outstanding of each of the registrant's classes of common stock, as of May 16, 2011 was:

| Class | Outstanding |
|--------------------------------------|-------------|
| Class A common stock \$.01 par value | 20,813,005 |
| Class B common stock \$.01 par value | 2,260,954 |

DOCUMENTS INCORPORATED BY REFERENCE

Part III - (Items 10, 11, 12, 13 and 14) Proxy Statement for Annual Meeting of Stockholders to be filed on or before June 28, 2011.

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AUDIOVOX CORPORATION

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CAUTIONARY STATEMENT RELATING TO THE SAFE HARBOR PROVISIONS OF THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

This Annual Report on Form 10-K, including "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Item 7, and the information incorporated by reference contains "forward-looking statements" within the meaning of section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. We intend those forward looking-statements to be covered by the safe harbor provisions for forward-looking statements. All statements regarding our expected financial position and operating results, our business strategy, our financing plans and the outcome of any contingencies are forward-looking statements. Any such forward-looking statements are based on current expectations, estimates, and projections about our industry and our business. Words such as "anticipates," "expects," "intends," "plans," "believes," "seeks," "estimates," or variations of those words and similar expressions are intended to identify such forward-looking statements. Forward-looking statements are subject to risks and uncertainties that could cause actual results to differ materially from those stated in or implied by any forward-looking statements. Factors that could cause actual results to differ materially from forward-looking statements include, but are not limited to, matters listed in Item 1A under "Risk Factors" of this annual report. The Company assumes no obligation and does not intend to update these forward-looking statements.

NOTE REGARDING DOLLAR AMOUNTS AND FISCAL YEAR

In this annual report, all dollar amounts are expressed in thousands, except for share prices and per-share amounts. Unless specifically indicated otherwise, all amounts and percentages in our Form 10-K are exclusive of discontinued operations.

The Company's current fiscal year began March 1, 2010 and ended February 28, 2011.

PART I

Item 1-Business

Audiovox Corporation ("Audiovox", "We", "Our", "Us" or "Company") is a leading international distributor in the accessory, mobile and consumer electronics industries. With our most recent acquisition of Invision Automotive Systems, Inc. we have added manufacturing capabilities to our business model. We conduct our business through seventeen wholly-owned subsidiaries: American Radio Corp., Audiovox Electronics Corporation ("AEC"), Audiovox Accessories Corp. ("AAC"), Audiovox Consumer Electronics, Inc. ("ACE"), Audiovox German Holdings GmbH ("Audiovox Germany"), Audiovox Venezuela, C.A., Audiovox Canada Limited, Audiovox Hong Kong Ltd., Audiovox International Corp., Audiovox Mexico, S. de R.L. de C.V. ("Audiovox Mexico"), Technuity, Inc., Code Systems, Inc., Oehlbach Kabel GmbH ("Oehlbach"), Schwaiger GmbH ("Schwaiger"), Invision Automotive Systems, Inc. ("Invision") and Omega Research and Development, LLC ("Omega") and Audiovox Websales LLC. We market our products under the Audiovox® brand name, other brand names and licensed brands, such as Acoustic Research®, Advent®, Ambico®, Car Link®, Chapman®, Code-Alarm®, Discwasher®, Energizer®, Heco®, Incaar™, Invision®, Jensen®, Mac Audio™, Magnat®, Movies2Go®, Oehlbach®, Omega®, Phase Linear®, Prestige®, Pursuit®, RCA®, RCA Accessories®, Recoton®, Road Gear®, Schwaiger®, Spikemaster® and Terk®, as well as private labels through a large domestic and international distribution network. We also function as an OEM ("Original Equipment Manufacturer") supplier to several customers and presently have one reportable segment (the "Electronics Group"), which is organized by product category.

Audiovox was incorporated in Delaware on April 10, 1987, as successor to a business founded in 1960 by John J. Shalam, our Chairman and controlling stockholder. Our extensive distribution network and long-standing industry relationships have allowed us to benefit from growing market opportunities and emerging niches in the electronics business.

We make available financial information, news releases and other information on our web site at www.audiovox.com. There is a direct link from the web site to the Securities and Exchange Commission's ("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, we have adopted a Code of Business Conduct and Ethics which is available free of charge upon request. Any such request should be directed to the attention of: Chris Lis Johnson, Company Secretary, 180 Marcus Boulevard, Hauppauge, New York 11788, (631) 231-7750.

Acquisitions

We have recently acquired and continue to integrate the following acquisitions, discussed below, into our existing business structure:

On March 1, 2011, Soundtech LLC, a Delaware limited liability company and wholly-owned subsidiary of Audiovox, acquired

all of the issued and outstanding shares of Klipsch Group, Inc. and its worldwide subsidiaries (“Klipsch”) for a total purchase price of \$167.6 million including a working capital adjustment which is subject to change, plus related transaction fees and expenses. Klipsch is a global provider of high-end speakers for audio, multi-media and home theater applications. The acquisition of Klipsch adds world-class brand names to Audiovox's offerings, increases its distribution network, both domestically and abroad, and provides the Company with entry into the high-end installation market at both the residential and commercial level. In addition to the Klipsch® brand, the Klipsch portfolio includes Jamo®, Mirage®, and Energy®. The Company has outlined key details related to the acquisition and the preliminary purchase price allocation in the Subsequent Events footnote (Note 15).

In February 2010, the Company's new subsidiary, Invision Automotive Systems, Inc. completed the acquisition of the assets of Invision Industries, Inc., a leading manufacturer of rear seat entertainment systems to OEM's, Toyota port facilities, and car dealers for a total cash purchase price of \$10,307, and estimated future consideration of \$1,458 and an assumed loan balance of \$5,000, with all acquisition costs of \$219 expensed as incurred in accordance with ASC 805. The purpose of this acquisition was to increase our R&D capabilities, add a manufacturing facility to our business structure and augment our OE group.

In October 2009, Audiovox German Holdings GmbH completed the acquisition of certain assets of Schwaiger GmbH, a German market leader in the consumer electronics, SAT and receiver technologies for a total net asset payment of \$4,348, with acquisition costs of \$209 expensed as incurred. The purpose of this acquisition was to expand our European operations and increase our presence in the European accessory market.

Prior to Fiscal 2010, the Company expanded its market presence by acquiring and fully integrating the following businesses:

In December 2007, the Company completed the acquisition of certain assets and liabilities of Thomson's U.S., Canada, Mexico, China and Hong Kong consumer electronics audio/video business, as well as the rights to the RCA brand for the audio/video field of use. Contemporaneous with this transaction, the Company entered into a license agreement with Multimedia Device Ltd., a Chinese manufacturer, to market certain product categories acquired.

In November 2007, AAC completed the acquisition of all of the outstanding stock of Technuity, Inc., an emerging leader in the battery and power products industry and the exclusive licensee of the Energizer® brand in North America for rechargeable batteries and battery packs for camcorders, cordless phones, digital cameras, DVD players and other power supply devices.

In August 2007, Audiovox Germany acquired certain assets of Incaar Limited, a U.K. business that specializes in rear seat electronics systems.

In March 2007, Audiovox Germany acquired the stock of Oehlbach, a European market leader in the accessories business.

In January 2007, we acquired certain assets and liabilities of Thomson's Americas consumer electronics accessory business which included the rights to the RCA Accessories brand for consumer electronics accessories.

Refer to Note 2 “Business Acquisitions” of the Notes to Consolidated Financial Statements for additional information regarding the Fiscal 2010 acquisitions.

Strategy

Our objective is to grow our business by acquiring new brands, embracing new technologies, expanding product development and applying this to a continued stream of new products that should increase gross margins and improve

operating income. In addition, we plan to continue to acquire synergistic companies that would allow us to leverage our overhead, penetrate new markets and expand existing product categories through our business channels.

The key elements of our strategy are as follows:

Capitalize on the Audiovox family of brands. We believe the "Audiovox" portfolio of brands is one of our greatest strengths and offers us significant opportunity for increased market penetration. To further benefit from the Audiovox portfolio of brands, we continue to invest and introduce new products using our brand names, in addition to seeking opportunities to license our products.

Capitalize on niche product and distribution opportunities in the electronics industry. We intend to use our extensive distribution and supply networks to capitalize on niche product and distribution opportunities in the mobile, consumer and accessory electronics categories.

Leverage our domestic and international distribution network. We believe our distribution network which includes power retailers,

mass merchandisers, distributors, car dealers and OEM's will allow us to increase market penetration.

Grow our international presence. We continue to expand our international presence through our companies in Germany, Canada, Mexico, Venezuela and Hong Kong. We also continue to export from our domestic operations in the United States. We will pursue additional business opportunities through acquisition.

Pursue strategic and complementary acquisitions. We continue to monitor economic and industry conditions in order to evaluate potential synergistic business acquisitions that would allow us to leverage overhead, penetrate new markets and expand our existing business distribution.

Continue to outsource manufacturing to increase operating leverage. A key component of our business strategy is outsourcing the manufacturing of the majority of our products, which allows us to deliver the latest technological advances without the fixed costs associated with manufacturing.

Monitor operating expenses. We maintain continuous focus on evaluating the current business structure in order to create operating efficiencies, including investments in management information systems, with the primary goal of increasing operating income.

Industry

We participate in selected product categories in the mobile, consumer and accessory electronics markets. The mobile and consumer electronics and accessory industries are large and diverse and encompass a broad range of products. This industry offers the ability to specialize in niche product markets. The introduction of new products and technological advancements are the major growth drivers in the electronics industry. Based on this, we continue to introduce new products across all product lines, with an increased focus on niche product offerings.

Products

The Company currently reports sales data for the following two product categories:

Electronics products include:

mobile multi-media video products, including in-dash, overhead and headrest systems,
autosound products including radios, speakers, amplifiers and CD changers,
satellite radios including plug and play models and direct connect models,
automotive security and remote start systems,
automotive power accessories,
rear observation and collision avoidance systems,
home and portable stereos,
digital multi-media products such as personal video recorders and MP3 products,
camcorders,
clock-radios,
digital voice recorders,
home speaker systems,
portable DVD players,
digital picture frames, and
e-readers.

Accessories products include:

High-Definition Television (“HDTV”) antennas,
Wireless Fidelity (“WiFi”) antennas,
High-Definition Multimedia Interface (“HDMI”) accessories,
home electronic accessories such as cabling,
other connectivity products,
power cords,
performance enhancing electronics,
TV universal remotes,
flat panel TV mounting systems,
iPod specialized products,

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wireless headphones,
 rechargeable battery backups (UPS) for camcorders, cordless phones and portable video (DVD) batteries and accessories,
 power supply systems,
 electronic equipment cleaning products, and
 set-top boxes.

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

Net sales by product category, gross profit and net assets are as follows:

| | Fiscal 2011 | Fiscal 2010 | Fiscal 2009 | |
|-------------------------|----------------|----------------|----------------|---|
| Electronics | \$415,167 | \$375,021 | \$449,433 | |
| Accessories | 146,505 | 175,674 | 153,666 | |
| Total net sales | \$561,672 | \$550,695 | \$603,099 | |
| Gross profit | \$123,937 | \$106,751 | \$100,268 | |
| Gross margin percentage | 22.1 | % 19.4 | % 16.6 | % |
| Total assets | \$501,097 | \$488,978 | \$461,296 | |

Patents, Trademarks/Tradenames, Licensing and Royalties

The Company regards its trademarks, copyrights, patents, domain names, and similar intellectual property as important to its operations. It relies on trademark, copyright and patent law, domain name regulations, and confidentiality or license agreements to protect its proprietary rights. The Company has registered, or applied for the registration of, a number of patents, trademarks, domain names and copyrights by U.S. and foreign governmental authorities. Additionally, the Company has filed U.S. and international patent applications covering certain of its proprietary technology. The Company renews its registrations, which vary in duration, as it deems appropriate from time to time.

The Company has licensed in the past, and expects that it may license in the future, certain of its proprietary rights to third parties. Some of the Company's products are designed to include intellectual property licensed or otherwise obtained from third parties. While it may be necessary in the future to seek or renew licenses relating to various aspects of the Company's products, the Company believes, based upon past experience and industry practice, such licenses generally could be obtained on commercially reasonable terms; however, there is no guarantee such licenses could be obtained at all. We intend to operate in a way that does not result in willful infringement of the patent, trade secret and other intellectual property rights of other parties. Nevertheless, there can be no assurance that a claim of infringement will not be asserted against us or that any such assertion will not result in a judgment or order requiring us to obtain a license in order to make, use, or sell our products.

License and royalty programs offered to our manufacturers, customers and other electronic suppliers are structured using a fixed amount per unit or a percentage of net sales, depending on the terms of the agreement. Current license and royalty agreements have duration periods which range from 1 to 17 years or continue in perpetuity. Certain

agreements may be renewed at termination of the agreement. The Company's license and royalty income is recorded upon sale and amounted to \$4,248, \$4,453 and \$4,430 for the years ended February 28, 2011, 2010 and 2009, respectively.

Distribution and Marketing

We sell our products to:

- power retailers,
- mass merchants,
- regional chain stores,

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specialty and internet retailers,
independent 12 volt retailers,
distributors,
new car dealers,
vehicle equipment manufacturers (OEM's), and
the U.S. military.

We sell our products under OEM arrangements with domestic and/or international subsidiaries of automobile manufacturers such as Ford Motor Company, Chrysler, General Motors Corporation, Toyota, Kia, Mazda, BMW, Subaru, Nissan and Porsche. These arrangements require a close partnership with the customer as we develop products to meet specific requirements. OEM products accounted for approximately 20%, 10% and 9% of net sales for the years ended February 28, 2011, 2010 and 2009, respectively.

Our five largest customers represented 30% of net sales during the year ended February 28, 2011, and 36% for each of the years ended February 28, 2010 and 2009. Wal-Mart accounted for more than 10% of the Company's sales for Fiscal 2011, 2010 and 2009, whereas Best Buy accounted for more than 10% of sales in Fiscal 2010 only.

We also provide value-added management services, which include:

- product design and development,
- engineering and testing,
- sales training and customer packaging,
 - in-store display design,
- installation training and technical support,
- product repair services and warranty,
- nationwide installation network,
- warehousing, and
- specialized manufacturing.

We have flexible shipping policies designed to meet customer needs. In the absence of specific customer instructions, we ship products within 24 to 48 hours from the receipt of an order from public warehouses and leased facilities throughout the United States, Canada, Mexico, Venezuela and Germany. The Company also employs a direct ship model from our suppliers for select customers upon their request.

Product Development, Warranty and Customer Service

Our product development cycle includes:

- identifying consumer trends and potential demand,
- responding to those trends through product design and feature integration, which includes software design, electrical engineering, industrial design and pre-production testing. In the case of OEM customers, the product development cycle may also include product validation to customer quality standards, and
- evaluating and testing new products in our own facilities to ensure compliance with our design specifications and standards.

Utilizing our company-owned and third party facilities in the United States, Europe and Asia, we work closely with customers and suppliers throughout the product design, testing and development process in an effort to meet the expectations of consumer demand for technologically-advanced and high quality products. Our Hauppauge, New

York and Troy, Michigan facilities are ISO 14001:2004 and/or ISO/TS 16949:2009 certified, which requires the monitoring of quality standards in all facets of business.

We are committed to providing product warranties for all our product lines, which generally range from 90 days up to the life of the vehicle for the original owner on some auto