

AUDIOVOX CORP
Form 10-Q
January 09, 2009

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended November 30, 2008

or

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

Commission file number: 0-28839

Audiovox Corporation
(Exact name of registrant as specified in its charter)

Delaware	13-1964841
	(I.R.S.
(State or other	Employer
jurisdiction of	Identification
incorporation)	No.)

180 Marcus	
Bld.,	
Hauppauge,	
New York	11788
(Address of	
principal	
executive	(Zip
officers)	Code)

Registrant's telephone number, including area code: (631) 231-7750

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

Large accelerated filer 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 Exchange Act).

Yes _____ No

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

Class	As of January 8, 2008
Class A Common Stock	20,604,440 Shares
Class B Common Stock	2,260,954 Shares

Audiovox Corporation

Table of Contents

	Page
PART I	FINANCIAL INFORMATION
Item 1	FINANCIAL STATEMENTS (unaudited)
	Consolidated Balance Sheets at November 30, 2008 and February 29, 2008
	3
	Consolidated Statements of Operations for the Three and Nine Months Ended November 30, 2008 and 2007
	4
	Consolidated Statements of Cash Flows for the Nine Months Ended November 30, 2008 and 2007
	5
	Notes to Consolidated Financial Statements
	6
Item 2	MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS
	21
Item 3	QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK
	32
Item 4	CONTROLS AND PROCEDURES
	32
PART II	OTHER INFORMATION
Item 1	LEGAL PROCEEDINGS
	33
Item 1A	RISK FACTORS
	33
Item 2	UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS
	33
Item 6	EXHIBITS
	34
SIGNATURES	35

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

Audiovox Corporation and Subsidiaries
Consolidated Balance Sheets
(In thousands, except share data)

	November 30, 2008 (unaudited)	February 29, 2008
Assets		
Current assets:		
Cash and cash equivalents	\$ 13,925	\$ 39,341
Accounts receivable, net	159,594	112,688
Inventory	149,321	155,748
Receivables from vendors	20,618	29,358
Prepaid expenses and other current assets	12,585	13,780
Deferred income taxes	7,198	7,135
Total current assets	363,241	358,050
Investment securities	8,559	15,033
Equity investments	13,068	13,222
Property, plant and equipment, net	20,615	21,550
Goodwill	29,098	23,427
Intangible assets	93,797	101,008
Deferred income taxes	2,128	-
Other assets	1,659	746
Total assets	\$ 532,165	\$ 533,036
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 43,014	\$ 24,433
Accrued expenses and other current liabilities	34,728	38,575
Income taxes payable	141	5,335
Accrued sales incentives	12,633	10,768
Bank obligations	2,018	3,070
Current portion of long-term debt	1,294	82
Total current liabilities	93,828	82,263
Long-term debt	5,944	1,621
Capital lease obligation	5,551	5,607
Deferred compensation	3,312	4,406
Other tax liabilities	4,741	4,566
Deferred tax liabilities	-	6,057
Other long term liabilities	4,198	5,003

Total liabilities	117,574	109,523
Commitments and contingencies		
Stockholders' equity:		
Series preferred stock, \$.01 par value; 1,500,000 shares authorized, no shares issued or outstanding	-	-
Common stock:		
Class A, \$.01 par value; 60,000,000 shares authorized, 22,424,212 and 22,414,212 shares issued, 20,604,460 and 20,593,660 shares outstanding at November 30, 2008 and February 29, 2008, respectively	224	224
Class B convertible, \$.01 par value; 10,000,000 shares authorized, 2,260,954 shares issued and outstanding at November 30, 2008 and February 29, 2008, respectively	22	22
Paid-in capital	274,484	274,282
Retained earnings	161,532	162,542
Accumulated other comprehensive income	(3,275)	4,847
Treasury stock, at cost, 1,819,752 and 1,820,552 shares of Class A common stock at November 30, 2008 and February 29, 2008, respectively	(18,396)	(18,404)
Total stockholders' equity	414,591	423,513
Total liabilities and stockholders' equity	\$ 532,165	\$ 533,036

See accompanying notes to consolidated financial statements.

Audiovox Corporation and Subsidiaries
Consolidated Statements of Operations
For the Three and Nine Months Ended November 30, 2008 and 2007
(In thousands, except share and per share data)
(unaudited)

	Three Months Ended November 30,		Nine Months Ended November 30,	
	2008	2007	2008	2007
Net sales	\$ 195,642	\$ 183,563	\$ 487,433	\$ 460,085
Cost of sales	156,684	148,572	400,900	373,431
Gross profit	38,958	34,991	86,533	86,654
Operating expenses:				
Selling	8,370	9,828	26,598	26,534
General and administrative	16,500	16,948	52,004	45,153
Engineering and technical support	2,436	2,600	8,219	7,010
Total operating expenses	27,306	29,376	86,821	78,697
Operating income (loss)	11,652	5,615	(288)	7,957
Other income (expense):				
Interest and bank charges	(453)	(723)	(1,439)	(2,087)
Equity in income (share in losses) of equity investees	(484)	1,011	926	2,927
Other, net	(10)	816	375	3,444
Total other income (expense), net	(947)	1,104	(138)	4,284
Income (loss) from continuing operations before income taxes	10,705	6,719	(426)	12,241
Income tax expense	4,180	2,039	582	3,709
Net income (loss) from continuing operations	6,525	4,680	(1,008)	8,532
Net income from discontinued operations, net of tax	-	-	-	2,111
Net income (loss)	\$ 6,525	\$ 4,680	\$ (1,008)	\$ 10,643
Net income (loss) per common share (basic):				
From continuing operations	\$ 0.29	\$ 0.20	\$ (0.04)	\$ 0.38
From discontinued operations	-	-	-	0.09
Net income (loss) per common share (basic)	\$ 0.29	\$ 0.20	\$ (0.04)	\$ 0.47
Net income (loss) per common share (diluted):				
From continuing operations	\$ 0.29	\$ 0.20	\$ (0.04)	\$ 0.38
From discontinued operations	-	-	-	0.09
Net income (loss) per common share (diluted)	\$ 0.29	\$ 0.20	\$ (0.04)	\$ 0.47

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Weighted-average common shares outstanding (basic)	22,864,668	22,852,781	22,858,777	22,853,108
Weighted-average common shares outstanding (diluted)	22,867,235	22,857,355	22,858,777	22,880,263

See accompanying notes to consolidated financial statements.

Audiovox Corporation and Subsidiaries
Consolidated Statements of Cash Flows
For the Nine Months Ended November 30, 2008 and 2007
(In thousands)
(unaudited)

	2008	2007
Cash flows from operating activities:		
Net (loss) income	\$ (1,008)	\$ 10,643
Net (income) from discontinued operations	-	(2,111)
Net (loss) income from continuing operations	(1,008)	8,532
Adjustments to reconcile net (loss) income to net cash used in continuing operating activities:		
Depreciation and amortization	5,324	3,782
Bad debt expense	864	166
Equity in income of equity investees	(926)	(2,927)
Deferred income tax benefit	(186)	-
Non-cash compensation adjustment	526	(212)
Non-cash stock based compensation and warrant expense	159	609
Gain (loss) on disposal of property, plant and equipment	(8)	14
Tax benefit on stock options exercised	-	(1,020)
Changes in operating assets and liabilities (net of assets and liabilities acquired):		
Accounts receivable	(52,580)	(62,762)
Inventory	(2,153)	(33,995)
Receivables from vendors	8,491	(12,696)
Prepaid expenses and other	(1,018)	2,602
Investment securities-trading	1,104	(1,042)
Accounts payable, accrued expenses, accrued sales incentives and other current liabilities	19,441	2,947
Income taxes payable	(4,741)	3,132
Net cash used in operating activities	(26,711)	(92,870)
Cash flows from investing activities:		
Purchases of property, plant and equipment	(3,674)	(5,772)
Proceeds from sale of property, plant and equipment	98	43
Proceeds from distribution from an equity investee	1,080	1,215
Proceeds from a liquidating distribution from an available-for-sale security	-	645
Purchase of short-term investments	-	(13,775)
Proceeds from sale of short-term investments	-	146,255
Purchase of patents	(650)	-
Purchase of acquired businesses, less cash acquired	(440)	(28,387)
Net cash (used in) provided by investing activities	(3,586)	100,224
Cash flows from financing activities:		
Proceeds from (repayments on) bank obligations	5,523	(860)
Principal payments on capital lease obligation	(55)	(50)
Proceeds from exercise of stock options and warrants	46	3,148
Principal payments on debt	-	(4,240)

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Repurchase of Class A common stock	-	(1,425)
Tax benefit on stock options exercised	-	1,020
Other financing activities	9	-
Net cash provided by (used in) financing activities	5,523	(2,407)
Effect of exchange rate changes on cash	(642)	249
Net (decrease) increase in cash and cash equivalents	(25,416)	5,196
Cash and cash equivalents at beginning of period	39,341	15,473
Cash and cash equivalents at end of period	\$ 13,925	\$ 20,669

See accompanying notes to consolidated financial statements.

Audiovox Corporation and Subsidiaries
Notes to Consolidated Financial Statements
November 30, 2008
(Dollars in thousands, except share and per share data)
(unaudited)

(1) Basis of Presentation

The accompanying unaudited interim consolidated financial statements of Audiovox Corporation and subsidiaries (“Audiovox” or the “Company”) have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission and in accordance with accounting principles generally accepted in the United States of America and include all adjustments (consisting of normal recurring adjustments), which, in the opinion of management, are necessary to present fairly the consolidated financial position, results of operations and cash flows for all periods presented. The results of operations are not necessarily indicative of the results to be expected for the full fiscal year. These consolidated financial statements do not include all disclosures associated with consolidated financial statements prepared in accordance with accounting principles generally accepted in the United States of America. Accordingly, these statements should be read in conjunction with the Company's audited consolidated financial statements and notes thereto contained in the Company's Form 10-K for the fiscal year ended February 29, 2008.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts of assets, liabilities, revenues and expenses reported in those financial statements as well as the disclosure of contingent assets and liabilities at the date of the consolidated financial statements. These judgments can be subjective and complex, and consequently, actual results could differ from those estimates and assumptions. Significant estimates made by the Company include the allowance for doubtful accounts, inventory valuation, fair value of stock-based compensation, income taxes, valuation of long-lived assets, accrued sales incentives, warranty reserves and the fair value measurements of financial assets, liabilities, goodwill and intangible assets. A summary of the Company's significant accounting policies is identified in Note 1 of the Consolidated Financial Statements in the Company's Form 10-K for the fiscal year ended February 29, 2008. There have been no changes to the Company's significant accounting policies subsequent to February 29, 2008, except for the accounting for the fair value measurement of financial assets and liabilities and related disclosures (Note 5).

The Company has one reportable segment, the Electronics Group, which is organized by product category. The Electronics Group consists of eight 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., Entretenimiento Digital Mexico, S. de C.V. (“Audiovox Mexico”) and Code Systems, Inc. The Company markets its products under the Audiovox® and other brand names. Unless specifically indicated otherwise, all amounts and percentages presented in the notes below are exclusive of discontinued operations.

(2) Accounting for Stock-Based Compensation

The Company has various stock based compensation plans, which are more fully described in Note 1 of the Company's Form 10-K for the fiscal year ended February 29, 2008.

The Company recognized stock-based compensation (exclusive of deferred tax benefits) for awards granted under the Company's Stock Option Plans in the following line items in the Consolidated Statements of Operations:

6

Audiovox Corporation and Subsidiaries
Notes to Consolidated Financial Statements, continued
November 30, 2008
(Dollars in thousands, except share and per share data)
(unaudited)

	Three Months ended November 30, 2008		2007		Nine Months ended November 30, 2008		2007	
Cost of sales	\$	3	\$	5	\$	3	\$	10
Selling expenses		36		64		36		128
General and administrative expenses		104		202		104		404
Engineering and technical support		3		5		3		10
Stock-based compensation expense before income tax benefit	\$	146	\$	276	\$	146	\$	552

The Company granted 197,250 options during the three months ended November 30, 2008, which vest one-half on November 30, 2008 and one-half on February 28, 2009, expire two years from date of vesting (November 30, 2010 and February 28, 2011, respectively), have an exercise price equal to \$4.83, the sales price of the Company's stock on the day prior to the date of grant, have a contractual term between 2.1 and 2.4 years and a grant date fair value of \$1.44 per share determined based upon a Black-Sholes valuation model (refer to the table below for assumptions used to determine fair value).

In addition, the Company issued 17,500 warrants during the three months ended November 30, 2008 to purchase the Company's common stock at an exercise price of \$4.83 per share as consideration for future legal services. The warrants vest one-half on November 30, 2008 and one-half on February 28, 2009, expire two years from date of vesting (November 30, 2010 and February 28, 2011, respectively), have an exercise price equal to \$4.83, the sales price of the Company's stock on the day prior to the date of grant, have a contractual term between 2.1 and 2.4 years and a grant date fair value of \$1.44 per warrant determined based upon a Black-Sholes valuation model (refer to the table below for assumptions used to determine fair value). Accordingly, the Company recorded additional legal expense in the amount of approximately \$13 during the three and nine months ended November 30, 2008, representing the fair value of the warrants issued. These warrants are included in the outstanding options and warrant table below and considered exercisable at November 30, 2008.

The Company granted 257,500 options during the three months ended August 31, 2007, which vested one-third on August 31, 2007, one-third on November 30, 2007, and one-third on February 28, 2008, expire three years from date of vesting (August 31, 2010, November 30, 2010, and February 28, 2011, respectively), had an exercise price equal to \$1.00 above the lowest sales price of the Company's stock on the day prior to the date of grant (\$9.90), had a contractual term between 2 years and 3.7 years and a grant date fair value of \$3.26 per share. In connection with this option grant, there were 15,000 options granted to an outside director that expire on September 9, 2009, which had a contractual life of 2.1 years and a grant date fair value of \$2.57 per share.

In addition, the Company issued 17,500 warrants during the three months ended August 31, 2007 to purchase the Company's common stock at an exercise price of \$10.90 per share as consideration for past legal services rendered. The warrants were exercisable immediately, expire three years from date of issuance and had a fair value on issuance date of \$3.26 per warrant determined based upon a Black-Sholes valuation model (refer to the table below for assumptions used to determine fair value). Accordingly, the Company recorded additional legal expense in the amount

of approximately \$57 during the three and nine months ended November 30, 2007, representing the fair value of the warrants issued. These warrants are included in the outstanding options and warrant table below and considered exercisable at November 30, 2007.

7

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Audiovox Corporation and Subsidiaries
 Notes to Consolidated Financial Statements, continued
 November 30, 2008
 (Dollars in thousands, except share and per share data)
 (unaudited)

The fair value of stock options and warrants on the date of grant, and the assumptions used to estimate the fair value of the stock options and warrants using the Black-Sholes option valuation model granted during the respective periods were as follows:

	Three and nine months ended November 30,	
	2008	2007
Dividend yield	0%	0%
Weighted-average expected volatility	47.0%	47.0%
Risk-free interest rate	5.00%	4.57%
Expected life of options/warrants (in years)	2.00	2.00 - 3.00
Fair value of options/warrants granted	\$1.44	\$3.26 (3 year option) \$2.57 (2 year option)

The expected dividend yield is based on historical and projected dividend yields. The Company estimates expected volatility based primarily on historical daily price changes of the Company's stock equal to the expected life of the option. The risk free interest rate is based on the U.S. Treasury yield in effect at the time of the grant. The expected option term is the number of years the Company estimates the options will be outstanding prior to exercise based on employment termination behavior.

Information regarding the Company's stock options and warrants are summarized below:

	Weighted Average Exercise Price	Weighted Average Remaining Contractual
Number of Shares		