

AUDIOVOX CORP  
Form 10-K  
May 14, 2008

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 29, 2008

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
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Class A Common Stock \$.01 par value	The Nasdaq Stock Market LLC
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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

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required to file such reports) and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark 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.

1

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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).

Yes  No

The aggregate market value of the common stock held by non-affiliates of the Registrant was \$180,543,041 (based upon closing price on the Nasdaq Stock Market on August 31, 2007).

The number of shares outstanding of each of the registrant's classes of common stock, as of May 14, 2008 was:

Class	Outstanding
Class A common stock \$.01 par value	20,593,660
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 13, 2008.

AUDIOVOX CORPORATION

Index to Form 10-K

Table of Contents

PART I

Item 1	Business	4
Item 1A	Risk Factors	11
Item 1B	Unresolved Staff Comments	16
Item 2	Properties	16
Item 3	Legal Proceedings	16
Item 4	Submission of Matters to a Vote of Security Holders	17

PART II

Item 5	Market for the Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	17
Item 6	Selected Consolidated Financial Data	19
Item 7	Management's Discussion and Analysis of Financial Condition and Results of Operations	19
Item 7A	Quantitative and Qualitative Disclosures About Market Risk	37
Item 8	Consolidated Financial Statements and Supplementary Data	38
Item 9	Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	38
Item 9A	Controls and Procedures	38
Item 9B	Other Information	41

PART III

Item 10	Directors, Executive Officers and Corporate Governance	41
Item 11	Executive Compensation	41
Item 12	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	41
Item 13	Certain Relationships and Related Transactions, and Director Independence	41
Item 14	Principal Accounting Fees and Services	41

PART IV

Item 15	Exhibits, Financial Statement Schedules	41
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SIGNATURES		43
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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 and the information incorporated by reference includes "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".

NOTE REGARDING DOLLAR AMOUNTS AND FISCAL YEAR END CHANGE

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.

In February 2006, the Company changed its fiscal year end from November 30th to February 28th. The Company's current fiscal year began March 1, 2007 and ended February 29, 2008.

PART I

Item 1-Business

Audiovox Corporation ("Audiovox", "We", "Our", "Us" or "Company") is a leading international distributor and value added service provider in the accessory, mobile and consumer electronics industries. We conduct our business through seven wholly-owned subsidiaries: American Radio Corp., Audiovox Accessories Corp. ("AAC"), Audiovox Consumer Electronics, Inc., Audiovox Electronics Corporation ("AEC"), Audiovox German Holdings GmbH ("Audiovox Germany"), Audiovox Venezuela, C.A. and Code Systems, Inc. ("Code"). We market our products under the Audiovox® brand name and other brand names, such as Acoustic Research®, Advent®, Ambico®, Car Link®, Chapman®, Code-Alarm®, Discwasher®, Energizer®, Heco®, Incaar®, Jensen®, Mac Audio®, Magnat®, Movies2Go®, Oehlbach®, Phase Linear®, Prestige®, Pursuit®, RCA® (effective January 1, 2008), RCA Accessories®, Recoton®, Road Gear®, 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. We previously announced our intention to acquire synergistic businesses with gross profit margins higher than our core business, leverage our overhead, penetrate new markets and to expand our core business and distribution channels.

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](http://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:

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 for a total cash purchase price of approximately \$3,188 (net of license fee below), plus a net asset payment of \$11,093, transaction costs of \$560 and a fee related to the RCA® brand in connection with future sales for a stated period of time. The purpose of this acquisition was to control the RCA trademark for the audio video field of use and to expand our core product offerings in certain developing markets. 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 the acquisition for an upfront fee of \$10,000, the purchase of certain inventory and future royalty payments.

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, for a total cash purchase price of \$20,373 (net of cash acquired), plus a working capital credit of \$317, transaction costs of \$1,085 and a maximum contingent earn out payment of \$1,000, if certain sales and gross margin targets are met. The purpose of this acquisition was to further strengthen our accessory product lines and core offerings, to be the exclusive licensee of the Energizer® brand in North America for rechargeable batteries and power supply systems, and to increase the Company's market share in the consumer electronics accessory business.

In August 2007, Audiovox Germany completed the acquisition of certain assets of Incaar Limited, a U.K. business that specializes in rear seat electronics systems, for a total purchase price of \$350, plus transaction costs of \$51 and a maximum contingent earn out payment of \$400, if certain earnings targets are met. The purpose of this acquisition was to add the experience, concepts and product development of an Original Equipment Manufacturer ("OEM") business to our European operations.

In March 2007, Audiovox Germany completed the stock acquisition of Oehlbach, a European market leader in the accessories business, for a total cash purchase price of \$6,611, plus transaction costs of \$200 and a contingent earn out payment, not to exceed 1 million euros. The purpose of this acquisition was to add electronics accessory product lines to our European business.

In January 2007, we completed the acquisition of certain assets and liabilities of Thomson's Americas consumer electronics accessory business for a total cash purchase price of approximately \$50,000, plus a working capital payment of \$7,617, plus a five year fee estimated to be \$4,685 related to the RCA brand in connection with future sales and approximately \$2,414 of transaction costs. The purpose of this acquisition was to expand our market presence in the accessory business. The acquisition included the rights to the RCA Accessories brand for consumer electronics accessories as well as the Recoton, Spikemaster, Ambico and Discwasher brands for use on any product category and the Jensen, Advent, Acoustic Research and Road Gear brands for consumer electronics accessories.

On January 4, 2005, we purchased certain assets and liabilities of Terk Technologies Corp. ("Terk") for \$15,274, as adjusted. The purpose of this acquisition was to increase our market share for satellite radio products as well as accessories, such as antennas for HDTV products.

On July 8, 2003 we acquired, for \$40,406, the U.S. audio operations of Recoton and the outstanding capital stock of Recoton German Holdings GmbH. The primary reason for this transaction was to expand the product offerings of



Audiovox in the U.S. and Europe and to obtain certain long-standing trademarks such as Jensen® and Acoustic Research®.

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 core business and distribution channels.

Refer to Note 3 “Business Acquisitions” of the Notes to Consolidated Financial Statements for additional information regarding the aforementioned acquisitions.

#### Divestitures (Discontinued Operations)

On November 7, 2005, we completed the sale of our majority owned subsidiary, Audiovox Malaysia (“AVM”) to the then current minority interest shareholder due to increased competition from non-local OEM’s and deteriorating credit quality of local customers.

On November 1, 2004, we completed the divestiture of our Cellular business (formerly known as "ACC", "Cellular" or "Wireless") to UTStarcom, Inc. ("UTSI"). After paying outstanding domestic obligations, taxes and other costs associated with the divestiture, we received net proceeds of approximately \$144,053. We have utilized the net proceeds to invest in strategic and complementary acquisitions and invest in our current operations.

These divestitures have been presented as discontinued operations. Refer to Note 2 “Discontinued Operations” of the Notes to Consolidated Financial Statements for additional information regarding the aforementioned divestitures.

#### 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®" family of brands, which includes Acoustic Research®, Advent®, Ambico®, Car Link®, Chapman®, Code-Alarm®, Discwasher®, Energizer®, Heco®, Incaar®, Jensen®, Mac Audio®, Magnat®, Movies2Go®, Oehlbach®, Phase Linear®, Prestige®, Pursuit®, RCA® (effective January 1, 2008), RCA Accessories®, Recoton®, Road Gear®, Spikemaster® and Terk®, is one of our greatest strengths and offers us significant opportunity for increased market penetration. To further benefit from the Audiovox® family of brands, we continue to invest and introduce new products using our brand names.

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 in Europe through Audiovox Germany as well as Canada, Mexico and Hong Kong through our domestic operations. We continue to pursue additional business opportunities through acquisitions as well as penetrate new market opportunities.



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 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. The significant competitors in our industries are Sony, Panasonic, JVC, Kenwood, Alpine, Directed Electronics, Phillips, Monster Cable and Delphi. There are other companies that specialize in niche product offerings such as those we offer. The introduction of new products and technological advancements are the major growth drivers in the electronics industry. We continue to introduce new products across all product lines.

## Products

Effective March 1, 2007, the Company reported "Accessories" as a separate product group due to the Thomson Accessory, Oehlbach and Technuity acquisitions. In addition, the Company's former mobile and consumer product categories are now combined and recorded in the "Electronics" product group. As such, certain reclassifications have been made to prior year amounts as the Company currently reports sales data for the following two product categories:

Electronics products include:

- mobile multi-media video products, including in-dash, overhead, headrest and portable mobile video 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,
    - car to car portable navigation systems,
    - rear observation and collision avoidance systems,
    - Liquid Crystal Display ("LCD") flat panel televisions,
    - home and portable stereos,
      - two-way radios,
  - digital multi-media products such as personal video recorders and MP3 products,
    - camcorders,
    - clock-radios,
    - digital voice recorders,
    - home speaker systems,
    - portable DVD players, and
    - digital picture frames.

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,
- wireless headphones,
- rechargeable battery backups (UPS) for camcorders, cordless phones and portable video (DVD) batteries and accessories, and
- power supply systems.

We believe our product groups have expanding market opportunities with certain levels of volatility related to both 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 are as follows:

	Year Ended February 29, 2008	Year Ended February 28, 2007	Three Months Ended February 28, 2006	Year Ended November 30, 2005
Electronics	\$ 437,018	\$ 432,943	\$ 99,566	\$ 530,408
Accessories	154,337	23,747	3,484	9,308
Total net sales	\$ 591,355	\$ 456,690	\$ 103,050	\$ 539,716

Electronics sales, which include both mobile and consumer electronics, represented approximately 73.9% of net sales in Fiscal 2008 compared to 94.8% in Fiscal 2007, increased by 0.9% or \$4,075 primarily due to an increase in mobile audio sales as a result of improved sales in the Company's car audio and Satellite Radio product lines and increases in the electronics sales of the Company's International operations in Germany and Venezuela. Offsetting these increases were lower consumer electronic sales as a result of lower than anticipated holiday sales and industry-wide shortages of LCD panels that adversely affected sales of LCD TV's, portable DVD's and digital picture frames. Electronic sales also declined in certain mobile video categories due to increased OEM programs that include the video system as "standard" on more and more vehicles and a decline in new car sales.

Accessories sales, which represented 26.1% of our net sales in Fiscal 2008 compared to 5.2% in Fiscal 2007, increased approximately 549.9% or \$130,590 due to the incremental sales generated from the recently acquired Thomson Accessory, Oehlbach and Technuity operations.

Gross margins have improved due to acquisitions and margin increases in our core business. We anticipate further increases in margins through the introduction of new products with technologies that take advantage of market opportunities created by the digital convergence of data, navigation and multi-media entertainment as well as future operating improvements.

## Licensing and Royalties

We have various license and royalty programs with manufacturers, customers and other electronic suppliers. Such agreements entitle us to receive license and royalty income for Audiovox products sold by the licensees without adding any significant costs. Depending on the terms of each agreement, income 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, whereas other agreements are in perpetuity and certain agreements may be renewed at the end of termination of the agreement. Certain renewals of license and royalty agreements are dependent on negotiations with licensees as well as current Audiovox products being sold by the licensee.

License and royalty income is recorded upon sale to the end-user and amounted to \$2,190, \$2,200, \$537 and \$1,959 for the years ended February 29, 2008, February 28, 2007, the three months ended February 28, 2006 and the year ended November 30, 2005, respectively.

### Distribution and Marketing

We sell our products to:

- power retailers,
- mass merchants,
- regional chain stores,
- specialty and internet retailers,
- independent 12 volt retailers,
- distributors,
- new car dealers,
- vehicle equipment manufacturers (OEM), 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, Daimler Chrysler, General Motors Corporation, Toyota, Kia, Mazda, Jaguar, Subaru and beginning in Fiscal 2009, Porsche. These projects require a close partnership with the customer as we develop products to meet specific requirements. OEM projects accounted for approximately 9%, 11%, 13% and 10% of net sales for the years ended February 29, 2008, February 28, 2007, the three months ended February 28, 2006 and the year ended November 30, 2005, respectively.

Our five largest customers represented 25%, 18%, 16%, and 24% of net sales during the years ended February 29, 2008, February 28, 2007, the three months ended February 28, 2006 and the year ended November 30, 2005, respectively. During the years ended February 29, 2008, February 28, 2007, the three months ended February 28, 2006 and the year ended November 30, 2005, no single customer accounted for more than 10% of net sales

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

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

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.

### 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.

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 facility is ISO 14001:2004, ISO/TS 1649:2002 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 automobile-installed products. To support our warranties, we have independent warranty centers throughout the United States, Canada, Mexico, Europe and Venezuela. We have a customer service group that provides product information, answers questions and serves as a technical hotline for installation help for end-users and customers.

#### Suppliers

We work directly with our suppliers on industrial design, feature sets, product development and testing in order to ensure that our products are manufactured to our design specifications.

We purchase our products from manufacturers located in several Pacific Rim countries, including Japan, China, Hong Kong, Indonesia, Malaysia, Taiwan, Singapore and the United States. In selecting our manufacturers, we consider quality, price, service and reputation. In order to provide local supervision of supplier performance such as price negotiations, delivery and quality control, we maintain buying offices or inspection offices in Malaysia, Taiwan, South Korea, China and Hong Kong. We consider relations with our suppliers to be good and alternative sources of supply are generally available within 120 days. We do not have long-term contracts with our suppliers and we generally purchase our products under short-term purchase orders. Although we believe that our alternative sources of supply are currently available, an unplanned shift to a new supplier could result in product delays and increased cost, which may have a material impact on our operations.

#### Competition

The electronics industry is highly competitive across all product categories, and we compete with a number of well-established companies that manufacture and sell similar products. Brand name, design, advancement of technology and features as well as price are the major competitive factors within the electronics industry. Our Mobile Electronic products compete against factory-supplied products, including those provided by, among others, General Motors, Ford and Daimler Chrysler. Our Mobile Electronic products also compete in the automotive aftermarket against major companies such as Sony, Panasonic, Kenwood, Alpine, Directed Electronics, Pioneer and Delphi. Our Accessories and Consumer Electronics product lines compete against major companies, such as JVC, Sony, Panasonic, Phillips and Monster Cable.

#### Financial Information About Foreign and Domestic Operations

The amounts of net sales and long-lived assets, attributable to foreign and domestic operations for all periods presented are set forth in Note 14 of the Notes to Consolidated Financials Statements, included herein.

#### Equity Investment

We have a 50% non-controlling ownership interest in Audiovox Specialized Applications, Inc. ("ASA") which acts as a distributor to specialized markets for specialized vehicles, such as, but not limited to, RV's, van conversions and marine vehicles, of televisions and other automotive sound, security and accessory products. The goal of this equity investment is to blend financial and product resources with local operations in an effort to expand our distribution and marketing capabilities.

## Employees

As of February 29, 2008, we employed approximately 1,000 people worldwide. We consider our relations with employees to be good and no employees are covered by collective bargaining agreements.

## Item 1A-Risk Factors

We have identified certain risk factors that apply to us. 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 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.

The asset purchase agreement with UTSI exposes the Company to contingent liabilities.

Under the asset purchase agreement for the sale of the Cellular business to UTSI we agreed to indemnify UTSI for any breach or violation of ACC and its representations, warranties and covenants contained in the asset purchase agreement and for other matters, subject to certain limitations. Significant indemnification claims by UTSI could have a material adverse effect on our financial condition and results of operations.

Our success will depend on a less diversified line of business.

Currently, we generate substantially all of our sales from the Consumer and Mobile Electronics and Accessories businesses. We cannot assure you that we can grow the revenues of our Electronics and Accessories businesses or maintain profitability. As a result, the Company's revenues and profitability will depend on our ability to maintain and generate additional customers and develop new products. A reduction in demand for our existing products and services would have a material adverse effect on our business. The sustainability of current levels of our Electronics and Accessories businesses and the future growth of such revenues, if any, will depend on, among other factors:

- the overall performance of the economy and discretionary consumer spending,
  - competition within key markets,
- customer acceptance of newly developed products and services, and
- the demand for other products and services.

We cannot assure you that we will maintain or increase our current level of revenues or profits from the Electronics and Accessories businesses in future periods.

The Electronics and Accessories Businesses are Highly Competitive and Faces Significant Competition from Original Equipment Manufacturers (OEMs) and Direct Imports By Our Retail Customers.

The market for consumer electronics and accessories is highly competitive across all product lines. We compete against many established companies who have substantially greater financial and engineering resources than we do. We compete directly with OEMs, including divisions of well-known automobile manufacturers, in the autosound, auto security, mobile video and accessories industry. We believe that OEMs have diversified and improved their product offerings and place increased sales pressure on new car dealers with whom they have close business relationships to purchase OEM-supplied equipment and accessories. 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. In addition, we compete with major retailers who may at any time choose to direct import products that we may currently supply.

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

Sales of our 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 in Our Electronics and Accessories Businesses are Dependent on New Products, Product Development and Consumer Acceptance.

Our Electronics and Accessories businesses depend, 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, satellite radios, flat-panel TVs, mobile video systems and the acquisition of certain consumer electronic accessory businesses, has fueled the recent growth of our business. If we are not able to continually introduce new products that achieve consumer acceptance, our sales and profit margins may 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, and we do not have long-term contracts with our suppliers. 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,
- our suppliers will not become competitors,
- 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, and
  - our suppliers have sufficient financial resources to fulfill their obligations.

On occasion our suppliers have not been able to produce the quantities of 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 our business.

### The Impact of Future Selling Prices and Technological Advancements may cause Price Erosion and Adversely Impact our Profitability and Inventory Value

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 technologically advanced products in order 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.

Our estimates of excess and obsolete inventory may prove to be inaccurate, in which case the provision required for excess and obsolete inventory may be understated or overstated. Although we make every effort to ensure the accuracy of our forecasts of future product demand, any significant unanticipated changes in demand or technological developments could have a significant impact on the value of our inventory and operating results.

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. Due to the large concentrations of our purchases in Pacific Rim countries, particularly China, Hong Kong, Malaysia, South Korea, and Taiwan, 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, and
- increased complexity and costs of managing and staffing international operations.

Our Products Could Infringe the Intellectual Property Rights of Others and We May Be Exposed to Costly Litigation.

The products we sell are continually changing as a result of improved technology. Although we and our suppliers attempt to avoid infringing known proprietary rights of third parties in our products, we may be subject to legal proceedings and claims for alleged infringement by us, our suppliers or our distributors, of third party's patents, trade secrets, trademarks or copyrights.

Any claims relating to the infringement of third-party proprietary rights, even if not meritorious, could result in costly litigation, divert management's attention and resources, or require us to either enter into royalty or license agreements which are not advantageous to us or pay material amounts of damages. In addition, parties making these claims may be able to obtain an injunction, which could prevent us from selling our products. We may increasingly be subject to infringement claims as we expand our product offerings.



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. 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 mobile, consumer and accessory electronics, are affected by, among other things, prevailing economic conditions, energy costs, raw material costs, wage rates, inflation, consumer confidence and consumer perception of economic conditions. A general slowdown in the U.S. and certain international economies or an uncertain economic outlook could have a material adverse effect on our sales and operating results.

Acquisitions and Strategic Investments May Divert Our Resources and Management Attention; Results May Fall Short of Expectations.

We intend to continue pursuing selected acquisitions of and investments in businesses, technologies and product lines as a key component of our growth strategy. Any future acquisition or investment may result in the use of significant amounts of cash, potentially dilutive issuances of equity securities, incurrence of debt and amortization expenses related to intangible assets. Acquisitions involve numerous risks, including:

- difficulties in the integration and assimilation of the operations, technologies, products and personnel of an acquired business;
  - diversion of management's attention from other business concerns;
  - increased expenses associated with the acquisition; and
  - potential loss of key employees or customers of any acquired business.

We cannot assure you that our acquisitions will be successful and will not adversely affect our business, results of operations or financial condition.

We have recorded goodwill and other intangible assets as a result of acquisitions, and changes in future business conditions could cause these investments to become impaired, requiring substantial write-downs that would reduce our operating income.

Goodwill and other intangible assets recorded on our balance sheet as of February 29, 2008 was \$124,435. We evaluate the recoverability of recorded goodwill and other intangible asset amounts annually, or when evidence of potential impairment exists. The annual impairment test is based on several factors requiring judgment. Changes in our operating performance or business conditions, in general, could result in an impairment of goodwill and/or other intangible assets, which could be material to our results of operations.

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

Our success depends on the continued efforts of our directors, executives and senior vice presidents, many of whom have worked with Audiovox for over two decades, as well as our other executive officers and key employees. We have no employment contracts, with any of our executive officers or key employees, except our President and Chief Executive Officer. 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 supplier's products.

#### 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. However, we may need additional capital to operate our business if:

- market conditions change,
- our business plans or assumptions change,
- we make significant acquisitions, and
- we need to make significant increases in capital expenditures or working capital.

#### 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,
- general downgrading of our industry sector by securities analysts,
- inventory write-downs, and
- ability to integrate acquisitions.

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.

#### John J. Shalam, Our Chairman, Owns a Significant Portion of Our Common Stock and Can Exercise Control over Our Affairs.

Mr. Shalam beneficially owns approximately 55% 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 the Company.

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.

Other Risks

Other risks and uncertainties include: