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

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K/A

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

For the fiscal year ended	**November 30, 2002**
Commission file number	**0-28839**

AUDIOVOX CORPORATION

(Exact name of registrant as specified in its charter)

Delaware	**13-1964841**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)
150 Marcus Blvd., Hauppauge, New York	**11788**
(Address of principal executive offices)	(Zip Code)

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

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

Name of Each Exchange on

Title of each class:	Which Registered
Class A Common Stock $.01 par value	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 o No ý

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

Yes ý No o

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 $168,886,196 (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

May 23, 2003 was:

Class	**Outstanding**
Class A common stock $.01 par value	20,651,374
Class B common stock $.01 par value	2,260,954

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PART I

Item 1 - Business

All tabular presentation is in thousands unless otherwise indicated.

(a) Restatement of Consolidated Financial Statements

The Company has restated its consolidated financial statements for the fiscal years ended November 30, 2000 and 2001 and for the quarters ended February 28, 2002, May 31, 2002 and August 31, 2002. In addition, the Company has reclassified certain expenses from operating expenses to cost of sales for fiscal 2000 and 2001 and for each of the quarters in the nine months ended August 31, 2002. These restatement adjustments are the result of the misapplication of generally accepted accounting principles.

The net effect of all of the restatement adjustments is as follows:

	Fiscal 2000	Fiscal 2001	First Quarter 2002 (Unaudited)	Second Quarter 2002 (Unaudited)	Third Quarter 2002 (Unaudited)
Increase (decrease) income/(increase) decrease (loss) before extraordinary item and cumulative effect of a change in accounting for negative goodwill	$ 263	$ 1,011	$ (1,308)	$ (782)	$ 751
Increase (decrease) net income/ (increase) decrease net (loss)	263	1,011	(1,308)	(782)	751
Increase (decrease) net income/ (increase) decrease net (loss) per common share - diluted	$ 0.01	$ 0.05	$ (0.06)	$ (0.03)	$ 0.04

The following table provides additional information regarding these restatement adjustments:

Effects of Restatement Adjustments on Net Income or Net Loss

(in thousands)

	Increase (Decrease) in Net Income for the Fiscal Year Ended November 30, 2000	(Increase) Decrease in Net Loss for the Fiscal Year Ended November 30, 2001	Increase (Decrease) in Net Income for the Nine Months Ended August 31, 2002 Unaudited
Restatement adjustments:			
Revenue recognition	$ (779)	$ 779	
Timing of revenue		(15)	$ (103)
Litigation		(373)	427
Foreign currency translation			(1,491)
Inventory pricing			420
Sales incentives	1,884	910	847
Gain on the issuance of subsidiary shares			(1,556)
Operating expense reclassification to cost of sales (2)			
Total adjustment to pre-tax income (loss)	1,105	1,301	(1,456)
(Provision for) recovery of income taxes	(842)	(310)	204
Minority interest (1)		20	(87)
Total effect on net income (loss)	$ 263	$ 1,011	$ (1,339)

(1) This adjustment reflects the impact of the restatement adjustments on minority interest.

(2) This adjustment represents a reclassification of warehousing and technical support and general and administrative costs (which are components of operating expenses) to cost of sales. This reclassification did not have any effect on previously reported net income or (loss) for any fiscal year or period presented herein.

See Note 2, Restatement of Consolidated Financial Statements , of Notes to Consolidated Financial Statements for restatement adjustments to previously reported fiscal years 2000 and 2001 and Note 26, Unaudited Quarterly Financial Data- As Restated , of Notes to Consolidated Financial Statements for restatement adjustments to previously reported unaudited quarterly consolidated statements of operations data for the quarters ended February 28, 2001 through August 31, 2002 as a result of the restatements and reclassifications.

The following discussion addresses each of the restatement adjustments and the reclassification adjustment for the corrections of accounting errors. Any references to quarterly amounts are unaudited.

Revenue recognition. The Company overstated net sales in each of the third and fourth quarters of fiscal 2000 for shipments of product that did not conform to the technical requirements of the customer (i.e., the goods were non-conforming). The Company did not properly evaluate this shipment of non-conforming goods as required in accordance with Staff Accounting Bulletin No. 101 (SAB No. 101), Revenue Recognition in Financial Statements , which would preclude revenue recognition until the specific performance obligations have been met by the Company. These product shipments resulted in the Company overstating net sales by $19,166 and gross profit by $779 for fiscal 2000.

During the first quarter of fiscal 2001, the Company recorded a sales return of this fiscal 2000 non-conforming product sale. The recording of this product return (sales reversal) resulted in the Company understating net sales by $19,166 and gross profit by $779 for fiscal 2001.

Timing of revenue. During each of the third and fourth quarters of fiscal 2001 and the first, second and third quarters of fiscal 2002, the Company (overstated) understated net sales by $(976), $857, $(4,601), $(7,757) and $10,472, respectively, as the timing of revenue recognition was not in accordance with the established shipping terms with certain customers. SAB 101 specifically states that delivery generally is not considered to have occurred unless the customer has taken title (which is, in this situation, when the product was delivered to the customer s site). Accordingly, the Company should have deferred revenue recognition until delivery was made to the customer s site. During each of the third and fourth quarters of fiscal 2001 and the first, second and third quarters of fiscal 2002, gross profit was overstated (understated) by $34, ($19), $99, $562 and ($535), respectively. During each of the third and fourth quarters of fiscal 2001 and the first, second and third quarters of fiscal 2002, operating expenses were overstated (understated) by $0, $0, $17, $136 and ($130), respectively.

Litigation. During the fourth quarter of fiscal 2001 and each of the first three quarters of fiscal 2002, the Company overestimated its provisions for certain litigation matters, thereby overstating cost of sales by $314, $176, $345 and $457 for each respective quarterly period. Also, the Company understated operating expenses by $497 in the first quarter of fiscal 2002 as a result of not recording a settlement offer in the period the Company offered it.

During the second, third and fourth quarters of 2001 and the first, second and third quarters of 2002, the Company understated (overstated) operating expenses by $189, $302, $196, $78 and $276 and ($300), respectively as a result of inappropriately deferring costs related to an insurance claim. The Company s insurance company refused to defend the Company against a legal claim made against the Company. The Company took legal action against the insurance company and was unsuccessful. The Company was improperly capitalizing costs that were not probable of recovery.

Foreign currency translation. During the first three quarters of fiscal 2002, the Company did not properly account for a change in accounting for its Venezuelan subsidiary as operating in a non-highly inflationary economy. In fiscal 2001 and in prior years, Venezuela was deemed to be a highly-inflationary economy in accordance with certain technical accounting pronouncements. Effective January 1, 2002, it was deemed that Venezuela should cease to be considered a highly-inflationary economy, however, the Company did not account for this change. The Company incorrectly recorded the foreign currency translation adjustment in other income rather than as other comprehensive income. As a result, the Company understated other expenses, net, by $1,360 for the first quarter of fiscal 2002, overstated other income, net, by $71 for the second quarter of fiscal 2002 and understated other expenses, net, by $243 for the third quarter of fiscal 2002. Also the Company overstated operating expenses by $41, $54 and $88 for the first, second and third quarters of fiscal 2002, respectively.

Inventory pricing. During the first three quarters of fiscal 2002, the Company overstated (understated) cost of sales related to an inventory pricing error that occurred at its Venezuelan subsidiary. The Company was not aware of this pricing error until the fourth quarter of fiscal 2002 and, accordingly,

was not properly pricing its inventory at the lower of cost or market in accordance with generally accepted accounting principles. As a result, the Company overstated (understated) cost of sales by $387, ($2) and $35, for the first, second and third quarters of fiscal 2002, respectively.

Sales incentives. During fiscal 2000 and 2001 and for the nine months ended August 31, 2002, the Electronics segment overestimated accruals for additional sales incentives (other trade allowances) that were not yet offered to its customers. As a result, for fiscal 2000 and 2001 and for the nine months ended August 31, 2002, the Company understated net sales by $1,884, $784 and $292, respectively.

Furthermore, during fiscal 2001 and for the nine months ended August 31, 2002, the Electronics segment was also not reversing earned and unclaimed sales incentives (i.e., cooperative advertising, market development and volume incentive rebate funds) upon the expiration of the established claim period. As a result, for fiscal 2001 and for the nine months ended August 31, 2002, the Company understated net sales by $126 and $555, respectively.

Gain on the Issuance of Subsidiary Shares. During the second quarter of fiscal 2002, the Company overstated the gain on issuance of subsidiary shares by $1,735 due to expenses related to this issuance being charged to additional paid in capital. This adjustment also reflects the impact of the other restatement adjustments on the calculation of the gain on the issuance of subsidiary shares of $179 that was originally recorded by the Company in the quarter ended May 31, 2002. As a result, the Company decreased the gain on issuance of subsidiary shares and increased the additional paid in capital by $1,556.

Income taxes. Income taxes were adjusted for the restatement adjustments discussed above for each period presented.

The Company also applied income taxes to minority interest amounts during all quarters of fiscal 2000 and 2001, as well as the first three quarters of fiscal 2002. As a result of all these adjustments, the Company overstated (understated) the provision for/recovery of income taxes by $(842), ($310) and $(455) for fiscal 2000, 2001 and the nine months ended August 31, 2002, respectively.

Operating expense reclassification. The Company reclassified certain costs as operating expenses, which were included as a component of warehousing and technical support and general and administrative costs, which should have been classified as a component of cost of sales. The effect of this reclassification on fiscal 2000 and 2001 was to increase cost of sales and decrease operating expenses by $17,962 and $20,024, respectively. The effect of this reclassification for the nine months ended August 31, 2002 was to understate cost of sales and overstate operating expenses by $15,488. This reclassification did not have any effect on previously reported net income or loss for any fiscal year or period presented herein. This reclassification reduced gross margin by 1.0, 1.6 and 1.9 percentage points for fiscal years November 30, 2000, 2001 and the nine months ended August 31, 2002, respectively.

(b) General Development of Business

Audiovox 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.

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 and accessories products and accessories
- consumer electronic products and accessories

The Company generally markets its products under the well-recognized Audiovox brand name, which it has used for over 38 years. 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 Company (Wireless), which accounts for approximately 66% of revenues, 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 34% of revenues, sells autosound, mobile video, 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.

The business grew significantly in fiscal 2000, primarily because of increased sales of digital handsets, as the market continued to shift to digital technology from analog technology.

Prior to and including 2000, our wireless business increased as new subscribers came onto the carrier networks as a result of lower price-plans, the shift from analog to digital technologies and the shift from mobile to hand-held portable phones. Since 2000, several factors have affected the Company. New subscriber subscriptions slowed down, the consolidation within our wireless customer base created a more competitive market within a smaller number of customers and there was a slow down in the development of new technologies which slowed consumer demand for one technology to another.

The Electronics Group has been positively influenced by an increase in the sale of consumer electronic items such as FRS (Family Radio System) Radios and Mobile Video products.

The following table shows net sales by group and the increase in Electronics sales compared to a decrease in Wireless:

	2000 As Restated (1)	2001 As Restated (1)	2002	Percent Change 2000/2002
		(millions)		