

AUDIOVOX CORP
Form 10-Q
October 11, 2011

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 August 31, 2011

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
(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)

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

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

Edgar Filing: AUDIOVOX CORP - Form 10-Q

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

| Class | As of October 7, 2011 |
|----------------------|-----------------------|
| Class A Common Stock | 20,813,005 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 August 31, 2011 and February 28, 2011 |
| | <u>3</u> |
| | Consolidated Statements of Operations for the Three and Six Months Ended August 31, 2011 and 2010 |
| | <u>5</u> |
| | Consolidated Statements of Cash Flows for the Six Months Ended August 31, 2011 and 2010 |
| | <u>6</u> |
| | Notes to Consolidated Financial Statements |
| | <u>7</u> |
| Item 2 | MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS |
| | <u>25</u> |
| Item 3 | QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK |
| | <u>33</u> |
| Item 4 | CONTROLS AND PROCEDURES |
| | <u>33</u> |
| PART II | OTHER INFORMATION |
| Item 1 | LEGAL PROCEEDINGS |
| | <u>33</u> |
| Item 1A | RISK FACTORS |
| | <u>33</u> |
| Item 2 | UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS |
| | <u>33</u> |
| Item 6 | EXHIBITS |
| | <u>34</u> |
| SIGNATURES | <u>35</u> |

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

| | August 31, 2011 (unaudited) | February 28, 2011 |
|---|-----------------------------------|----------------------|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$14,339 | \$98,630 |
| Accounts receivable, net | 117,703 | 108,048 |
| Inventory, net | 151,137 | 113,620 |
| Receivables from vendors | 6,746 | 8,382 |
| Prepaid expenses and other current assets | 8,722 | 9,382 |
| Deferred income taxes | 4,330 | 2,768 |
| Total current assets | 302,977 | 340,830 |
| Investment securities | 13,086 | 13,500 |
| Equity investments | 13,939 | 12,764 |
| Property, plant and equipment, net | 24,017 | 19,563 |
| Goodwill | 88,373 | 7,373 |
| Intangible assets, net | 176,847 | 99,189 |
| Deferred income taxes | 12 | 6,244 |
| Other assets | 4,114 | 1,634 |
| Total assets | \$623,365 | \$501,097 |
| Liabilities and Stockholders' Equity | | |
| Current liabilities: | | |
| Accounts payable | \$54,008 | \$27,341 |
| Accrued expenses and other current liabilities | 43,750 | 36,500 |
| Income taxes payable | 2,435 | 1,610 |
| Accrued sales incentives | 17,876 | 11,981 |
| Deferred income taxes | 417 | 399 |
| Current portion of long-term debt | 3,498 | 4,471 |
| Total current liabilities | 121,984 | 82,302 |
| Long-term debt | 55,349 | 5,895 |
| Capital lease obligation | 5,273 | 5,348 |
| Deferred compensation | 3,250 | 3,554 |
| Other tax liabilities | 1,788 | 1,788 |
| Deferred tax liabilities | 30,804 | 4,919 |
| Other long-term liabilities | 4,509 | 4,345 |
| Total liabilities | 222,957 | 108,151 |
| Commitments and contingencies | | |
| Stockholders' equity: | | |
| Series preferred stock, \$.01 par value; 1,500,000 shares authorized, no shares issued or outstanding | — | — |
| Common stock: | | |
| | 226 | 226 |

Class A, \$.01 par value; 60,000,000 shares authorized, 22,630,837 shares issued and 20,813,005 shares outstanding at August 31, 2011 and February 28, 2011

| | | |
|--|-----------|-------------|
| Class B convertible, \$.01 par value; 10,000,000 shares authorized, 2,260,954 shares issued and outstanding at August 31, 2011 and February 28, 2011 | 22 | 22 |
| Paid-in capital | 278,272 | 277,896 |
| Retained earnings | 142,953 | 137,027 |
| Accumulated other comprehensive (loss) | (2,689 |) (3,849) |
| Treasury stock, at cost, 1,817,832 shares of Class A common stock at August 31, 2011 and February 28, 2011 | (18,376 |) (18,376) |
| Total stockholders' equity | 400,408 | 392,946 |
| Total liabilities and stockholders' equity | \$623,365 | \$501,097 |

See accompanying notes to consolidated financial statements.

Audiovox Corporation and Subsidiaries
Consolidated Statements of Operations
(In thousands, except share and per share data)
(unaudited)

| | Three Months Ended | | Six Months Ended | |
|--|--------------------|------------|------------------|------------|
| | August 31, | | August 31, | |
| | 2011 | 2010 | 2011 | 2010 |
| Net sales | \$158,337 | \$129,297 | \$323,662 | \$259,611 |
| Cost of sales | 114,475 | 101,827 | 236,112 | 205,079 |
| Gross profit | 43,862 | 27,470 | 87,550 | 54,532 |
| Operating expenses: | | | | |
| Selling | 11,199 | 7,623 | 23,103 | 16,452 |
| General and administrative | 20,765 | 16,032 | 43,418 | 33,362 |
| Engineering and technical support | 4,007 | 3,640 | 7,818 | 6,029 |
| Acquisition-related costs | 239 | — | 1,583 | — |
| Total operating expenses | 36,210 | 27,295 | 75,922 | 55,843 |
| Operating income (loss) | 7,652 | 175 | 11,628 | (1,311) |
| Other (expense) income: | | | | |
| Interest and bank charges | (1,392) | (479) | (2,875) | (920) |
| Equity in income of equity investees | 890 | 840 | 2,019 | 1,748 |
| Other, net | (1,227) | 498 | (746) | 1,998 |
| Total other (expense) income, net | (1,729) | 859 | (1,602) | 2,826 |
| Income before income taxes | 5,923 | 1,034 | 10,026 | 1,515 |
| Income tax expense (benefit) | 2,484 | 389 | 4,101 | (249) |
| Net income | \$3,439 | \$645 | \$5,925 | \$1,764 |
| Net income per common share (basic) | 0.15 | \$0.03 | \$0.26 | \$0.08 |
| Net income per common share (diluted) | \$0.15 | \$0.03 | \$0.25 | \$0.08 |
| Weighted-average common shares outstanding (basic) | 23,073,959 | 22,893,161 | 23,073,959 | 22,890,174 |
| Weighted-average common shares outstanding (diluted) | 23,254,296 | 23,043,136 | 23,268,241 | 23,037,640 |

See accompanying notes to consolidated financial statements.

Audiovox Corporation and Subsidiaries
Consolidated Statements of Cash Flows
(In thousands)
(unaudited)

| | 2011 | 2010 | |
|--|-----------|----------|---|
| Cash flows from operating activities: | | | |
| Net income | \$5,925 | \$1,764 | |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Depreciation and amortization | 5,056 | 4,206 | |
| Bad debt expense | 551 | 444 | |
| Equity in income of equity investees | (2,019) | (1,748) |) |
| Distribution of income from equity investees | 843 | 694 | |
| Deferred income tax expense | 359 | 1 | |
| Non-cash compensation adjustment | 577 | 153 | |
| Non-cash stock based compensation expense | 376 | 856 | |
| Loss (gain) on sale of property, plant and equipment | 7 | (1) |) |
| Impairment loss on marketable securities | 1,177 | — | |
| Changes in operating assets and liabilities (net of assets and liabilities acquired): | | | |
| Accounts receivable | 19,563 | 31,580 | |
| Inventory | (6,473) | (24,991) |) |
| Receivables from vendors | 1,650 | (4,091) |) |
| Prepaid expenses and other | (1,620) | 1,837 |) |
| Investment securities-trading | 429 | (212) |) |
| Accounts payable, accrued expenses, accrued sales incentives and other current liabilities | 8,954 | 88 | |
| Income taxes payable | 787 | 558 | |
| Net cash provided by operating activities | 36,142 | 11,138 | |
| Cash flows from investing activities: | | | |
| Purchases of property, plant and equipment | (982) | (1,761) |) |
| Purchase of short-term investments | — | (20,000) |) |
| Sale of short-term investments | — | 62 | |
| Purchase of long-term investments | — | (70) |) |
| Repayment of notes receivable | 116 | 109 | |
| Purchase of acquired business | (167,253) | — |) |
| Net cash used in investing activities | (168,119) | (21,660) |) |
| Cash flows from financing activities: | | | |
| Repayment of short-term debt | (536) | — |) |
| Principal payments on capital lease obligation | (43) | (137) |) |
| Repayment of bank obligations | (40,324) | (5,909) |) |
| Borrowings on bank obligations | 88,520 | 232 | |
| Proceeds from exercise of stock options | — | 60 | |
| Net cash provided by (used in) financing activities | 47,617 | (5,754) |) |
| Effect of exchange rate changes on cash | 69 | (288) |) |
| Net decrease in cash and cash equivalents | (84,291) | (16,564) |) |
| Cash and cash equivalents at beginning of period | 98,630 | 69,511 | |
| Cash and cash equivalents at end of period | \$14,339 | \$52,947 | |

See accompanying notes to consolidated financial statements.

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

(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 or any interim period. 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 28, 2011.

We have determined that we operate in one reportable segment, the Electronics Group, based on review of ASC 280 “Segment Reporting”.

(2) Acquisitions

Klipsch

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 \$169.5 million, consisting of cash paid at closing of \$167.3 million, including a working capital adjustment, and contingent consideration of \$2.2 million as a result of a contractual arrangement with a former principal shareholder, 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®.

In connection with the acquisition, the Company entered into a \$175 million credit agreement with Wells Fargo Capital Finance, LLC to fund a portion of the acquisition and future working capital needs, as applicable. At closing, approximately \$89 million of the cash paid to fund the acquisition was borrowed under the Credit Agreement to fund the balance of the purchase price.

As the Klipsch acquisition occurred on March 1, 2011, the financial statements presented for the three and six months ended August 31, 2011 included the operations of Klipsch.

The Company is currently performing a formal valuation of the acquisition including an analysis of purchase price adjustments and a review of the assets and liabilities acquired to determine appropriate fair values. Management has estimated the fair value of tangible assets acquired and liabilities assumed based on preliminary estimates and assumptions. These preliminary estimates and assumptions could change during the purchase price measurement period as the Company finalizes the valuations of the net tangible and intangible assets.

The following table summarizes the preliminary fair values of the assets acquired and liabilities assumed as of the date of the acquisition and the estimated amounts assigned to goodwill and intangible asset classifications:

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

| | As of March 1, 2011 |
|---|---------------------|
| Accounts Receivable | \$28,614 |
| Inventory | 30,167 |
| Prepaid expenses and other current assets | 846 |
| Property, plant and equipment, net | 6,347 |
| Goodwill | 81,000 |
| Intangible assets | 81,063 |
| Deferred tax assets | 3,010 |
| Total assets acquired | 231,047 |
| Accounts payable | 15,796 |
| Accrued expenses and other liabilities | 12,664 |
| Deferred tax liabilities | 32,989 |
| Net tangible and intangible assets acquired | \$169,598 |

The preliminary amounts assigned to goodwill and intangible assets for the acquisition are as follows:

| | March 1, 2011 | Amortization Period (Years) |
|-----------------------------|---------------|-----------------------------|
| Goodwill (non-deductible) | \$81,000 | N/A |
| Tradenames (non-deductible) | 46,816 | Indefinite |
| Customer relationships | 33,000 | 15 |
| Patents | 1,247 | 13 |
| | \$162,063 | |

Acquisition related costs of \$988, \$93 and \$239 in the three months ended February 28, May 31, and August 31, 2011, respectively, were expensed as incurred and are included in general and administrative expenses in the accompanying consolidated statement of income. In addition, the Company incurred \$1,250 of costs which were contingent upon the completion of the acquisition and were expensed on March 1, 2011.

Pro Forma Information

The following unaudited pro forma information illustrates the effect on Audiovox's net sales and net income for the six-months ended August 31, 2011 and August 31, 2010, assuming that the acquisition had taken place on March 1, 2010.

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

| | Six Months Ended | |
|-----------------------------|------------------|-----------------|
| | August 31, 2011 | August 31, 2010 |
| Net sales: | | |
| As reported | \$323,662 | \$259,611 |
| Pro forma | 323,662 | 336,666 |
| Net income: | | |
| As reported | \$5,925 | \$1,764 |
| Pro forma | 7,507 | 6,270 |
| Basic earnings per share: | | |
| As reported | \$0.26 | \$0.08 |
| Pro forma | 0.32 | 0.27 |
| Diluted earnings per share: | | |
| As reported | \$0.25 | \$0.08 |
| Pro forma | 0.32 | 0.27 |
| Average shares - basic | 23,073,959 | 22,890,174 |
| Average shares - diluted | 23,268,241 | 23,037,640 |

The above pro-forma results include certain adjustments for the periods presented to adjust the financial results and give consideration to the assumption that the acquisition occurred on the first day of Fiscal 2011. These adjustments include costs such as an estimate for amortization and depreciation associated with intangible and fixed assets acquired, additional financing costs as a result of the acquisition, and the elimination of expenses specific to the acquisition. These pro-forma results of operations have been estimated for comparative purposes only and may not reflect the actual results of operations that would have been achieved had the transaction occurred on the date presented or be indicative of results to be achieved in the future.

(3) Net Income Per Common Share

Basic net income per common share is based upon the weighted-average common shares outstanding during the period. Diluted net income per common share reflects the potential dilution that would occur if common stock equivalent securities or other contracts to issue common stock were exercised or converted into common stock.

There are no reconciling items which impact the numerator of basic and diluted net income per common share. A reconciliation between the denominator of basic and diluted net income per common share is as follows:

| | Three Months Ended | | Six Months Ended | |
|--|--------------------|------------|------------------|------------|
| | August 31, | | August 31, | |
| | 2011 | 2010 | 2011 | 2010 |
| Weighted-average common shares outstanding | 23,073,959 | 22,893,161 | 23,073,959 | 22,890,174 |
| Effect of dilutive securities: | | | | |
| Stock options, warrants and restricted stock | 180,337 | 149,975 | 194,282 | 147,466 |
| Weighted-average common shares and potential common shares outstanding | 23,254,296 | 23,043,136 | 23,268,241 | 23,037,640 |

Stock options and warrants totaling 288,750 and 232,383 for the three months ended August 31, 2011 and 2010, respectively, and 151,678 and 225,983 for the six months ended August 31, 2011 and 2010, respectively, were not included in the net income per diluted share calculation because the exercise price of these options and warrants was greater than the average market price of the Company's common stock during these periods or their inclusion would

have been anti-dilutive.

9

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

(4) Fair Value Measurements and Derivatives

The Company adopted authoritative guidance on “Fair Value Measurements”, which among other things, requires enhanced disclosures about investments that are measured and reported at fair value. This guidance establishes a hierarchal disclosure framework that prioritizes and ranks the level of market price observability used in measuring investments at fair value. Market price observability is impacted by a number of factors, including the type of investment and the characteristics specific to the investment. Investments with readily available active quoted prices or for which fair value can be measured from actively quoted prices generally will have a higher degree of market price observability and a lesser degree of judgment used in measuring fair value.

Investments measured and reported at fair value are classified and disclosed in one of the following categories:

Level 1 - Quoted market prices in active markets for identical assets or liabilities.

Level 2 - Inputs other than Level 1 inputs that are either directly or indirectly observable.

Level 3 - Unobservable inputs developed using the Company's estimates and assumptions, which reflect those that market participants would use.

The following table presents assets measured at fair value on a recurring basis at August 31, 2011:

| | | Fair Value Measurements at Reporting Date Using (c) | |
|---------------------------------------|-----------|---|----------|
| | | Level 1 | Level 2 |
| Cash and cash equivalents: | | | |
| Cash and money market funds | \$ 14,339 | \$ 14,339 | \$— |
| Derivatives | | | |
| Designated for hedging | \$ 396 | \$ 396 | \$— |
| Long-term investment securities: | | | |
| Marketable securities | | | |
| Trading securities | \$ 3,375 | \$ 3,375 | \$— |
| Available-for-sale securities | 65 | 65 | — |
| Held-to-maturity (b) | 7,523 | — | 7,523 |
| Total marketable securities | 10,963 | 3,440 | 7,523 |
| Other investment at cost (a) | 2,123 | — | — |
| Total long-term investment securities | \$ 13,086 | \$ 3,440 | \$ 7,523 |

The following table presents assets measured at fair value on a recurring basis at February 28, 2011:

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

| | | Fair Value Measurements at Reporting Date Using (c) | |
|---------------------------------------|----------|---|---------|
| | | Level 1 | Level 2 |
| Cash and cash equivalents: | | | |
| Cash and money market funds | \$98,630 | \$98,630 | \$— |
| Derivatives | | | |
| Designated for hedging | \$238 | \$238 | \$— |
| Not designated | 85 | 85 | — |
| Total derivatives | \$323 | \$323 | \$— |
| Long-term investment securities: | | | |
| Marketable securities | | | |
| Trading securities | \$3,804 | \$3,804 | \$— |
| Available-for-sale securities | 68 | 68 | — |
| Held-to-maturity (b) | 7,502 | — | 7,502 |
| Total marketable securities | 11,374 | 3,872 | 7,502 |
| Other investment at cost (a) | 2,126 | — | — |
| Total long-term investment securities | \$13,500 | \$3,872 | \$7,502 |

(a) There were no events or changes in circumstances that occurred to indicate a significant adverse effect on the cost of this investment.

(b) During Fiscal 2011, the Venezuelan government temporarily restricted the local brokerage houses inhibiting the Company's ability to obtain a fair value in the open market on this investment. As such, we have transferred our held-to-maturity investment in Venezuelan government bonds from Level 1 to Level 2.

(c) The Company had no assets or liabilities classified as Level 3 as of August 31, 2011 or February 28, 2011.

The carrying amount of the Company's accounts receivable, short-term debt, accounts payable, accrued expenses, bank obligations and long-term debt approximates fair value because of (i) the short-term nature of the financial instrument; (ii) the interest rate on the financial instrument being reset every quarter to reflect current market rates; (iii) the stated or implicit interest rate approximates the current market rates or are not materially different than market rates, and (iv) are based on quoted prices in active markets.

Derivative Instruments

The Company's derivative instruments include forward foreign currency contracts utilized to hedge a portion of its foreign currency inventory purchases as well as its general economic exposure to foreign currency fluctuations created in the normal course of business. The derivatives qualifying for hedge accounting are designated as cash flow hedges and valued using observable forward rates (Level 1). Forward foreign currency contracts not designated under hedged transactions were valued at spot rates (Level 1). The duration of open forward foreign currency contracts range from 1 - 6 months and are classified in the balance sheet according to their terms.

It is the Company's policy to enter into derivative instrument contracts with terms that coincide with the underlying exposure being hedged. As such, the Company's derivative instruments are expected to be highly effective. Hedge ineffectiveness, if any, is recognized as incurred through other income (expense) in the Company's Consolidated Statement of Operations and amounted to \$9 and (\$81) for the three and six months ended August 31, 2011, respectively.

Financial Statement Classification

The Company holds derivative instruments that are designated as hedging instruments, and has held certain instruments not so designated. The following table discloses the fair value as of August 31, 2011 and February 28,

2011 for both types of derivative instruments:

11

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

| | | Derivative Assets and Liabilities | |
|-----------------------------------|--|-----------------------------------|-------------------|
| | | Fair Value | |
| Account | | August 31, 2011 | February 28, 2011 |
| Designated derivative instruments | | | |
| Foreign currency contracts | Accrued expenses and other current liabilities | \$ 396 | \$— |
| | Prepaid expenses and other current assets | — | 238 |
| Derivatives not designated | | | |
| Foreign currency contracts | Prepaid expenses and other current assets | — | 85 |
| Total derivatives | | \$ 396 | \$ 323 |

During the three months ended May 31, 2011, the Company settled one remaining foreign currency contract which was a derivative not designated in a hedged transaction and as such, there are no current contracts of this nature outstanding at August 31, 2011.

Cash flow hedges

In November 2010 and January 2011, the Company entered into forward foreign currency contracts, which have a current outstanding notional value of \$13,500, which are designated as cash flow hedges. For cash flow hedges, the effective portion of the gain or loss is reported as a component of other comprehensive income (loss) and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings.

Activity related to cash flow hedges recorded during the three and six months ended August 31, 2011 was as follows:

| | For the three months ended August 31, 2011 | | | For the six months ended August 31, 2011 | | |
|----------------------------|--|--|---|--|--|---|
| | Gain (Loss) Recognized in Other Comprehensive Income | Gain (Loss) Reclassified into Cost of Sales | Gain (Loss) for Ineffectiveness in Other Income | Gain (Loss) Recognized in Other Comprehensive Income | Gain (Loss) Reclassified into Cost of Sales | Gain (Loss) for Ineffectiveness in Other Income |
| Cash flow hedges | | | | | | |
| Foreign currency contracts | \$ (161) | \$ (142) | \$ 9 | \$ (869) | \$ (150) | \$ (81) |

The net loss recognized in other comprehensive income for foreign currency contracts is expected to be recognized in cost of sales within the next nine months. No amounts were excluded from the assessment of hedge effectiveness during the respective periods. As of August 31, 2011, no contracts originally designated for hedge accounting were de-designated or terminated. The Company did not hold derivatives designated for hedge accounting during the first or second quarters of Fiscal 2011.

(5) Investment Securities

In accordance with the Company's investment policy, all long and short-term investment securities are invested in "investment grade" rated securities. As of August 31, 2011 and 2010, the Company had the following investments:

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

| | August 31, 2011 | | | February 28, 2011 | | |
|-----------------------------|-----------------|--------------------------------|------------|-------------------|--------------------------------|------------|
| | Cost Basis | Unrealized holding gain/(loss) | Fair Value | Cost Basis | Unrealized holding gain/(loss) | Fair Value |
| Long-Term Investments | | | | | | |
| Marketable Securities | | | | | | |
| Trading | | | | | | |
| Deferred Compensation | \$3,375 | \$— | \$3,375 | \$3,804 | \$— | \$3,804 |
| Available-for-sale | | | | | | |
| Cellstar | — | 9 | 9 | — | 6 | 6 |
| Bliss-tel | 56 | — | 56 | 1,225 | (1,163) | 62 |
| Held-to-maturity Investment | 7,523 | — | 7,523 | 7,502 | — | 7,502 |
| Total Marketable Securities | 10,954 | 9 | 10,963 | 12,531 | (1,157) | 11,374 |
| Other Long-Term Investment | 2,123 | — | 2,123 | 2,126 | — | 2,126 |
| Total Long-Term Investments | \$13,077 | \$9 | \$13,086 | \$14,657 | \$(1,157) | \$13,500 |

Long-Term Investments

Trading Securities

The Company's trading securities consist of mutual funds, which are held in connection with the Company's deferred compensation plan. Unrealized holding gains and losses on trading securities offset those associated with the corresponding deferred compensation liability.

Available-For-Sale Securities

The Company's available-for-sale marketable securities include a less than 20% equity ownership in CLST Holdings, Inc. ("Cellstar") and Bliss-tel Public Company Limited ("Bliss-tel").

Unrealized holding gains and losses, net of the related tax effect (if applicable), on available-for-sale securities are reported as a component of accumulated other comprehensive income (loss) until realized. Realized gains and losses from the sale of available-for-sale securities are determined on a specific identification basis.

The fair value of the Cellstar and Bliss-tel investments are determined by quoted prices in active markets as they are publicly traded. On December 13, 2004, one of the Company's former equity investments, Bliss-tel, issued 575,000,000 shares on the SET (Security Exchange of Thailand) for an offering price of 2.48 baht per share. Prior to the issuance of these shares, the Company was a 20% shareholder in Bliss-tel and, subsequent to the offering, the Company owned 75,000,000 shares (or approximately 13%) of Bliss-tel's outstanding stock. In addition, on July 21, 2005, the Company received 22,500,000 warrants ("the warrants") which may be exercised beginning on September 29, 2006, and expire on July 17, 2012. Each warrant is exercisable into one share of Bliss-tel common stock at an exercise price of 8 baht per share.

During the year ended February 29, 2008, the Company sold 32,898,500 shares of Bliss-tel stock resulting in a gain of \$1,533. During Fiscal 2010, Bliss-tel concluded a 4:1 reverse stock split. Accordingly, all share data has been retroactively restated. As of August 31, 2011 and February 28, 2011, the Company owns 36,250,000 shares and 22,500,000 warrants in Bliss-tel with an aggregate fair value as of August 31, 2011 of \$48 and \$8, respectively.

A decline in the market value of any available-for-sale security below cost that is deemed other-than-temporary results in a reduction in carrying amount to fair value. The impairment is charged to earnings and a new cost basis for the security is established. The Company considers numerous factors, on a case-by-case basis, in evaluating whether the decline in market value of an available-for-sale security below cost is other-than-temporary. Such factors include, but are not limited to, (i) the length of time and the extent to which the market value has been less than cost; (ii) the financial condition and the near-term prospects of the issuer of the investment; and (iii) whether the Company's intent to retain the investment

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

for the period of time is sufficient to allow for any anticipated recovery in market value. In Fiscal 2010, the Company determined that its investment in Bliss-tel was other than temporarily impaired based on its market price (which has been below cost in excess of twelve months), Bliss-tel's recent losses, its deteriorating financial position, and conditions in the local and global economy, as well as the political environment in Thailand. This impairment of \$1,000 related to the approximate value of the warrants which the Company determined it would not exercise. During Fiscal 2011, the Company continued to monitor the business plans and performance of Bliss-tel. Management noted that, during the year, Bliss-tel successfully restructured its debt position on favorable terms to the company; they further reduced overhead and discontinued non-profitable locations; they weathered the political unrest in the local metropolitan environments; they raised additional capital; and finally, they retained the services of a financial consultant to develop a new business strategy. Notwithstanding these positive factors, there are certain negative factors, exclusive of those associated with macroeconomics, which impacted management's consideration of the value of this investment. Specifically, the company continued to incur significant losses from operations, which raised substantial doubt about the company's ability to continue for a period of time in which management could anticipate a full recovery. Therefore, management determined that an additional portion of its investment was other-than-temporarily impaired. A loss of \$1,600 was recorded on the income statement through other income and expense during the year ended February 28, 2011. During the Company's first fiscal quarter of 2012, Bliss-tel stopped trading on the Thai stock exchange. In discussions with the company, they were in the process of changing accountants and as a result, had not filed with the exchange on time. Bliss-tel felt they would be current by their third quarter. Bliss-tel concluded their shareholders' meeting and approved an additional private issuance of shares to raise funds for the businesses. As a result of the potential further dilution of its investment, the Company recorded an additional other-than-temporary impairment loss of \$300 for the three months ended May 31, 2011. During the three months ended August 31, 2011, management noted that Bliss-tel was still suspended from trading. In addition, the Company obtained an addition support loan from a managing director to temporarily fund its working capital needs. The Company has received no indication that Bliss-tel has ceased operations, however, after review of these circumstances; the dilution of the Company's position; the length of time required to recover this investment; and the continued suspension from trading as discussed above, management concluded that the balance of the impairment was other-than-temporary. As a result, an impairment loss of \$877 was recorded during the three months ended August 31, 2011 with a total of \$1,177 for the fiscal year to date.

Held-to-Maturity Investment

Long-term investments include an investment in U.S. dollar-denominated bonds issued by the Venezuelan government, which is classified as held-to-maturity and accounted for under the amortized cost method.

Other Long-Term Investments

Other long-term investments include an investment in a non-controlled corporation of \$2,123 accounted for by the cost method. As of August 31, 2011, the Company held approximately 14% of the outstanding shares of this company.

(6) Other Comprehensive Income

The Company's total comprehensive income was as follows:

| | Three Months Ended | | Six Months Ended | |
|------------|--------------------|-------|------------------|---------|
| | August 31, | | August 31, | |
| | 2011 | 2010 | 2011 | 2010 |
| Net income | \$3,439 | \$645 | \$5,925 | \$1,764 |

Edgar Filing: AUDIOVOX CORP - Form 10-Q

| | | | | |
|--|---------|---|-------|-----------------|
| Other comprehensive income (loss): | | | | |
| Foreign currency translation adjustments | (616 |) | (874 |) 712 (1,122) |
| Derivatives designated for hedging | (21 |) | — | (725) — |
| Other-than-temporary impairment loss on available-for-sale investment | 877 | | — | 1,177 — |
| Unrealized holding gain (loss) on available-for-sale investment securities arising during the period, net of tax | 7 | | 439 | (3) 365 |
| Other comprehensive income (loss), net of tax | 247 | | (435 |) 1,161 (757) |
| Total comprehensive income | \$3,686 | | \$210 | \$7,086 \$1,007 |

14

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

The Company's accumulated other comprehensive losses consist of the following:

| | August 31, 2011 | | February 28, 2011 | |
|--|-----------------|---|-------------------|---|
| Accumulated other comprehensive losses: | | | | |
| Foreign exchange losses | \$(2,195 |) | \$(2,906 |) |
| Unrealized losses on investments, net of tax | (7 |) | (1,181 |) |
| Derivatives designated in hedging relationship | (487 |) | 238 |) |
| Total accumulated other comprehensive losses | \$(2,689 |) | \$(3,849 |) |

The Company did not record tax expenses during the three and six months ended August 31, 2011 and 2010 as a result of the loss position for related investments.

(7) Supplemental Cash Flow Information

The following is supplemental information relating to the consolidated statements of cash flows:

| | Six Months Ended August 31, | |
|-----------------------------------|--------------------------------|-------|
| | 2011 | 2010 |
| Cash paid during the period: | | |
| Interest (excluding bank charges) | \$1,793 | \$697 |
| Income taxes (net of refunds) | \$464 | \$644 |

(8) 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 28, 2011.

The Company granted 246,250 options during May of 2011, which vest on February 29, 2012, expire two years from date of vesting (February 28, 2014), have an exercise price equal to \$7.75, \$.25 above the sales price of the Company's stock on the day prior to the date of grant, have a contractual term of 2.75 years and a grant date fair value of \$3.08 per share determined based upon a Black-Scholes valuation model.

In addition, the Company issued 22,500 warrants during May of 2011 to purchase the Company's common stock with the same terms as those of the options above as consideration for future legal and professional services. These warrants are included in the outstanding options and warrant table below and considered exercisable at August 31, 2011.

As of August 31, 2011, the Company had unrecognized compensation costs of approximately \$540 related to non-vested options. The unrecognized compensation costs related to these options will be completely recognized by February 29, 2012.

| | Three months ended August 31, 2011 | |
|----------------|---------------------------------------|---|
| Dividend yield | 0 | % |
| Volatility | 65.4 | % |

| | | |
|-------------------------|-----|---|
| Risk-free interest rate | 0.9 | % |
| Expected life (years) | 2.8 | |

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

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

| | Number of Shares | Weighted Average Exercise Price | Weighted Average Remaining Contractual Life |
|--|---------------------|--|---|
| Outstanding and exercisable at February 28, 2011 | 886,250 | \$6.40 | |
| Granted | 268,750 | 7.75 | |
| Exercised | — | — | |
| Forfeited/expired | (12,500) | 7.26 | |
| Outstanding and exercisable at August 31, 2011 | 1,142,500 | \$6.70 | 1.91 |

In May of 2011, the Company granted 100,000 shares of restricted stock. A restricted stock award is an award of common stock that is subject to certain restrictions during a specified period. Restricted stock awards are independent of option grants and are subject to forfeiture if employment terminates prior to the release of the restrictions. Shares under the above grant will not be issued to the grantee before they vest. The grantee cannot transfer the rights to receive shares before the restricted shares vest. The restricted stock awards vest one-third on February 29, 2012, one-third on February 28, 2013 and one-third on February 28, 2014. The Company expenses the cost of the restricted stock awards on a straight-line basis over the period during which the restrictions lapse. For these purposes, the fair market value of the restricted stock, \$7.60, is determined based on the closing price of the Company's common stock on the grant date.

The following table presents a summary of the Company's restricted stock activity for the six months ended August 31, 2011:

| | Number of shares (in thousands) | Weighted Average Grant Date Fair Value |
|------------------------------|------------------------------------|---|
| Balance at February 28, 2011 | — | \$— |
| Granted | 100,000 | 7.60 |
| Vested | — | — |
| Forfeited | — | — |
| Balance at August 31, 2011 | 100,000 | \$7.60 |

During the three and six months ended August 31, 2011, the Company recorded \$83 and \$88, respectively, in stock-based compensation related to restricted stock awards. As of August 31, 2011, there was \$672 of unrecognized stock-based compensation expense related to unvested restricted stock awards. This expense is expected to be fully recognized by February 28, 2014.

(9) Goodwill and Intangible Assets

The change in goodwill is as follows:

| | |
|------------------------------|----------|
| Balance at February 28, 2011 | \$7,373 |
| Klipsch purchase adjustments | 81,000 |
| Balance at August 31, 2011 | \$88,373 |

At August 31, 2011, intangible assets consisted of the following:

16

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

| | Gross Carrying Value | Accumulated Amortization | Total Net Book Value |
|---|----------------------------|-----------------------------|----------------------------|
| Trademarks/Tradenames not subject to amortization | \$128,112 | \$— | \$128,112 |
| Customer relationships subject to amortization (5-20 years) | 51,302 | 5,804 | 45,498 |
| Trademarks/Tradenames subject to amortization (3-12 years) | 1,237 | 678 | 559 |
| Patents subject to amortization (5-10 years) | 2,942 | 900 | 2,042 |
| License subject to amortization (5 years) | 1,400 | 1,073 | 327 |
| Contract subject to amortization (5 years) | 1,556 | 1,247 | 309 |
| Total | \$186,549 | \$9,702 | \$176,847 |

At February 28, 2011, intangible assets consisted of the following:

| | Gross Carrying Value | Accumulated Amortization | Total Net Book Value |
|---|----------------------------|-----------------------------|----------------------------|
| Trademarks/Tradenames/Licenses not subject to amortization | \$82,569 | \$— | \$82,569 |
| Customer relationships subject to amortization (5-20 years) | 18,439 | 4,142 | 14,297 |
| Trademarks/Tradenames subject to amortization (3-12 years) | 1,237 | 634 | 603 |
| Patents subject to amortization (5-10 years) | 1,696 | 797 | 899 |
| License subject to amortization (5 years) | 1,400 | 933 | 467 |
| Contract subject to amortization (5 years) | 1,556 | 1,202 | 354 |
| Total | \$106,897 | \$7,708 | \$99,189 |

The Company recorded amortization expense of \$996 and \$547 for the three months ended August 31, 2011 and 2010, respectively, and \$2,041 and \$1,097 for the six months ended August 31, 2011 and 2010, respectively. The estimated aggregate amortization expense for the cumulative five years ending August 31, 2015 amounts to \$19,342.

We evaluate the carrying value of long-lived assets, including intangible assets subject to amortization, when events and circumstances warrant such a review. The carrying value of long-lived assets is considered impaired when the estimated undiscounted cash flows from such assets are less than their carrying value. In that event, a loss is recognized equal to the amount by which the carrying value exceeds the fair value of the long-lived assets. Fair value is determined by primarily using a discounted cash flow methodology that requires considerable management judgment and long-term assumptions. There were no impairment triggering events during the three and six months ended August 31, 2011, therefore, management believes the current carrying value of its intangible assets is not impaired. Our estimate of net future cash flows is based on historical experience and assumptions of future trends, which may be different from actual results. We periodically review the appropriateness of the estimated useful lives of our long-lived assets.

(10) Equity Investments

As of August 31, 2011 and February 28, 2011, the Company had a 50% non-controlling ownership interest in Audiovox Specialized Applications, Inc. (“ASA”) which acts as a distributor of televisions and other automotive sound, security and accessory products for specialized vehicles, such as RV’s and van conversions.

The following presents summary financial information for ASA. Such summary financial information has been provided herein based upon the individual significance of ASA to the consolidated financial information of the

Company.

17

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

| | August 31, 2011 | February 28, 2011 |
|---------------------|-------------------------------------|----------------------|
| Current assets | \$27,939 | \$24,521 |
| Non-current assets | 5,103 | 5,240 |
| Current liabilities | 5,163 | 4,233 |
| Members' equity | 27,879 | 25,528 |
| | Six Months Ended August 31, 2011 | 2010 |
| Net sales | \$38,969 | \$38,781 |
| Gross profit | 11,440 | 9,956 |
| Operating income | 4,024 | 3,470 |
| Net income | 4,037 | 3,496 |

The Company's share of income from ASA for the six months ended August 31, 2011 and 2010 was \$2,019 and \$1,748, respectively.

(11) Income Taxes

The Company's provision for income taxes consists of U.S. and foreign taxes in amounts necessary to align the Company's year-to-date provision for income taxes with the effective tax rate that the Company expects to achieve for the full year. The Company's annual effective tax rate for Fiscal 2012 excluding discrete items is estimated to be 42.1% (which includes U.S., state and local and foreign taxes) based upon the Company's anticipated earnings both in the U.S. and in its foreign subsidiaries.

For the three months ended August 31, 2011 the Company recorded a provision for income taxes of \$2,484, which consisted of U.S., state and local and foreign taxes, including discrete items related to the accrual of interest for uncertain tax positions under ASC 740 and a change in the tax rates. For the three months ended August 31, 2010, the Company recorded a provision for income taxes of \$389 which consisted of tax benefits related to discrete items including recently enacted state tax legislation impacting the recognition of certain tax positions under ASC 740 and the tax effects of certain foreign tax matters, offset by a tax provision related to U.S., state and local and foreign taxes.

In connection with the Klipsch business combination, the Company recorded net deferred tax liabilities of approximately \$30.0 million related to the basis difference between the financial reporting value and the tax value of Klipsch's assets and liabilities.

(12) Inventory

Inventories by major category are as follows:

| | August 31, 2011 | February 28, 2011 |
|-----------------|--------------------|----------------------|
| Raw materials | \$16,165 | \$10,562 |
| Work in process | 2,130 | 1,653 |
| Finished goods | 132,842 | 101,405 |
| Inventory, net | \$151,137 | \$113,620 |

(13) Accrued Sales Incentives

A summary of the activity with respect to sales incentives is provided below:

18

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

| | Three Months Ended | | Six Months Ended | |
|--|--------------------|----------|------------------|----------|
| | August 31, | | August 31, | |
| | 2011 | 2010 | 2011 | 2010 |
| Opening balance | \$18,295 | \$10,710 | \$11,981 | \$10,606 |
| Accruals | 9,431 | 7,269 | 25,116 | 13,255 |
| Payments and credits | (9,387) | (5,105) | (17,857) | (10,705) |
| Reversals for unearned sales incentive | (19) | (333) | (44) | (484) |
| Reversals for unclaimed sales incentives | (444) | (28) | (1,320) | (159) |
| Ending balance | \$17,876 | \$12,513 | \$17,876 | \$12,513 |

(14) Product Warranties and Product Repair Costs

The following table provides a summary of the activity with respect to product warranties and product repair costs:

| | Three Months Ended | | Six Months Ended | |
|---|--------------------|----------|------------------|----------|
| | August 31, | | August 31, | |
| | 2011 | 2010 | 2011 | 2010 |
| Opening balance | \$9,509 | \$11,466 | \$9,051 | \$13,058 |
| Liabilities accrued for warranties issued during the period | 3,446 | 1,786 | 6,088 | 5,000 |
| Warranty claims paid during the period (includes the acquired warranty liabilities) | (3,212) | (1,203) | (5,396) | (6,009) |
| Ending balance | \$9,743 | \$12,049 | \$9,743 | \$12,049 |

(15) Financing Arrangements

The Company has the following financing arrangements:

| | August 31, 2011 | February 28, 2011 |
|---|--------------------|----------------------|
| Debt | | |
| Domestic bank obligations (a) | \$49,810 | \$— |
| Foreign bank obligations (b) | 1,500 | 1,902 |
| Euro term loan agreement (c) | \$2,907 | \$3,488 |
| Oehlbach (d) | — | 86 |
| Other (e) | 4,630 | 4,890 |
| Total debt | 58,847 | 10,366 |
| Less: current portion of long-term debt | 3,498 | 4,471 |
| | \$55,349 | \$5,895 |

(a) Domestic Bank Obligations

On March 1, 2011, the Company entered into a revolving credit facility (the "Credit Facility") with an aggregated committed availability of up to \$175 million (the "Maximum Credit"). This amount may be increased at the option of the Company up to a maximum of \$200 million. The Credit Facility includes a \$25 million sublimit for issuances of letters of credit and a \$20 million sublimit for Swing Loans.

The Company may borrow under the Credit Facility as needed, provided the aggregate amounts outstanding will not exceed 85% of certain eligible accounts receivable, plus 65% of certain eligible inventory balances less the

outstanding amounts for Letters of Credit Usage, if applicable. This amount may be further reduced by the aggregated amounts of reserves that may be required at the reasonable discretion of Wells Fargo in its role as the Administrative Agent.

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

Generally, the Company may designate specific borrowings under the Credit Facility as either Base Rate Loans or LIBOR Rate Loans, except that Swing Loans may only be designated as Base Rate Loans. Loans designated as LIBOR Rate Loans shall bear interest at a rate equal to the then applicable LIBOR rate plus a range of 2.25 - 2.75% based on excess availability in the borrowing base. Loans designated as Base Rate loans shall bear interest at a rate equal to the base rate plus an applicable margin ranging from 1.25 - 1.75% based on excess availability in the borrowing base. As of August 31, 2011, the interest rate on the facility was 3.1%.

All amounts outstanding under the Credit Facility will mature and become due on March 1, 2016. The Company may prepay any amounts outstanding at any time, subject to payment of certain breakage and redeployment costs relating to LIBOR Rate Loans. The commitments under the Credit Facility may be irrevocably reduced at any time without premium or penalty.

The Credit Agreement contains covenants that limit the ability of certain entities of the Company to, among other things: (i) incur additional indebtedness; (ii) incur liens; (iii) merge, consolidate or exit a substantial portion of their business; (iv) transfer or dispose of assets; (v) change their names, organizational identification number, state or province of organization or organizational identity; (vi) make any material change in their nature of business; (vii) prepay or otherwise acquire indebtedness; (viii) cause any Change of Control; (ix) make any Restricted Junior Payment; (x) change their fiscal year or method of accounting; (xi) make advances, loans or investments; (xii) enter into or permit any transactions with an Affiliate of certain entities of the Company; (xiii) use proceeds for certain items; (xiv) issue or sell any of their stock; and/or (xv) consign or sell any of their inventory on certain terms.

In addition, at any time that Excess Availability falls below 12.5% of the Maximum Credit, the Company must maintain a minimum Fixed Charge Coverage Ratio for certain entities, of not less than 1.0:1.0 until such time as Excess Availability has equaled or exceeded 12.5% of the Maximum Availability at all times for a period of thirty (30) consecutive days.

The Credit Agreement contains customary events of default, including, without limitation: failure to pay when due principal amounts in respect of the Credit Facility; failure to pay any interest or other amounts under the Credit Facility for a period of three (3) business days after becoming due; failure to comply with certain agreements or covenants in the Credit Agreement; failure to satisfy certain judgments against a Loan Party or any of its Subsidiaries; certain insolvency and bankruptcy events; and failure to pay when due certain indebtedness in principal amount in excess of \$5 million.

The Obligations under the Credit Facility are secured by a general lien on and security interest in substantially all of the assets of certain entities of the Company, including accounts receivable, equipment, real estate, general intangibles and inventory. The Company has guaranteed the obligations of all entities under the Credit Agreement.

On March 1, 2011, the Company borrowed approximately \$89 million under this credit facility as a result of its stock purchase agreement related to Klipsch Group, Inc. As of August 31, 2011, approximately \$50 million was outstanding under the line.

As a result of the addition of the new Credit Facility, the Company has incurred debt financing costs of approximately \$3 million which are recorded as deferred financing costs that are included in other assets and amortized through interest and bank charges over a five year period. During the three and six months ended August 31, 2011, the Company amortized \$170 and \$340, respectively, of these costs.

(b) Euro Asset-Based Lending Obligation

Foreign bank obligations include a financing arrangement totaling 16,000 Euros consisting of a Euro accounts receivable factoring arrangement and a Euro Asset-Based Lending ("ABL") (up to 60% of eligible non-factored accounts receivable) credit facility for the Company's subsidiary, Audiovox Germany, which expires on November 1, 2012. Selected accounts receivable are purchased from the Company on a non-recourse basis at 85% of face value and payment of the remaining 15% upon receipt from the customer of the balance of the receivable purchased. The activity under the factoring agreement is accounted for as a sale of accounts receivable. The rate of interest is the three month Euribor plus 1.9%, and the Company pays 0.22% of its gross sales as a fee for the accounts receivable factoring

arrangement. As of August 31, 2011, the amount of accounts receivable

20

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

available for factoring exceeded the amounts outstanding under this obligation.

The Company had a \$2,000 credit line in Venezuela to fund the short-term working capital needs of the local operation. This line expired on June 30, 2011.

(c) Euro Term Loan Agreement

On March 30, 2008, Audiovox Germany entered into a new 5 million Euro term loan agreement. This agreement is for a five-year term with a financial institution and was used to repay the Audiovox Germany intercompany debt to Audiovox Corporation. Payments under the term loan are to be made in two semi-annual installments of 500 Euros beginning on September 30, 2008 and ending on March 30, 2013. Interest accrues at a fixed rate of 4.82%. Any amount repaid can not be reborrowed. The term loan is secured by a pledge of the stock of Audiovox Germany and the Magnat brand name, prohibits the distribution of dividends, and takes precedence to all other intercompany loans with Audiovox Corporation.

(d) Oehlbach

In connection with the Oehlbach acquisition, the Company acquired short and long term debt payable to various third parties, which was repaid in March 2011.

(e) Other Debt

This amount includes a call/put option owed to certain employees of Audiovox Germany, an assumed liability in connection with the Company's Invision acquisition, and a note payable on a facility acquired in connection with the Company's Klipsch acquisition.

(16) Other Income (Expense)

Other income (expense) is comprised of the following:

| | Three Months Ended | | Six Months Ended | |
|------------------|--------------------|---------|------------------|-----------|
| | August 31, | | August 31, | |
| | 2011 | 2010 | 2011 | 2010 |
| Interest income | \$133 | \$303 | \$285 | \$474 |
| Rental income | 128 | 140 | 268 | 257 |
| Miscellaneous | (1,488 |) 55 | (1,299 |) 1,267 |
| Total other, net | \$(1,227 |) \$498 | \$(746 |) \$1,998 |

Other income and expense includes impairment charges of \$0.9 and \$1.2 million for the three and six months ended August 31, 2011, a contingent consideration adjustment of approximately \$1.6 million recorded during the three months ended August 31, 2011 and gains on foreign currency exchange.

(17) Foreign Currency

The Company has certain operations in Venezuela. Venezuela has recently been operating in a difficult economic environment, which has been troubled with local political issues and various foreign currency and price controls. The country has experienced high rates of inflation over the last several years. The President of Venezuela has the

authority to legislate certain areas by decree, which allows the government to nationalize certain industries or expropriate certain companies and property. These factors may have a negative impact on our business and our financial condition. In 2003, Venezuela created the Commission of Administration of Foreign Currency (“CADIVI”) which establishes and administers currency controls and their associated rules and regulations. These controls include creating a fixed exchange rate between the Bolivar and the U.S. Dollar, and the ability to restrict the exchange of Bolivar Fuertes for U.S. Dollars and vice versa.

Effective January 1, 2010, according to the guidelines in ASC 830, Venezuela had been designated as a hyper-inflationary economy. A hyper-inflationary economy designation occurs when a country has experienced cumulative inflation of

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

approximately 100 percent or more over a 3 year period. The hyper-inflationary designation requires the local subsidiary in Venezuela to record all transactions as if they were denominated in U.S. dollars. The Company transitioned to hyper-inflationary accounting on March 1, 2010 and continues to account for Venezuela under this method.

On January 8, 2010, the Venezuelan government announced its intention to devalue its currency (Bolivar fuerte) and move to a two tier exchange structure, 2.60 for essential goods and 4.30 for non-essential goods and services. Products sold by our Venezuelan operation are classified as non-essential, however, the Company has certain US dollar denominated assets and liabilities for which the 2.60 rate was applied. In January, 2011, the Venezuelan government eliminated the two-tier exchange rate.

On June 9, 2010, the Venezuelan government introduced a newly regulated foreign currency exchange system, Sistema de Transacciones con Titulos en Moneda Extranjera (“SITME”), which is controlled by the Central Bank of Venezuela (“BCV”). The SITME imposes volume restrictions on the conversion of Venezuelan Bolivar Fuertes to U.S. Dollars, currently limiting such activity to a maximum equivalent of \$350,000 per month. As a result of this restriction, we have limited new U.S. dollar purchases to remain within the guidelines imposed by SITME.

(18) Lease Obligations

During 1998, the Company entered into a 30-year capital lease for a building with its principal stockholder and current chairman, which was the headquarters of the discontinued Cellular operation. This lease was restructured in December 2006, and expires on November 30, 2026. The Company currently subleases the building to Personal Communication Devices, LLC (Formerly UTStarcom) for monthly payments of \$50 for a term of three years, terminating on October 31, 2012. The Company also leases another facility from its principal stockholder which expires on November 30, 2016.

As a result of the acquisition of Klipsch, the Company assumed a lease for the facility housing the Klipsch headquarters in Indianapolis. The lessor is Woodview, LLC, of which certain partners are executives of Klipsch. Lease payments are based on current market rates, as determined by independent valuation, and continue until the lease expiration on May 31, 2021.

Total lease payments required under all related party leases for the five-year period ending May 31, 2016 are \$12,743.

At August 31, 2011, the Company was obligated under non-cancellable capital and operating leases for equipment and warehouse facilities for minimum annual rental payments as follows:

| | Capital Lease | Operating Leases |
|-------------------------------|------------------|---------------------|
| 2012 | \$560 | \$7,643 |
| 2013 | 574 | 6,144 |
| 2014 | 574 | 5,342 |
| 2015 | 574 | 4,657 |
| 2016 | 574 | 2,916 |
| Thereafter | 6,768 | 6,203 |
| Total minimum lease payments | 9,624 | \$32,905 |
| Less: minimum sublease income | 700 | |
| Net | 8,924 | |

| | |
|---|---------|
| Less: amount representing interest | 3,518 |
| Present value of net minimum lease payments | 5,406 |
| Less: current installments included in accrued expenses and other current liabilities | 133 |
| Long-term capital obligation | \$5,273 |

The Company leases certain facilities from its principal stockholder and certain other Klipsch executives. At August 31, 2011, minimum annual rental payments on these related party leases, in addition to the capital lease payments, which are included in the above table, are as follows:

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

| | |
|------------|----------|
| 2012 | \$2,652 |
| 2013 | 2,701 |
| 2014 | 2,738 |
| 2015 | 2,775 |
| 2016 | 1,877 |
| Thereafter | 11,002 |
| Total | \$23,745 |

(19) Contingencies

Contingencies

The Company is currently, and has in the past been, a party to various routine legal proceedings incident to the ordinary course of business. If management determines, based on the underlying facts and circumstances, that it is probable a loss will result from a litigation contingency and the amount of the loss can be reasonably estimated, the estimated loss is accrued for. The Company believes its outstanding litigation matters disclosed below will not have a material adverse effect on the Company's financial statements, individually or in the aggregate; however, due to the uncertain outcome of these matters, the Company disclosed these specific matters below:

Certain consolidated class actions transferred to a Multi-District Litigation Panel of the United States District Court of the District of Maryland against the Company and other suppliers, manufacturers and distributors of hand-held wireless telephones alleging damages relating to exposure to radio frequency radiation from hand-held wireless telephones are still pending. No assurances regarding the outcome of this matter can be given, as the Company is unable to assess the degree of probability of an unfavorable outcome or estimated loss or liability, if any. Accordingly, no estimated loss has been recorded for the aforementioned case.

The products the Company sells are continually changing as a result of improved technology. As a result, although the Company and its suppliers attempt to avoid infringing known proprietary rights, the Company may be subject to legal proceedings and claims for alleged infringement by its suppliers or distributors, of third party 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 the Company to either enter into royalty or license agreements which are not advantageous to the Company or pay material amounts of damages.

(20) Subsequent Events

None to report.

(21) New Accounting Pronouncements

In January 2010, the FASB issued authoritative guidance in ASC 820 "Fair Value Measurements and Disclosures" that improves disclosures around fair value measurements. This pronouncement requires additional disclosures regarding transfers between Levels 1, 2 and 3 of the fair value hierarchy of this pronouncement as well as a more detailed reconciliation of recurring Level 3 measurements. Certain disclosure requirements of this pronouncement were effective and adopted by the Company on March 1, 2010. The remaining disclosure requirements of this pronouncement were effective for the Company's first quarter in Fiscal 2012. The adoption of this pronouncement did

not have a material impact on the Company's financial statements.

In May 2010, the FASB issued authoritative guidance included in ASC 830 "Foreign Currency" which requires certain disclosures when a company uses alternative exchange rates for re-measurement of U.S. dollar-denominated balances which are subsequently translated at official exchange rates for financial reporting purposes. The guidance, which was effective in March 2010, did not have a material impact on the Company.

In January 2011, the FASB issued authoritative guidance included in ASC 805 "Business Combinations" which modifies

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

certain pro-forma disclosures related to business combinations. The guidance was effective for the Company on March 1, 2011, and did not have a material impact on the Company's financial statements.

In June 2011, the FASB issued authoritative guidance included in ASC 220 "Comprehensive Income" related to the presentation of comprehensive income. Specifically, the new guidance allows an entity to present components of net income and other comprehensive income in one continuous statement, referred to as the statement of comprehensive income, or in two separate, but consecutive statements. The new guidance eliminates the current option to report other comprehensive income and its components in the statement of changes in equity. While the new guidance changes the presentation of comprehensive income, there are no changes to the components that are recognized in net income or other comprehensive income under current accounting guidance. The adoption of this disclosure-only guidance will not have an impact on the Company's consolidated financial results and is effective for the Company on March 1, 2012.

In September 2011, the FASB issued authoritative guidance in ASC 350 "Intangibles - Goodwill and other" intended to simplify goodwill impairment testing. Entities will be allowed to perform a qualitative assessment on goodwill impairment to determine whether it is more likely than not (defined as having a likelihood of more than 50 percent) that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test. This guidance is effective for goodwill impairment tests performed in interim and annual periods for fiscal years beginning after December 15, 2011, or the Company's first quarter of Fiscal 2013. The Company does not expect this guidance will have a material impact on its financial statements.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Forward-Looking Statements

Certain information in this Quarterly Report on Form 10-Q would constitute forward-looking statements, including but not limited to, information relating to the future performance and financial condition of the Company, the plans and objectives of the Company's management and the Company's assumptions regarding such performance and plans that are forward-looking in nature and involve certain risks and uncertainties. Actual results could differ materially from such forward-looking information.

We begin Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") with an overview of the business. This is followed by a discussion of the Critical Accounting Policies and Estimates that we believe are important to understanding the assumptions and judgments incorporated in our reported financial results. In the next section, we discuss our results of operations for the three and six months ended August 31, 2011 compared to the three and six months ended August 31, 2010. We then provide an analysis of changes in our balance sheets and cash flows, and discuss our financial commitments in the sections entitled "Liquidity and Capital Resources". We conclude this MD&A with a discussion of "Related Party Transactions" and "Recent Accounting Pronouncements".

Unless specifically indicated otherwise, all amounts and percentages presented in our MD&A below are exclusive of discontinued operations and are in thousands, except share and per share data.

Business Overview

Audiovox Corporation ("Audiovox", "We", "Our", "Us" or "Company") is a leading international distributor in the accessory, mobile and consumer electronics industries. On March 1, 2011, the Company acquired Klipsch Group, Inc. and its worldwide subsidiaries, a global provider of high-end speakers for audio, multi-media and home theater applications. With our most recent acquisitions of Klipsch Group, Inc. and Invision Automotive Systems, Inc. we have added manufacturing capabilities to our business model. We conduct our business through eighteen 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"), Klipsch Holding LLC ("Klipsch") 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®, Energy®, Heco®, Incaar™, Invision®, Jamo®, Jensen®, Klipsch®, Mac Audio™, Magnat®, Mirage®, 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.

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, and
portable DVD players.

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,
wireless speakers,
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.

Our objective is to continue 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, it is our intention 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.

Reportable Segments

We have determined that we operate in one reportable segment, the Electronics Group, based on review of ASC 280, “Segment Reporting”. The characteristics of our operations that are relied on in making and reviewing business decisions include the similarities in our products, the commonality of our customers, suppliers and product developers across multiple brands, our unified marketing and distribution strategy, our centralized inventory management and logistics, and the nature of the financial information used by our Executive Officers. Management reviews the financial results of the Company based on the performance of the Electronics Group.

Critical Accounting Policies and Estimates

The preparation of these financial statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses reported in those financial statements. These judgments can be subjective and complex, and consequently, actual results could differ from those estimates. Our most critical accounting policies and estimates relate to revenue recognition; sales incentives; accounts receivable reserves; inventory reserves; goodwill and other intangible assets; warranties; stock-based compensation; income taxes; and the fair value measurements of financial assets and liabilities. A summary of the Company's significant accounting

policies is identified in Management's Discussion and Analysis of Financial Condition and Results of Operations in the Company's Form 10-K for the fiscal year ended February 28, 2011. Since February 28, 2011, there have been no changes in our critical accounting policies or changes to the assumptions and estimates related to them.

The Company evaluates its indefinite lived intangible assets for impairment triggering events at each reporting period in accordance with ASC 350. Based on our evaluation, there were no triggering events and no impairment of indefinite lived intangible assets in the quarter ended August 31, 2011. Due to the continued economic volatility, including fluctuations in interest rates, growth rates and changes in demand for our products, there could be a change in the valuation of indefinite lived intangible assets when the Company conducts its annual impairment test.

Results of Operations

As you read this discussion and analysis, refer to the accompanying consolidated statements of operations, which present the

results of our operations for the three and six months ended August 31, 2011 and 2010.

The following tables set forth, for the periods indicated, certain statements of operations data for the three and six months ended August 31, 2011 and 2010.

Net Sales

| | August 31, 2011 | 2010 | \$ Change | % Change | |
|------------------------------|--------------------|-----------|-----------|----------|---|
| Three Months Ended: | | | | | |
| Electronics | \$126,694 | \$95,199 | \$31,495 | 33.1 | % |
| Accessories | 31,643 | 34,098 | (2,455) | (7.2) |) |
| Total consolidated net sales | \$158,337 | \$129,297 | \$29,040 | 22.5 | % |
| Six Months Ended: | | | | | |
| Electronics | \$259,010 | \$189,719 | \$69,291 | 36.5 | % |
| Accessories | 64,652 | 69,892 | (5,240) | (7.5) |) |
| Total consolidated net sales | \$323,662 | \$259,611 | \$64,051 | 24.7 | % |

Electronic sales represented 80.0% of the net sales for the three and six months ended August 31, 2011, compared to 73.6% and 73.1% in the prior year periods. For the three and six months ended August 31, 2011, approximately \$39,500 and \$74,600, respectively of the increase in sales from this product group was the result of our recent acquisition of Klipsch. In addition, the electronics group experienced increases in its OEM manufacturing lines due to increases in domestic automotive sales and the launch of new programs, both domestically and internationally. These increases were partially offset by a decline in sales of consumer electronics products including camcorders, clock radios, digital players and digital voice recorders as a result of the economy; the absence of FLO-TV products, whose program ended in the third quarter of Fiscal 2011; a decline in satellite fulfillment sales; and a decline in our audio product line. The audio decline is partially offset by sales related to new product introductions. Overall, the decline in electronic sales in the domestic market was partially offset by increases in our international markets.

Accessory sales represented 20.0% of our net sales for the three and six months ended August 31, 2011, compared to 26.4% and 26.9% in the prior year periods. The decline in the accessories group was primarily related to lower domestic consumer sales as a result of the economy. These declines were partially offset by increased sales in our international markets.

During the quarter ended August 31, 2011, sales incentive expenses increased by \$2,069 primarily as a result of our Klipsch acquisition, which has several marketing programs. Sales incentive expenses for the six months ended August 31, 2011 increased \$3,905 primarily as a result of the Klipsch acquisition, partially offset by a decline in Accessories sales which has higher sales incentives. The release of unearned or unclaimed sales incentives was \$463 and \$1,364 for the three and six months ended August 31, 2011, respectively. We believe the reversal of earned but unclaimed or unearned sales incentives upon expiration of the claim period is a disciplined, rational, consistent, and systematic method of reversing these claims. These sales incentive programs are expected to continue and will either increase or decrease based upon competition and customer demands.

Gross Profit

| | August 31, 2011 | 2010 | \$ Change | % Change | |
|----------------------------|--------------------|----------|-----------|----------|---|
| Three Months Ended: | | | | | |
| Gross profit | \$43,862 | \$27,470 | \$16,392 | 59.7 | % |

Edgar Filing: AUDIOVOX CORP - Form 10-Q

| | | | | | | |
|-------------------------|----------|---|----------|---|----------|--------|
| Gross margin percentage | 27.7 | % | 21.2 | % | | |
| Six Months Ended: | | | | | | |
| Gross profit | \$87,550 | | \$54,532 | | \$33,018 | 60.5 % |
| Gross margin percentage | 27.0 | % | 21.0 | % | | |

Gross margins, which increased by 650 and 600 basis points for the three and six months ended August 31, 2011, respectively, were favorably impacted by increased sales in OEM related products; better margins in our existing product lines; new product introductions; the Klipsch acquisition; and lower sales in our fulfillment business.

Operating Expenses and Operating Loss

| | August 31, 2011 | 2010 | \$ Change | % Change | |
|-----------------------------------|--------------------|-----------|-----------|----------|----|
| Three Months Ended: | | | | | |
| Operating expenses: | | | | | |
| Selling | \$11,199 | \$7,623 | \$3,576 | 46.9 | % |
| General and administrative | 20,765 | 16,032 | 4,733 | 29.5 | |
| Engineering and technical support | 4,007 | 3,640 | 367 | 10.1 | |
| Acquisition-related costs | 239 | — | 239 | 100.0 | % |
| Total operating expenses | \$36,210 | \$27,295 | \$8,915 | 32.7 | % |
| Operating income | \$7,652 | \$175 | \$7,477 | 4,272.6 | % |
| Six Months Ended: | | | | | |
| Operating expenses: | | | | | |
| Selling | \$23,103 | \$16,452 | \$6,651 | 40.4 | % |
| General and administrative | \$43,418 | \$33,362 | \$10,056 | 30.1 | % |
| Engineering and technical support | \$7,818 | \$6,029 | \$1,789 | 29.7 | % |
| Acquisition-related costs | \$1,583 | \$— | \$1,583 | 100.0 | % |
| Total operating expenses | \$75,922 | \$55,843 | \$20,079 | 36.0 | % |
| Operating income (loss) | \$11,628 | \$(1,311) | \$12,939 | (987.0) |)% |

Operating expenses increased \$8,915 and \$20,079 for the three and six months ended August 31, 2011, respectively, from \$27,295 and \$55,843 in the comparable prior year periods. As a percentage of net sales, operating expenses increased to 22.9% and 23.5% as compared to 21.1% and 21.5% for the comparable prior year period. The increase in total operating expenses was due to our recent acquisition of Klipsch which accounted for \$9.6 million and \$19.2 million during the three and six months ended August 31, 2011, respectively, as well as an increase in compensation expense as a result of performance related targets. These increases were partially offset by reductions in depreciation expense, headcount reductions in select groups, and a benefit recorded related to a put options.

Other Income (Expense)

| | August 31, 2011 | 2010 | \$ Change | % Change | |
|--------------------------------------|--------------------|---------|-----------|----------|----|
| Three Months Ended: | | | | | |
| Interest and bank charges | \$(1,392) | \$(479) | \$(913) | 190.6 | % |
| Equity in income of equity investees | 890 | 840 | 50 | 6.0 | |
| Other, net | (1,227) | 498 | (1,725) | (346.4) |) |
| Total other income | \$(1,729) | \$859 | \$(2,588) | (301.3) |)% |
| Six Months Ended: | | | | | |
| Interest and bank charges | \$(2,875) | \$(920) | \$(1,955) | 212.5 | % |
| Equity in income of equity investees | 2,019 | 1,748 | 271 | 15.5 | |
| Other, net | (746) | 1,998 | (2,744) | (137.3) |) |
| Total other income | \$(1,602) | \$2,826 | \$(4,428) | (156.7) |)% |

Interest and bank charges represent expenses for bank obligations of Audiovox Corporation and Audiovox Germany, interest for

28

a capital lease, and amortization of a debt discount on our new facility. The increase in the expenses for the three and six months ended August 31, 2011, is due primarily to interest expense, fees and amortization of deferred financing costs related to the Credit Facility entered into on March 1, 2011.

Other income decreased due to the absence of gains on forward exchange contracts recorded during Fiscal 2011, a contingent consideration adjustment of approximately \$1,500 recorded during the three months ended August 31, 2011, and an other than temporary impairment charge recorded during the three and six months ended August 31, 2011 of \$877 and \$1,177, respectively, relating to its Bliss-tel investment, partially offset by gains from foreign currency.

Income Tax Benefit/Provision

The effective tax rate for the three and six months ended August 31, 2011 was a provision for income taxes of 41.9% and 40.9% compared to a provision (benefit) for income taxes of 37.6% and 16.4% in the comparable prior periods. The effective tax rate for the six-months ended August 31, 2011 is different than the statutory rate primarily to state and local taxes, differences between the U.S. and foreign tax rates and no tax benefit provided related to the impairment charge for Bliss-tel.

Net Income

The following table sets forth, for the periods indicated, selected statement of operations data beginning with net income and basic and diluted net income per common share.

| | Three Months Ended August 31, | | Six Months Ended August 31, | |
|------------------------------|----------------------------------|--------|--------------------------------|---------|
| | 2011 | 2010 | 2011 | 2010 |
| Net income | \$3,439 | \$645 | \$5,925 | \$1,764 |
| Net income per common share: | | | | |
| Basic | \$0.15 | \$0.03 | \$0.26 | \$0.08 |
| Diluted | \$0.15 | \$0.03 | \$0.25 | \$0.08 |

Net income increased for the three and six months ended August 31, 2011 versus the prior year periods primarily as a result of the addition of our Klipsch acquisition and improved profit margins, partially offset by increased tax provisions.

Adjusted EBITDA

Adjusted EBITDA is not a financial measure recognized by GAAP. Adjusted EBITDA represents net income, computed in accordance with GAAP, before interest expense, taxes, depreciation and amortization, stock-based compensation expense and costs relating to the Klipsch acquisition. Depreciation, amortization, and stock-based compensation expense are non-cash items.

We present adjusted EBITDA in this Form 10-Q because we consider it to be a useful and appropriate supplemental measure of our performance. Adjusted EBITDA helps us to evaluate our performance without the effects of certain GAAP calculations that may not have a direct cash impact on our current operating performance. In addition, the exclusion of costs relating to the Klipsch acquisition allows for a more meaningful comparison of our results from period-to-period. This non-GAAP measure, as we define it, is not necessarily comparable to similarly entitled measures of other companies and may not be an appropriate measure for performance relative to other companies. Adjusted EBITDA should not be assessed in isolation from or construed as a substitute for EBITDA prepared in

accordance with GAAP. Adjusted EBITDA is not intended to represent, and should not be considered to be a more meaningful measure than, or an alternative to, a measure of operating performance as determined in accordance with GAAP.

Reconciliation of GAAP Net Income to Adjusted EBITDA

29

| | Three Months Ended | | Six Months Ended | |
|-------------------------------|--------------------|---------|--------------------|---------|
| | August 31, 2011 | 2010 | August 31, 2011 | 2010 |
| Net income | \$3,439 | \$645 | \$5,925 | \$1,764 |
| Adjustments: | | | | |
| Interest expense, net | 1,392 | 479 | 2,875 | 920 |
| Depreciation and amortization | 2,467 | 2,042 | 4,999 | 4,192 |
| Taxes | 2,484 | 389 | 4,101 | (249) |
| EBITDA | 9,782 | 3,555 | 17,900 | 6,627 |
| Stock-based compensation | 126 | 428 | 376 | 856 |
| Klipsch acquisition costs | 239 | — | 1,583 | — |
| Adjusted EBITDA | \$10,147 | \$3,983 | \$19,859 | \$7,483 |

Liquidity and Capital Resources

Cash Flows, Commitments and Obligations

As of August 31, 2011, we had working capital of \$180,993 which includes cash and short-term investments of \$14,339, compared with working capital of \$258,528 at February 28, 2011, which included cash and short-term investments of \$98,630. The decrease in cash is primarily due to our recent Klipsch acquisition (a portion of which was partially funded by a new credit facility) and payments on the outstanding line, partially offset by a decrease in accounts receivable and an increase in accounts payable and accrued expenses. We plan to utilize our current cash position as well as collections from accounts receivable, the cash generated from our operations and the income on our investments to fund the current operations of the business. However, we may utilize all or a portion of current capital resources to pursue other business opportunities, including acquisitions.

Operating activities provided cash of \$36,142 for the six months ended August 31, 2011 principally due to decreased accounts receivables, net income before depreciation and amortization, and an increase in accounts payable and accrued expenses.

The Company experienced increased accounts receivable turnover of 5.5 during the six months ended August 31, 2011 compared to 5.3 during the six months ended August 31, 2010.

Inventory turnover declined to 2.7 during the six months ended August 31, 2011 compared to 2.8 during the six months ended August 31, 2010, as a result of the entrance into our seasonal period.

Investing activities used cash of \$(168,119) during the six months ended August 31, 2011, primarily due to the Klipsch acquisition.

Financing activities provided cash of \$47,617 during the six months ended August 31, 2011, primarily from borrowings on bank obligations used to finance the Klipsch acquisition, offset by repayments of those obligations.

As of March 1, 2011, the Company has a revolving credit facility (the "Credit Facility") with an aggregated committed availability of up to \$175 million (the "Maximum Credit"). This amount may be increased at the option of the Company up to a maximum of \$200 million. The Credit Facility includes a \$25 million sublimit for issuances of letters of credit and a \$20 million sublimit for Swing Loans. The Company may borrow under the Credit Facility as needed, provided the aggregate amounts outstanding will not exceed 85% of certain eligible accounts receivable, plus 65% of certain eligible inventory balances less the outstanding amounts for Letters of Credit Usage, if applicable. This amount may be further reduced by the aggregated amounts of reserves that may be required at the reasonable discretion of Wells

Fargo in its role as the Administrative Agent. The Company may designate specific borrowings under the Credit Facility as either Base Rate or LIBOR Rate loans, based on certain restrictions, with interest rates of the base rate plus a margin from 1.25 - 1.75%, or LIBOR plus a margin from 2.25 - 2.75%, on the respective categories. On March 1, 2011, the Company borrowed approximately \$89 million under this credit facility as a result of its stock purchase agreement related to Klipsch Group, Inc. All amounts outstanding under the Credit Facility will mature and become due on March 1, 2016. The Company may prepay any amounts outstanding at any time, subject to payment of certain breakage and redeployment costs relating to LIBOR Rate Loans. Further details regarding the facility are outlined in Note 15(a) of this report. At August 31, 2011, the Company had \$817 outstanding in standby letters of credit. No commercial letters of credit were outstanding as of August 31, 2011.

Certain contractual cash obligations and other commercial commitments will impact our short and long-term liquidity. At August 31, 2011, such obligations and commitments are as follows:

30

| | Payments Due by Period | | | | |
|---|--|---------------------|--------------|--------------|------------------|
| | Total | Less than 1 Year | 1-3 Years | 4-5 Years | After 5 Years |
| Contractual Cash Obligations | | | | | |
| Capital lease obligation (1) | \$9,624 | \$560 | \$1,148 | \$1,148 | \$6,768 |
| Operating leases (2) | 32,905 | 7,643 | 11,486 | 7,573 | 6,203 |
| Total contractual cash obligations | \$42,529 | \$8,203 | \$12,634 | \$8,721 | \$12,971 |
| | Amount of Commitment Expiration per period | | | | |
| | Total | | | | |
| | Amounts Committed | Less than 1 Year | 1-3 Years | 4-5 Years | After 5 years |
| Other Commercial Commitments | | | | | |
| Bank obligations (3) | \$51,310 | \$1,500 | \$— | \$49,810 | \$— |
| Stand-by and commercial letters of credit (4) | 817 | 817 | — | — | — |
| Debt (5) | 7,537 | 1,998 | 5,039 | 318 | 182 |
| Contingent earn-out payments (6) | 7,988 | 3,520 | 4,086 | 382 | — |
| Unconditional purchase obligations (7) | 91,411 | 91,411 | — | — | — |
| Total commercial commitments | \$159,063 | \$99,246 | \$9,125 | \$50,510 | \$182 |

1. Represents total payments (interest and principal) due under a capital lease obligation which has a current (included in other current liabilities) and long term principal balance of \$133 and \$5,273, respectively at August 31, 2011.

2. We enter into operating leases in the normal course of business.

3. Represents amounts outstanding under the Company's Credit Facility and the Audiovox Germany Euro asset-based lending facility at August 31, 2011.

4. We issue standby and commercial letters of credit to secure certain purchases and insurance requirements.

5. This amount includes amounts due under a call-put option with certain employees of Audiovox Germany; amounts outstanding under a loan agreement for Audiovox Germany; a note payable to a vendor in connection with our Invision acquisition; and an assumed mortgage on a facility in connection with our Klipsch acquisition.

6. Represents contingent payments in connection with the Thomson Accessory, Thomson Audio/Video, Invision, and Klipsch acquisitions.

7. Open purchase obligations represent inventory commitments. These obligations are not recorded in the consolidated financial statements until commitments are fulfilled and such obligations are subject to change based on negotiations with manufacturers.

We regularly review our cash funding requirements and attempt to meet those requirements through a combination of cash on hand, cash provided by operations, available borrowings under bank lines of credit and possible future public or private debt and/or equity offerings. At times, we evaluate possible acquisitions of, or investments in, businesses that are complementary to ours, which transactions may require the use of cash. We believe that our cash, other liquid assets, operating cash flows, credit arrangements, and access to equity capital markets, taken together, provide adequate resources to fund ongoing operating expenditures. In the event that they do not, we may require additional funds in the future to support our working capital requirements or for other purposes and may seek to raise such additional funds through the sale of public or private equity and/or debt financings as well as from other sources. No assurance can be given that additional financing will be available in the future or that if available, such financing will

be obtainable on terms favorable when required.

Off-Balance Sheet Arrangements

We do not maintain any off-balance sheet arrangements, transactions, obligations or other relationships with unconsolidated entities that would be expected to have a material current or future effect upon our financial condition or results of operations.

Acquisitions

31

On March 1, 2011, the Company, through its wholly-owned subsidiary, Soundtech LLC, acquired all of the issued and outstanding shares of Klipsch Group, Inc. and its worldwide subsidiaries ("Klipsch") for a total purchase price of \$169.5 million including contingent consideration of \$2.2 million as a result of a contractual agreement with a former principal shareholder, 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 residential and commercial installation market.

The Company entered into a \$175 million credit agreement with Wells Fargo Capital Finance, LLC to fund a portion of the acquisition and future working capital needs, as applicable. A portion of the acquisition and all related transaction costs were funded with approximately \$78.2 million in cash on hand, with \$89.1 million borrowed under the Credit Agreement to fund the balance.

The Company acquired approximately \$42.4 million in net assets. Intangible assets acquired were estimated at \$81 million with the remaining purchase price allocated to goodwill. Management is in the process of determining the final purchase price. Details of the preliminary tangible and intangible assets acquired are outlined in Note 2 of this report.

Related Party Transactions

During 1998, we entered into a 30-year capital lease for a building with our principal stockholder and chairman, which was the headquarters of the discontinued Cellular operation. Payments on the capital lease were based upon the construction costs of the building and the then-current interest rates. This capital lease was refinanced in December 2006 and the lease expires on November 30, 2026. The effective interest rate on the capital lease obligation is 8%. The Company subleases the building to Personal Communication Devices, LLC (Formerly UTStarcom) for monthly payments of \$50 for a term of three years, which expires October 31, 2012. We also lease another facility from our principal stockholder which expires on November 30, 2016.

As a result of the acquisition of Klipsch, the Company assumed a lease for the facility housing the Klipsch headquarters in Indianapolis. The lessor is Woodview, LLC, of which certain partners are executives of Klipsch. Lease payments are based on current market rates, as determined by independent valuation, and continue until the lease expiration on May 31, 2021.

Total lease payments required under all related party leases for the five-year period ending August 31, 2016 are \$12,743.

New Accounting Pronouncements

We are required to adopt certain new accounting pronouncements (see Note 21) to our consolidated financial statements included herein.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our changes in foreign currency exchange rates are managed through normal operating and financing activities. We have foreign operations primarily in Germany, Canada, Mexico, Denmark, the Netherlands, France and Venezuela and thus are exposed to market risk for changes in foreign currency exchange rates. For the three months ended August 31, 2011, a uniform 10% strengthening of the U.S. dollar relative to the local currency of our foreign operations would have resulted in a decrease in sales and net income of approximately \$3.9 million and \$0.3 million, respectively. For the six months ended August 31, 2011, a uniform 10% strengthening of the U.S. dollar relative to the local currency of our foreign operations would have resulted in a decrease in sales of approximately \$7.8 million and \$0.5 million, respectively. The effects of foreign currency exchange rates on future results would also be impacted by changes in sales levels or local currency prices.

The only significant change in our market risk sensitive instruments since February 28, 2011, is the addition of our Klipsch acquisition whose results are noted in the above sales and net income amounts. The Company continues to monitor the political and economic climate in Venezuela. Venezuela represented 2% of quarterly and year to date sales. The majority of assets invested in Venezuela are cash related and are subject to government foreign exchange controls including its investment in Venezuelan government bonds (see Note 4).

ITEM 4. CONTROLS AND PROCEDURES

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we have evaluated the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Exchange Act Rules 13a-15(e) and 15d-15(e) as of the end of the period covered by this report. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of the period covered by this report, these disclosure controls and procedures are effective at a “reasonable assurance” level.

There were no material changes in our internal control over financial reporting (as such term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) during the three and six month period ended August 31, 2011 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

See Note 19 of the Notes to the Consolidated Financial Statements in Part I, Item 1 of this Form 10-Q and Note 13 of the Form 10-K for the fiscal year ended February 28, 2011 for information regarding legal proceedings.

ITEM 1A. RISK FACTORS

There have been no material changes from the risk factors previously disclosed in the Company’s Form 10-K for the fiscal year ended February 28, 2011.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

There were no shares of common stock repurchased during the three and six months ended August 31, 2011.

ITEM 6. EXHIBITS

| Exhibit Number | Description |
|----------------|--|
| 31.1 | Certification of Chief Executive Officer Pursuant to Rule 13a-14(a) and rule 15d-14(a) of the Securities Exchange Act of 1934 (filed herewith). |
| 31.2 | Certification of Chief Financial Officer Pursuant to Rule 13a-14(a) and rule 15d-14(a) of the Securities Exchange Act of 1934 (filed herewith). |
| 32.1 | Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith). |
| 32.2 | Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith). |
| 101 | The following materials from Audiovox Corporation's Quarterly Report on Form 10-Q for the period ended August 31, 2011, formatted in eXtensible Business Reporting Language (XBRL): (i) the Consolidated Balance Sheets , (ii), the Consolidated Statements of Income, (iii) the Consolidated Statements of Cash Flows, and (iv) Notes to Consolidated Financial Statements. |

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

AUDIOVOX CORPORATION

October 11, 2011

By: /s/ Patrick M. Lavelle
Patrick M. Lavelle,
President and Chief Executive Officer

By: /s/ Charles M. Stoehr
Charles M. Stoehr,
Senior Vice President and Chief Financial Officer