SOUND ADVICE INC
Form 10-K405
May 01, 2001

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SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

# FORM 10-K 405

FOR ANNUAL AND TRANSITION REPORTS PURSUANT TO SECTIONS 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE FISCAL YEAR ENDED JANUARY 31, 2001

OR

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

FOR THE TRANSITION PERIOD FROM ______ TO______

COMMISSION FILE NUMBER 0-15194

SOUND ADVICE, INC.
(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

| | |
|---|---|
| FLORIDA | 59-1520531 |
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |

| | |
|---|---|
| 1901 TIGERTAIL BOULEVARD, DANIA BEACH, FLORIDA | 33004 |
| (Address of principal executive offices) | (Zip Code) |

Registrant's telephone number, including area code: (954) 922-4434

Securities registered pursuant to Section 12(b) of the Act: NONE

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

COMMON STOCK, PAR VALUE $0.01 PER SHARE
(Title of Class)

COMMON STOCK PURCHASE RIGHTS
(Title of Class)

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 [X] No [ ]

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [X]

THE AGGREGATE MARKET VALUE OF THE REGISTRANT'S VOTING STOCK HELD BY NON-AFFILIATES OF THE REGISTRANT ON APRIL 18, 2001, BASED UPON THE CLOSING MARKET PRICE OF THE REGISTRANT'S VOTING STOCK ON THE NASDAQ NATIONAL MARKET ON APRIL 18, 2001, AS REPORTED IN THE WALL STREET JOURNAL, WAS APPROXIMATELY $40,778,000.

THE REGISTRANT HAD 4,073,745 SHARES OF COMMON STOCK, $.01 PAR VALUE, OUTSTANDING AS OF APRIL 18, 2001.

DOCUMENTS INCORPORATED BY REFERENCE
(SPECIFIC SECTIONS INCORPORATED ARE IDENTIFIED UNDER APPLICABLE ITEMS HEREIN)

CERTAIN PORTIONS OF THE REGISTRANT'S PROXY STATEMENT TO BE FILED IN CONNECTION WITH ITS 2001 ANNUAL MEETING OF SHAREHOLDERS ARE INCORPORATED BY REFERENCE IN PART III OF THIS REPORT.

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PART I

ITEM 1. BUSINESS

OVERVIEW

We are a full service specialty retailer of a broad range of selected high-quality, upscale entertainment and consumer electronic products. We operate 24 full-size stores, five Bang & Olufsen stores and one Electronic Interiors store in the State of Florida, the fourth largest state and the state with the fastest growing population in the United States. In addition, we operate two Showcase Home Entertainment stores in Scottsdale and Chandler, Arizona, and one home theater showroom located in the Great Indoors in Scottsdale. Our full-size Sound Advice and Showcase Home Entertainment stores sell home and car audio systems (except that Showcase Home Entertainment stores do not carry car audio systems), large screen projection and conventional view televisions, video products, personal electronics, car security systems, home entertainment furniture and related customized services and accessories. The Bang & Olufsen stores feature Bang & Olufsen audio and video products and accessories. The Electronic Interiors store is an entirely demonstration based store built to simulate residential environments showcasing integrated entertainment systems. Our target customers seek informed advice concerning product selection and system integration in conjunction with products incorporating the latest technology.

INDUSTRY

The consumer electronics industry is defined to include audio, video, mobile electronics, communications, information technology, multimedia and accessory products, as well as related services. According to the Consumer Electronics Association (CEA), total manufacturers sales of consumer electronics in the United States were estimated to be $81 billion in 2000, $78 billion in 1999 and $76 billion in 1998. We believe that the following trends in the consumer electronics industry create significant opportunities for a specialty retailer of high end audio and video products such as us.

GROWTH OF LARGE FORMAT, HIGH VOLUME RETAILERS

In recent years, consumer electronics retailing has become increasingly dominated by large format stores, including superstores and mass merchandisers. These stores typically attempt to achieve high sales volumes by marketing a wide variety of products to a broad segment of consumers, with an emphasis on introductory level products and relatively low prices. Many of the major department stores and catalog showroom companies have discontinued their sales of consumer electronics as a result of their inability to compete with large national superstores and discount merchandisers. Many national retailers have sought to capitalize on the growth of particular product categories, such as personal computers, within the overall consumer electronics industry. We believe this emphasis has contributed to a decreased focus by those stores on the higher-end audio and video products. We believe the emphasis of the mass merchandisers on high volume, lower priced merchandising prevents these stores from being able to provide the depth of product knowledge and the consumer service that we are able to provide. This, combined with our focus on high-end, high technology products, distinguishes us so that we are not targeting our sales to the same market as the mass merchandisers.

CONSOLIDATION OF CONSUMER ELECTRONICS RETAILERS

The retail consumer electronics industry is highly fragmented, and we estimate that the two largest superstore chains accounted for approximately 26.5% of the total sales attributable to the 100 largest retailers in 1999. We believe that the expansion of large format chains precipitated consolidation of the industry during the 1990s by placing competitive pressure on regional broadline consumer electronics retailers that had strategies that were undifferentiated from consumer electronics superstores and mass merchandisers. There was also increased pressure on smaller specialty retailers that were successfully differentiated but which operated at a disadvantage due to limited scale, media inefficiencies, reduced purchasing power and lack of management depth. We believe that regional specialty retailers with strong name recognition by consumers represent attractive acquisition candidates and that the smaller or weaker specialty retailers will continue to face significant competitive pressures, thereby providing opportunities for retailers with size advantages to increase market share.





NEW TECHNOLOGIES

Growth in the consumer electronics industry has historically been driven by the introduction of new products based on technological innovations. For example, the proliferation of videocassette recorders and compact disc players helped to accelerate growth in the 1980s. We believe that a new generation of technology offers the prospect of increased industry sales with the introduction of digital delivery systems, such as high definition televisions (HDTV), digital audio players, digital versatile discs players (DVD) and direct broadcast satellite systems. The Consumer Electronics Association estimates that:

- approximately 9.8 million DVD players were shipped in 2000
- approximately 12.3 million DVD players will be shipped in 2001
- revenues from digital television units sold will be $2.6 billion in 2000 and will increase to $9.6 billion in 2004
- sales of digital video products will average 35% annual growth from 1999 to 2002.

We believe that specialty retailers with sales personnel capable of understanding and communicating the benefits of technologically advanced products to consumers are well positioned to capture the increased sales that may result should those products achieve market acceptance.

BUSINESS STRATEGY

Our business strategy is to capitalize on our position as the upscale, full service consumer electronics alternative to our competitors. Our products and services appeal to customers who are early technology adopters, those who seek high quality components with numerous features as well as those who seek a fully integrated solution. The following are some of the key elements of our business strategy:

WE FOCUS ON CORE CATEGORIES OF PRODUCTS

We seek to satisfy demand for consumer electronics and home entertainment products, particularly in the core categories of audio, video, television and mobile electronics. We carry products and systems by high-end manufacturers whose products are not readily available in the general consumer marketplace.

WE OFFER HIGH-END PRODUCTS INCORPORATING THE MOST ADVANCED AND INNOVATIVE TECHNOLOGY

We offer our customers products and integrated entertainment systems that incorporate the latest technologies and features. A significant portion of our merchandise, such as products manufactured by Krell, Bang & Olufsen and B&W is only available through select specialty retailers. We also carry high-end lines of products that are made by manufacturers whose lower-end lines are carried by mass marketers. For example, we carry the Sony XBR video, Mitsubishi Diamond, Pioneer Elite and Sony Audio ES product lines which are not widely available. Our focus on premium products that are not part of the general consumer marketplace distinguishes us from most of the large retailers in our industry and, we believe, appeals to our target consumers.

WE CUSTOM DESIGN, INSTALL AND SERVICE INTEGRATED MULTI-ROOM SYSTEMS

We visit our customers' homes and provide customized design and consultation services to help them create integrated multi-room audio-visual and entertainment environments. These integrated systems can include built-in centralized audio systems for multiple areas, including swimming pool and other outdoor areas, customized placement of flat-screen television sets, customized and remote controlled lighting systems, including means of controlling the degree of natural light in the environment, and other highly technologically advanced systems. Once these systems are designed and installed, we will return to the homes of our customers as needed in order to maintain and update these systems.





WE SHOWCASE PRODUCTS IN UPSCALE ENVIRONMENTS FOR OUR CUSTOMERS TO EXPERIENCE

At each of our full-size stores we have segregated audition rooms, home theaters and demonstration areas that enable sales personnel to demonstrate the use of systems and products we offer. This format allows our customers to compare and test the performance and features of similar products and systems. Our Bang & Olufsen stores feature multiple product displays and a discrete demonstration area, which allows our customers to audition Bang & Olufsen products. Our first Electronic Interiors store, which opened in November 2000, is an entirely demonstration oriented environment, built to simulate a residence and showcase some of our integrated systems. This new store format will allow customers to experience the integration and synergy of some of our systems in an architecturally and aesthetically appealing environment.

WE MAXIMIZE OUR CUSTOMERS' CONVENIENCE IN EVERY STAGE OF PRODUCT PURCHASE AND USE

We feel that it is important to provide premium customer support in every stage of product selection and use. We endeavor to provide useful product information and integration advice prior to purchases being made, including visiting the homes of our customers in order to suggest customized integrated systems. We permit our customers to audition purchased products at their homes and, if a customer is not satisfied, we accept products returned within 60 days for a refund or a credit toward the purchase of another product or system. Car audio products, if installed by us, carry a one-year "defective replacement guaranty" and, once we install car audio equipment, a customer will not be charged for reinstallation into another car, installation of component upgrades or reinstallation after repair service. We believe that being involved with the customer in the full scope of the product life cycle helps develop customer loyalty.

WE TRAIN OUR SALES AND SERVICE ASSOCIATES TO PROVIDE PREMIUM SERVICE AND ADVICE

In order to build and maintain customer satisfaction, we believe that it is important to assure that the products purchased by each customer are those that are best suited to their needs. We feel that having a knowledgeable sales force is critical to achieving this goal. As such, our sales personnel receive extensive technical product training in order to provide knowledgeable assistance to our customers. We emphasize the need to provide personal attention and assistance to each customer and seek to aid each customer's selection process by demonstrating products and providing information with respect to features, price, quality and system integration.

GROWTH STRATEGY

In addition to our business strategy, which integrates outstanding product selection, concept design, professional installation and after-market service and support, we intend to grow our business by doing the following:

INCREASE SAME STORE SALES

We believe we can increase our same store sales by continuing our focus on products incorporating the latest technology, since higher per unit prices are typically associated with these products. For example, we believe that by offering an increasing number of digitally based products as they become available on the market, we can benefit from the higher per unit prices at which these products are sold. We are well positioned to lead the adoption of high-end digital products such as high definition television, digital audio players and direct broadcast satellite systems. We are also increasing our same store sales by expanding the capabilities that can be incorporated into our integrated systems. For example, we currently offer lighting and security solutions as a part of our integrated designs.





OPEN NEW STORES

We opened two new full-size stores, one in Tallahassee and one in North Palm Beach, in November 1998, five mall based Bang & Olufsen stores in February and December 1998, June 1999, March 2000 and October 2000 and one Electronic Interiors in October 2000. In addition, we added two Showcase Home Entertainment stores and one Great Indoors Home Theater Showroom through acquisition in October 2000. We expect to continue to explore the opening of new stores in geographic areas within our existing Florida and Arizona distribution network and advertising radius in order to realize efficiencies and cost benefits as a result of our clustering of stores. Our current plans are to open one new full-size store in Arizona, two new shopping mall based Bang & Olufsen stores and one Electronic Interiors during fiscal 2002.

UPGRADE AND RELOCATE EXISTING STORES

We continually improve our existing stores by upgrading and rotating product displays and remodeling the interiors. At times, we choose to relocate our stores in connection with the need for expansion. In December 2000, we relocated and upgraded our South Kendall-Miami location from a 11,000 square foot facility to a 15,700 square foot facility. We currently plan to relocate our Altamonte Springs store in fiscal 2002, from a 10,800 square foot facility, to a 15,000 square foot facility located in Altamonte Springs. We believe these relocations will improve each store's visibility and parking, and thereby increase customer traffic to the stores.

PURSUE ACQUISITIONS

We believe that we may gain significant benefits through strategic acquisitions of local and regional specialty retailers, both within the State of Florida and nationally, who target similar customers and provide similar products. Due to the fragmentation of the high-end market nationally, we feel that many opportunities exist for the acquisition of small, high-end stores that, while not currently having substantial market share, may be well positioned to serve as a solid platform for our expansion. Since we have no current intention of growing the Sound Advice name nationally, to the extent we make acquisitions outside the State of Florida, we will likely operate the acquired entity under its existing name and management.

STORE OPERATIONS

STORES

We operate 24 full-size Sound Advice stores, five Bang & Olufsen stores, one Electronic Interiors store in Florida, two full-size Showcase Home Entertainment stores in Scottsdale and Chandler, Arizona, and one home theater showroom located in The Great Indoors store in Scottsdale, Arizona. Our full-size store format features multiple home audio and video audition and demonstration areas, portable electronics displays and an area displaying large screen projection and direct view televisions. While our stores vary in size, most of our full-size stores range from 15,000 to 17,000 square feet and are located in high profile power centers and strip malls near major shopping malls.

Our Bang & Olufsen stores feature Bang & Olufsen audio products and accessories. While our full-size stores allow our customers to sample any of our merchandise, the Bang & Olufsen stores have only selected products displayed. Our Bang & Olufsen stores are typically 1,500 square feet. During fiscal 2002, we are planning to add two additional Bang & Olufsen stores. We locate Bang & Olufsen stores in upscale high traffic shopping malls or retail areas.

Our Electronic Interiors store is located adjacent to a Bang & Olufsen store and incorporates fully automated "custom showrooms" with custom designed home applications of high technology products. The store features a reproduction of a movie theater, the latest electronics for the bedroom and bath and custom decorated rooms with high performance home entertainment systems. The Electronic Interiors store occupies 4,200 square feet and is physically connected to the Bang & Olufsen store.

The Company has a management contract for a 600 square foot home entertainment department in The Great Indoors, a Sears Roebuck specialty store for home decorating and remodeling located in Scottsdale, Arizona.





SITE SELECTION

We typically locate our full-size stores in either freestanding buildings or strip shopping centers close to high vehicle traffic areas. We locate our Bang & Olufsen stores in high pedestrian traffic shopping malls or retail areas. New store sites are selected on the basis of several factors, including location, relative competition, demographic characteristics of the local market and proximity to highways or major roadways. When selecting a new store site, we principally look for affluent markets with demographics that match our best performing markets. Our stores are generally in major metropolitan areas and are close to regional malls near "Big Box" consumer electronics retailers such as Best Buy or Circuit City, and in other major shopping areas.

STORE ECONOMICS

Our average investment for our full-size stores has been approximately $2,100,000, including leasehold improvements, fixtures and equipment and inventory. The average net sales per full-size store was approximately $7,602,000 for fiscal 2001.

We estimate that the cost, other than initial inventory, of an additional full-size store or relocating a store built to suit for us is between $1,100,000 to $1,600,000. We currently estimate that, if we acquire an existing store location, it will cost between $950,000 to $1,300,000 to retrofit the property. We estimate the initial inventory cost for a new full-size store to be between $750,000 and $1,100,000. Pre-opening expenses incurred in connection with an additional full-size store are minimal.

Our average investment for the Bang & Olufsen stores we operate was approximately $400,000, including leasehold improvements, fixtures and equipment, and inventory. The average net sales per Bang & Olufsen store was approximately $1,903,000 for fiscal 2001. We estimate the cost, other than initial inventory, of opening a mall based Bang & Olufsen store is approximately $200,000 to $275,000. Pre-opening expenses incurred in connection with an additional Bang & Olufsen store are minimal.

TRAINING

We provide our new employees with extensive training tailored to the skills that will be required for the employee to be a successful and effective part of our team. We believe that proper employee training is an effective tool for hiring and retaining our employees. We have the following employee training programs:

- Newly hired sales associates undergo a three week course that is taught by our full time training personnel. This course includes two weeks of classroom instruction at our Hollywood, Florida store located near our corporate headquarters and one week of training in one of our stores. The sales associates are also required to receive a total of ten hours of product specific training per month as well as to attend the four product seminars we conduct each year.

- Newly hired custom home installers typically join us in an apprentice capacity, depending on their level of training, and will work with more senior installers until their skill levels are sufficiently developed. The custom home installers are required to receive an aggregate of ten hours of technical training per month and to attend a mandatory product seminar we conduct once a month. Some of our manufacturers, such as Krell, Martin Logan, Bang & Olufsen and Boston Acoustics, offer training sessions in various locations, which our custom home installers attend as frequently as necessitated by new product offerings. The cost of the travel and training is typically shared between us and these vendors.

- Newly hired custom mobile electronics installers as well as our newly hired service technicians typically join us in an apprentice capacity and are required to attend a minimum of six product seminars per year. To the extent that any of our manufacturers require certification of our automobile installers or service technicians to install or service their products, we allow the manufacturers to provide the requisite training at our locations to ensure that our custom mobile electronics installers and service technicians are appropriately certified.





STORE MANAGEMENT

Each full-size store has its own management structure consisting of a full time general manager having overall responsibility at each location, a full time operations manager and, in some stores, a sales manager under the general manager. Each of our full-size Sound Advice stores also has an individual in charge of the mobile electronics department. A single store manager manages each Bang & Olufsen and Electronic Interior/Bang & Olufsen store.

Our sales management group consists of three regional sales vice presidents, each overseeing several stores, one of which oversees the Bang & Olufsen stores and custom sales, and all of whom report to our Chief Executive Officer. In addition, we have two mobile electronics sales directors. We believe that this structure improves decision making and communication throughout our structure. We believe that turnover rates for our employees are lower than industry averages. We have had minimal turnover at the management level and, with respect to those sales associates who have been employed by us for over one year, we estimate that we have a 12%-15% turnover in our audio and video specialties and a 30% turnover rate in our mobile electronics specialty. We regularly promote sales associates to positions of greater responsibility.

### STORE PERSONNEL COMPENSATION

Our primary compensation plan is based on gross profit dollars. Sales associates are compensated on straight commissions. The program is designed to provide incentives to sales associates to sell products, services and labor. General sales managers are compensated on personal sales, and overrides based on store performance. Approximately 74% of our employees are compensated on a commission basis including custom installers, delivery personnel and sales staff.

## PRODUCTS AND SERVICES

### PRODUCTS

In most of our full-size stores, a customer can choose from more than 2,100 products and approximately 150 manufacturers. Our products and services may be grouped into the following categories:

| CATEGORY | PRODUCTS | |
|---|---|---|
| Television......................... | Conventional, projection, plasma, LCD, DLP and two piece projectors. | Sony, Mit<br>Panasonic<br>Loewe, Sh<br>Quasar, R |
| Video............................. | VCRs, camcorders, digital cameras, DVD players, digital satellite systems and editing equipment | Sony, Pan<br>Mitsubish<br>Canon, Ai<br>Denon and |
| Audio............................. | Audio systems and components, compact disc players and recorders and speakers | Yamaha, B<br>Cable, Ba<br>Sony, Bos<br>Niles, Ph<br>Velodyne,<br>B&K, Mart<br>Mirage an |



| CATEGORY | PRODUCTS |
|---|---|

| | | |
|---|---|---|
| Mobile Electronics................ | Car and Marine components and speakers, wireless communications, installation services and navigation equipment | Alpine, K Acoustics Pioneer, Magellan, |
| Other............................ | Audio and video furniture, telephone systems, personal electronics, extended service contracts and repair services | N.E.W., S Panasonic JSP and T |

The table below shows the approximate percentage of our sales attributable to each of our major product and service categories for fiscal 1997, the twelve month period ended January 31, 1998 and fiscal 1999, 2000 and 2001.

| PRODUCT OR SERVICE CATEGORY | FISCAL YEAR ENDED JUNE 30, 1997 | TWELVE MONTH PERIOD ENDED JANUARY 31, 1998 | FIS J 1999 |
|---|---|---|---|
| Television and Video | 37% | 36% | 39% |
| Home Audio | 30 | 32 | 33 |
| Mobile Electronics | 15 | 15 | 14 |
| Service, Installation and Product Warranty | 10 | 10 | 10 |
| Miscellaneous Products | 8 | 7 | 4 |
| Total | 100% | 100% | 100% |

In the following product categories, we have been advised by the following manufacturers that we are the largest distributor of their products in the State of Florida:

| CATEGORY | BRANDS |
|---|---|
| Television and Video......................... | Mitsubishi, Pioneer Elite, Pioneer Plasma an |
| Audio........................................ | Yamaha, B&W, Bang & Olufsen, Klipsch, Boston Niles, Velodyne, Krell and Martin Logan |
| Mobile Electronics........................... | Kicker, XTANT and MBQuart |

SERVICES

We support our product sales by providing many important customer services, including the following:

- home delivery and setup;
- home audio installation and design;

- home theater installation and design;
- home lighting and security system installation;
- mobile electronics installation;
- in-home repair service; and
- in-store and in-home product instruction.





Our service and repair facility is located at our corporate headquarters in South Florida. We are an authorized manufacturer's service representative for substantially all of our products and are reimbursed by the manufacturer for the service or repair we perform on products still covered by a manufacturer's warranty. Products brought to the Florida stores by customers for service or repairs are shipped to our service and repair facility through our warehouse distribution system. Products brought to our Arizona stores are sent to a locally authorized service center for repair. In both Florida and Arizona, we employ in-home service technicians to repair and service products which cannot be brought into the stores.

We offer, through an unrelated insurance company on a non-recourse basis, an extended warranty contract for most of the audio, video and other merchandise we sell. The extended warranty provides the customer coverage beyond the warranty period covered by the manufacturer. We collect the retail sales price of the extended warranty contract from the customer and remit the customer information and our cost for the contract to the insurance company. The warranty obligation is solely the responsibility of the insurance company, since the contract is between the customer and the insurance company. As an authorized service center for the insurance company, we may also perform the services required under the extended warranty contracts for which we are separately paid by the insurer. Revenues from the sale of extended warranty contracts have historically been between 2% to 3% of net sales.

From time to time, in connection with the promotion of the sales of extended warranty contracts, we have offered our customers the ability to apply amounts paid for unused extended warranty contracts towards the purchase of merchandise. We have recorded a liability for the use of this redemption feature by our customers. This promotional program is no longer being offered.

## CUSTOMER FINANCING

In addition to cash and checks, we accept credit cards as a form of payment. Customers who qualify can obtain longer term financing by obtaining a Sound Advice credit card. We make this credit card available to our customers, without an annual fee, through a private label credit card arrangement with an unrelated finance company without recourse to us. We also periodically, as part of our promotional activities, make special financing programs available to our customers. These special financing programs may utilize our private label credit card, or in some cases, a vendor issued credit card. We typically bear the cost of these special financing programs. However, some of our vendors associated with vendor issued credit cards periodically participate with and support us in the cost of financing promotions.

## PRICING

Most of our manufacturers will provide us with a recommended selling price as well as a minimum advertised price. We generally price our items based on the minimum allowed advertised price but may thereafter offer in-store promotions. We also offer a 60 day price guarantee, which allows our customers to receive from us 100% of the difference between the amounts paid by them and any lower price advertised for the identical product within 60 days of their purchase.

ADVERTISING AND MARKETING

Our advertising strategy is to increase traffic into our stores while building name recognition as the premier retailer of high-end consumer electronics. Our image based advertising is used to create an awareness of the high quality products and custom services we provide. Our advertisements emphasize product features and benefits while de-emphasizing price. While we use newspaper advertisements as a means of attracting new customers, we focus on direct mailings to our extensive customer database to promote repeat business. Direct mailings of catalogs or special invitations are made 8 to 12 times a year to those customers who are in our database. We also use radio advertising as a means to promote special sale events and promotions as well as to reach the younger segment of our targeted demographics. We use a four part marketing cycle each quarter. Each cycle includes (i) newspaper or insert advertisements that emphasize an unusual product, or products, to generate store traffic, (ii) a specific sales event, (iii) a direct mailing of special invitations for a private sale to select customers in our database and (iv) a catalog mailing to our customer database emphasizing new technologies and products. Each cycle is structured to drive incremental traffic to the store.

The following table shows our net advertising expense as a percentage of net sales for fiscal year ended June 30, 1997, the twelve month period ended January 31, 1998 and fiscal years ended January 31, 1999, 2000 and 2001. Net advertising expense represents gross advertising expense less market development funds, cooperative advertising and other promotional amounts received from vendors for incentive and promotional programs.





| | FISCAL YEAR ENDED JUNE 30, 1997 | TWELVE MONTH PERIOD ENDED JANUARY 31, 1998 | FIS<br>1999 |
|---|---|---|---|
| | | (DOLLARS IN THOUSANDS) | |
| Net Advertising Expense | $ 4,086 | $ 4,371 | $ 3,640 |
| Percentage of Net Sales | 2.7% | 2.9% | 2.4% |

We have a website at www.wegivesoundadvice.com. Our website is designed to provide product information and support our advertising strategy. Our website is not designed to enable, nor do we plan to conduct, direct retailing through our website, as we believe that our products are best promoted in a demonstration based environment.

INFORMATION SYSTEMS

We use a third party point-of-sale management information system that runs on UNIX-based Hewlett-Packard computer hardware that can be upgraded to accommodate future growth. This system tracks sales, inventory, purchasing and other key information on a real time basis. We use the data generated by the system in order to:

- maintain and compile a customer information database reflecting products and services historically purchased and used by our customers, which enables us to more effectively direct advertising and product information to selected customers;

- monitor and analyze inventory levels, gross margin, product mix, and sales volume by categories, by sales personnel or on a per store basis;

- replenish inventory from our warehouse based on minimum and maximum target levels established for each store and programmed into the system; and

- review and analyze the performance of each of our stores and sales personnel on a daily basis.

SUPPLIERS, PURCHASING AND DISTRIBUTION

We have no long-term merchandise purchase contracts or commitments. We acquire our products from approximately 150 manufacturers, five of which accounted for approximately 56% of our total product purchases during fiscal 2001. These five manufacturers were Mitsubishi, Panasonic, Pioneer, Sony and Yamaha. We believe that competitive sources of supply would be available for most of our products in the event that one or more of our sources were no longer available. However, a loss of a primary source of supply would be likely to have an adverse impact on us. To the extent that the unavailable source is for a product line for which we are the primary distributor in our markets, we may only be able to replace these products with products that are widely available in our markets.

Our policy is to take advantage of cash or payment discounts offered by manufacturers. We have also been able to obtain substantial levels of manufacturers' rebates based on volume buying levels and on occasion we have been able to negotiate favorable terms on very large volume purchases. Since March 1986, we have been a member of Progressive Retailers Organization, Inc., a buying group comprised of 14 retailers of home entertainment and consumer electronic products located throughout the country, such as Tweeter Home Entertainment and Ultimate Electronics. Membership in the Progressive Retailers Organization allows the members to combine their purchases in order to negotiate more favorable terms from vendors.

A substantial portion of the inventory we purchase is shipped directly to our central distribution facility located in Deerfield Beach, Florida. Inventory is also shipped to and distributed from our support warehouses located in Tampa and Orlando, Florida, which service the West Coast Florida stores and Central Florida stores, and Scottsdale, Arizona which service the Scottsdale / Phoenix market stores. Each store receives shipments of inventory from the central distribution and support warehouse facilities at least two to three times a week, thereby enabling each store to maintain appropriate inventories of all products and to promptly replenish inventories of fast moving products. We believe that our distribution system allows us to support a broad selection of merchandise within the stores, while minimizing store level inventory requirements. Inventory turn was approximately 3.4 times during fiscal 2001.

COMPETITION

Our principal competitors are the small specialty stores throughout the State of Florida and the Scottsdale/Phoenix market. To a lesser extent, we compete with local and regional specialty stores that target the high-end market and larger national retailers, such as Best Buy and Circuit City, with whom we have a limited product overlap. While competition from Internet-based retailers may increase in the future, we believe that our products are best marketed in a demonstration oriented environment. We believe that this, combined with our emphasis on in-home services, will keep us from facing significant direct competition from the Internet. Lastly, many of the manufacturers whose products we carry do not authorize the sale of their products on the Internet or, to the extent they authorize Internet sales, they establish minimum prices at which these products are to be offered. As such, the incentive for customers to purchase these products using the Internet is diminished.

EMPLOYEES

As of January 31, 2001, we employed approximately 890 persons, of whom approximately 74% were commissioned employees, including sales associates, car stereo and mobile installers, custom and delivery installers and service department technicians. Substantially all of our employees are employed on a full-time basis. Our employees are not unionized and we have never experienced a strike or work stoppage. We usually experience some employee turnover particularly during the early term of their employment. We believe that our employee relations are good.

INTELLECTUAL PROPERTY

We have registered the "Sound Advice" name in the State of Florida and "Showcase Home Entertainment" in the state of Arizona but not with the United States Patent and Trademark Office. We are not aware of any adverse claims regarding the use of the name "Sound Advice," or "Showcase Home Entertainment."



ITEM 2.  PROPERTIES

Our 30 Florida stores are clustered in each of four geographic areas: the southeast coast of Florida (16 stores), the west coast of Florida (8 stores), central Florida (3 stores), north Florida (3 stores) and our three Arizona stores which are located in the Scottsdale, Phoenix area. Most of our stores are between 15,000 and 17,000 gross square feet. Retail selling area represents the substantial square footage of each store, with the balance used for merchandise storage and car audio and accessory installation. The full size Sound Advice and Showcase Home Entertainment stores are generally located either in freestanding buildings or in multi-store shopping centers. Typically, these stores are close to regional malls or in shopping districts. We locate Bang & Olufsen and Electronic Interior stores in upscale high traffic shopping malls. The following table sets forth specific data regarding each of our stores:

| REGION | CURRENT LOCATION | YEAR OPENED | APPR TOTAL FOO |
|---|---|---|---|

| ------ | -------- | ------ | --- |
|---|---|---|---|
| FULL-SIZE STORES | | | |
| Southeast Coast of Florida | North Palm Beach | Nov. 1998 | 18, |
| | Aventura | Nov. 1996 | 15, |
| | Hollywood (1) | Nov. 1994 | 31, |
| | West Kendall | Aug. 1992 | 15, |
| | Plantation | Nov. 1990 | 14, |
| | Hialeah Gardens | Nov. 1990 | 20, |
| | Boca Raton | Jan. 1990 | 18, |
| | West Palm Beach | Nov. 1988 | 16, |
| | Ft. Lauderdale | Nov. 1988 | 18, |
| | South Kendall | Dec. 2000 | 15, |
| | Coral Gables | Oct. 1974 | 13, |
| West Coast of Florida | Tampa - Dale Mabry | Nov. 1999 | 15, |
| | Naples | Nov. 1997 | 16, |
| | Fort Myers | Nov. 1994 | 15, |
| | Clearwater | May 1991 | 15, |
| | Tampa - Fowler | Nov. 1989 | 17, |
| | St. Petersburg | Sept. 1989 | 17, |
| | Sarasota | May 1987 | 13, |
| Central Florida | Orlando - Sand Lake | Nov. 1990 | 15, |
| | Altamonte Springs | Sept. 1988 | 10, |
| | Orlando - East Colonial | July 1988 | 15, |
| North Florida | Tallahassee | Nov. 1998 | 15, |
| | Jacksonville - Regency | Nov. 1991 | 15, |
| | Jacksonville - Orange Park | Nov. 1991 | 16, |
| ARIZONA | Chandler | Feb. 2000 | 12, |
| | Scottsdale | Oct. 1997 | 14, |
| BANG & OLUFSEN STORES | North Palm Beach | Oct. 2000 | 1, |
| | South Miami | Mar. 2000 | 1, |
| | Naples | June 1999 | 1, |
| | Boca Raton | Dec. 1998 | 1, |
| | Aventura | Feb. 1998 | 1, |
| ELECTRONIC INTERIORS STORE | | | |
| | North Palm Beach | Oct. 2000 | 4, |
| THE GREAT INDOORS/HOME THEATER | Scottsdale | Nov. 1999 | |

(1) Includes training facilities.

Generally, the full-size store leases provide for a base rental with cost of living adjustments or stipulated annual percentage increases or a combination thereof. The leases for the Bang & Olufsen and Electronic Interior stores provide for a base rental with cost of living adjustments or annual percentage increases and a percentage of sales upon attainment of a specified level of sales. In addition, the leases generally require us to pay all or a portion of the real estate taxes and assessments, utilities, insurance and common area and interior maintenance and repairs.

Our headquarters are located in a 53,850 square foot facility, which contains our executive offices, accounting, data processing, purchasing, advertising operations, service and repair center and custom and delivery for the South Florida region. The lease expires in June 2001 and includes two additional one-year options. We are currently in negotiation for corporate and administrative offices for approximately 15,000 square feet in the Fort Lauderdale area. Our 56,320 square foot central warehouse and distribution facility is located in Deerfield Beach, Florida, approximately 15 miles north of our corporate headquarters. The lease for this facility expires in May 2002. We are currently in negotiations for a new warehouse facility to combine the warehouse service and delivery for the South Florida region into one facility. Our warehouse and support facility for our Florida West Coast Stores, which we relocated in Tampa, Florida, contains approximately 12,500 square feet. The lease for this facility expires in January 2003, exclusive of two five-year renewal options. We also occupy a 10,000 square foot leased facility in Orlando, Florida, which is used as a regional warehouse and support facility.

ITEM 3. LEGAL PROCEEDINGS

We are, from time to time, involved in litigation relating to claims arising out of our operations in the normal course of business. These claims against us are generally covered by insurance. We are not currently subject to any litigation, which singularly or in the aggregate could reasonably be expected to have a material adverse effect on our financial conditions or results of operations.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

Not applicable.

ITEM 4.1. EXECUTIVE OFFICERS OF THE REGISTRANT

The following table sets forth certain information with respect to our executive officers and directors:

| NAME | AGE | PRINCIPAL POSITION |
|---|---|---|
| Peter Beshouri........................ | 46 | Chairman of the Board, President and Chief E |
| Michael Blumberg...................... | 52 | Senior Vice President, Secretary and Directo |
| Christopher O'Neil.................... | 47 | Executive Vice President, Chief Operating Of<br>Assistant Secretary |
| Kenneth L. Danielson.................. | 50 | Chief Financial and Accounting Officer and T |
| G. Kay Griffith....................... | 55 | Director |
| Herbert A. Leeds...................... | 83 | Director |
| William F. Hagerty, IV................ | 41 | Director |

Our officers are elected annually by the board of directors and hold office at the pleasure of the board of directors.

PETER BESHOURI, who has been an employee of Sound Advice since 1974, has served as our Chairman of the Board and Chief Executive Officer since August 1982. Before that, he was the general sales manager of Sound Advice, and had also served as a store manager and district manager. He was elected our President in May 1985. Mr. Beshouri currently serves as a director of Progressive Retailers Organization, Inc. A buying group comprised of approximately 14 retailers (including Sound Advice) of Home Entertainment and Consumer Electronic products located throughout the country. In August 1995, Mr. Beshouri, together with Sound Advice and a former chief financial officer of Sound Advice, voluntarily agreed with the Securities and Exchange Commission ("SEC"), to the entry of a cease and desist order by the SEC concerning our Form 10-K for fiscal 1991 and Forms 10-Q for the quarters ended September 30 and December 31, 1991, which the SEC found in that order had been materially misstated. The cease and desist order with respect to Mr. Beshouri related to his supervisory responsibility in connection with Sound Advice violating provisions of the securities laws that require public companies to keep accurate books and records, to maintain appropriate internal accounting controls and to file accurate annual and quarterly reports. Mr. Beshouri did not admit or deny any wrongdoing. No fine or penalty was imposed by the SEC on Mr. Beshouri.

MICHAEL BLUMBERG, one of our founders and a director of Sound Advice, has served as Senior Vice President since May 1989. Prior to that, he served as Vice President beginning in August 1982, Vice President of Purchasing and Finance since May 1986 and Vice President of Purchasing and Marketing since October 1987. From our inception until February 1995, Mr. Blumberg served as Treasurer and, since October 1989, has also served as Secretary.





CHRISTOPHER O'NEIL joined us in 1979 as a car audio buyer and has been serving as our Executive Vice President and Chief Operating Officer since February 1992. Prior to that, Mr. O'Neil served as Vice President of Purchasing beginning in May 1986, Vice President of Car Audio Purchasing in May 1989, which title changed to Vice President/Purchasing in May 1990. Since December 1990, Mr. O'Neil has also served as our Assistant Secretary.

KENNETH L. DANIELSON joined our finance department in September 1993 and was named our Chief Financial Officer in October 1993. In February 1995, he was also elected Treasurer. Prior to joining us, Mr. Danielson was employed by Storer Communications, Inc., a large television broadcasting and cable company based in Miami, Florida, for approximately 15 years. During his employment with Storer, Mr. Danielson held various positions, including Director of Accounting, Assistant Treasurer, Vice President, Treasurer and Chief Financial Officer, with his positions as Vice President, Treasurer and Chief Financial Officer being held concurrently from November 1988 through August 1993. Prior to Mr. Danielson's employment by Storer, he was employed by Coopers & Lybrand LLP from 1971 to 1978. Mr. Danielson is a certified public accountant.

G. KAY GRIFFITH was elected a director of ours and a member of the Audit Committee of the board of directors in July 1992 and was appointed a member of the stock option committee in January 1997. Ms. Griffith joined us as an employee in May 1993 and served as our Executive Vice President and Chief Administrative Officer from September 1993 until February 1996. Since March 1998, Ms. Griffith has served as the President/Chief Executive Officer of the G&L Holding Group, Inc. and G&L Banks headquartered in Pensacola, Florida. In February 1996, Ms. Griffith formed Corporate Growth Consultants, Inc., a management consulting firm that specializes in finance, strategic planning and training. From the formation of that firm through 1997, Ms. Griffith has performed consulting services for us. From June 1991 to May 1993, Ms. Griffith was Chairman and President/Chief Executive Officer of Admiralty Bank, headquartered in Palm Beach Gardens, Florida. From September 1983 to June 1991, she held a variety of officer positions with NationsBank of Florida, N.A., the last of which was Senior Vice President/Regional Banking Executive.

HERBERT A. LEEDS was elected a director of ours in April 1996 and was appointed a member of our audit committee in May 1996 and our Stock Option

Committee in January 1997. Since 1975, Mr. Leeds has been President and Chief Executive Officer of Leeds Business Counseling, Inc., a consulting firm owned by him which has provided consulting services mainly to companies in the retail industry and developers of retail malls. Since forming that firm, Mr. Leeds has, from time to time, performed consulting services for us. Prior to launching his company, Mr. Leeds served as the President and Chief Executive Officer and held other senior executive positions with major department store chains.

WILLIAM F. HAGERTY, IV was elected a director of ours in February 1998 and a member of the Audit Committee of the Board of Directors in February 1998 and was appointed a member of the Stock Option Committee in October 1999. Mr. Hagerty has been a principal of Hagerty, Peterson & Company, LLC, a private equity investment firm based in Washington, D.C., since 1996. In addition, since August 1996 to January 2001, Mr. Hagerty was the Vice Chairman of National Electronics Warranty Corporation, an administrator of warranty programs based in Sterling, Virginia which is primarily engaged in the sale of product warranty contracts and through which administrator we offer customers extended warranty contracts for most of our products. From 1994 to present, Mr. Hagerty has been a principal of the Management Advisory Group, a Washington, D.C. based consulting firm which is a wholly-owned subsidiary of Hagerty, Peterson & Company, LLC. During 1993 and 1994, Mr. Hagerty was affiliated with Trident Capital, L.P., a private equity investment firm based in Chicago, Illinois. During the Bush Administration (1991-1993), Mr. Hagerty served in the White House as the Chief Economist of the President's Council on Competitiveness. From 1984 to 1991, he was a management consultant with the Boston Consulting Group serving as the senior expatriate in its Tokyo office with responsibility for all of that firm's international activities in Japan.





PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

COMMON STOCK INFORMATION

Our common stock, par value $.01 per share, is quoted under the symbol "SUND" on the Nasdaq National Market.

The following table sets forth, for the fiscal quarters indicated, the high and low sales prices for our common stock on the Nasdaq National Market. Nasdaq National Market quotations are based on actual transactions and not bid prices.

| | PRICES | |
|---|---|---|
| QUARTER ENDED | HIGH | LOW |
| April 30, 1999................................ | 4 5/8 | 2 1/4 |
| July 31, 1999................................. | 8 3/8 | 3 1/16 |
| October 31, 1999.............................. | 10 | 6 11/32 |
| January 31, 2000.............................. | 12 3/4 | 7 7/8 |

PRICES

| QUARTER ENDED | HIGH | LOW |
|---|---|---|
| April 30, 2000 | 12 1/2 | 7 |
| July 31, 2000 | 11 3/8 | 7 |
| October 31, 2000 | 10 3/16 | 5 5/16 |
| January 31, 2001 | 8 7/8 | 3 3/4 |

As of April 18, 2001, there were 133 holders of record of our common stock. Based upon information previously provided to us by depositories and brokers, we believe that we have in excess of 1,000 beneficial owners.

DIVIDEND POLICY

We have never paid cash dividends on our common stock and do not plan to pay cash dividends in the foreseeable future. We are prohibited under our revolving credit facility from paying cash dividends. See "Management's Discussion and Analysis of Financial Condition and Results of Operation -- Liquidity and Capital Resources."



ITEM 6. SELECTED CONSOLIDATED FINANCIAL AND OPERATING DATA

(IN THOUSANDS, EXCEPT PER SHARE AND NUMBER OF STORES DATA)

The selected statement of operations and balance sheet data set forth below for the fiscal year ended June 30, 1997, the transition period ended January 31, 1998 and the fiscal years ended January 31, 1999, 2000 and 2001 have been derived from our financial statements, which have been audited by our independent auditors. The selected statements of operations for the seven months ended January 31, 1997 and the twelve months ended January 31, 1998 have been derived from our financial statements and are unaudited. The information set forth below should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our Consolidated Financial Statements and the Notes thereto included elsewhere in this Report.

| | FISCAL YEAR ENDED | TRANSITION PERIOD ENDED SEVEN MONTHS | | FISCAL YEAR ENDED |
|---|---|---|---|---|
| | JUNE 30, 1997 | JANUARY 31, 1997 | JANUARY 31, 1998 | JANUARY 31, 1998 |
| | | (UNAUDITED) | | (UNAUDITED) |
| STATEMENT OF OPERATIONS DATA: | | | | |
| Net sales | $ 152,316 | $ 98,558 | $ 95,205 | $ 148,963 |
| Cost of goods sold | 102,298 | 67,005 | 64,234 | 99,527 |
| Gross profit | 50,018 | 31,553 | 30,971 | 49,436 |
| Selling, general and administrative expenses | 49,045 | 29,827 | 29,903 | 49,122 |
| Income from operations | 973 | 1,726 | 1,068 | 314 |
| Other income (expense): | | | | |

| | | | | |
|---|---|---|---|---|
| Interest expense | (1,556) | (891) | (897) | (1,562) |
| Other income (expense) | 101 | 31 | 48 | 120 |
| Income (loss) before income taxes (benefit) | (482) | 866 | 219 | (1,128) |
| Income taxes (benefit) | 389 | 475 | 1,175 | 1,089 |
| Net income (loss) | $ (871) | $ 391 | $ (956) | $ (2,217) |
| Common and common equivalent per share amounts: | | | | |
| Basic earnings (loss) per share | $ (.23) | $ .10 | $ (.26) | $ (.59) |
| Diluted earnings (loss) per share | $ (.23) | $ .10 | $ (.26) | $ (.59) |
| Weighted average number of shares outstanding--basic | 3,729 | 3,729 | 3,729 | 3,729 |
| Weighted average number of shares outstanding--diluted | 3,729 | 3,729 | 3,729 | 3,729 |
| STORE DATA: | | | | |
| Number of stores open at end of period: | | | | |
| Full-size stores | 21 | | 22 | |
| Bang & Olufsen, Electronic Interiors, Great Indoors home theater | -- | | -- | |
| Weighted average net sales per store (1) | | | | |
| Full-size stores | 7,253 | | 4,473 | |
| Bang & Olufsen, Electronic Interiors, Great Indoors home theater | -- | | -- | |
| BALANCE SHEET DATA: | | | | |
| Current assets | 32,515 | | 37,546 | |
| Current liabilities | 24,724 | | 31,960 | |
| Working capital | 7,791 | | 5,586 | |
| Total assets | 46,550 | | 51,789 | |
| Borrowing under revolving credit facility | 11,875 | | 10,700 | |
| Long term debt, excluding current maturities | 1,384 | | 859 | |
| Stockholders' equity | 16,298 | | 15,342 | |

(1) Weighted average net sales per store represents the net sales of our full-size stores and combined the net sales of our Bang & Olufsen, Electronic Interiors and Great Indoors home theater stores for the period divided by the number of full-size stores and combined Bang & Olufsen, Electronic Interiors and Great Indoors home theater stores open during the period, weighted to account for stores open for only a portion of the period. The transition period ended January 31, 1998 includes sales for a seven month period.





## ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

YOU SHOULD READ THE FOLLOWING DISCUSSION ALONG WITH OUR FINANCIAL STATEMENTS AND THE RELATED NOTES INCLUDED IN THIS REPORT. THE FOLLOWING DISCUSSION CONTAINS FORWARD-LOOKING STATEMENTS THAT ARE SUBJECT TO RISKS, UNCERTAINTIES AND ASSUMPTIONS. OUR ACTUAL RESULTS, PERFORMANCE AND ACHIEVEMENTS BEYOND FISCAL 2001 MAY DIFFER MATERIALLY FROM THOSE EXPRESSED IN, OR IMPLIED BY, THESE FORWARD-LOOKING STATEMENTS.

### OVERVIEW

We are a specialty retailer of high-end audio and visual entertainment products and integrated systems, many of which incorporate the most recent technology.

Our merchandising is focused on high-end products in the core categories of audio, video and mobile electronics. This strategy has positioned us to take advantage of the proliferation of products driven by the growth of digitally based technology. As a result of the cash flow generated from our operations, we were able to begin a store expansion and relocation program and embrace a new store format in the Bang & Olufsen and Electronic Interiors stores. For the period from July 1997 to January 2001, we spent over $15.9 million on capital expenditures, primarily for new stores and revitalization of existing stores. The expenditures were funded through internally generated funds and borrowings available under our revolving credit facility. We currently operate 24 Sound Advice stores, five Bang & Olufsen stores, one Electronic Interiors / Bang & Olufsen store, two Showcase Home Entertainment stores and one home theater showroom located in the Sears Great Indoors store in Scottsdale.

RESULTS OF OPERATIONS

The following tables set forth, for the fiscal years ended January 31, 1999, 2000 and 2001, (i) certain items in our statements of operations expressed as a percentage of net sales and (ii) the percentage change in dollar amounts of these items as compared to the indicated period in the prior year.

| | PERCENTAGE OF NET SALES | | | |
|---|---|---|---|---|
| | FISCAL YEARS ENDED JANUARY 31, | | | 19<br>COMPA |
| | 1999 | 2000 | 2001 | |
| Net sales | 100.0% | 100.0% | 100.0% | |
| Cost of goods sold | 65.0 | 64.9 | 64.4 | |
| Gross profit | 35.0 | 35.1 | 35.6 | |
| Selling, general and administrative expenses | 32.8 | 31.3 | 30.8 | |
| Income from operations | 2.2 | 3.8 | 4.8 | 1 |
| Other income (expenses): | | | | |
| Interest expense | (.9) | (.8) | (1.0) | |
| Other expenses, net | * | * | .1 | |
| Income before taxes (benefit) | 1.3 | 3.0 | 3.9 | 1 |
| Net income (loss) | (0.5)% | 3.7% | 2.4% | 8 |

*   Negligible
** Not meaningful

FISCAL 2001 COMPARED TO FISCAL 2000

Net sales for fiscal 2001 were approximately $198,364,000, an increase of $21,016,000, or 11.9% over the prior fiscal year. The increase in sales is primarily attributable to an increase in same store sales as well as the opening in February 2000 of one additional Bang & Olufsen store and the acquisition of Showcase Home Entertainment. Sales increased in the core categories of audio, video, and mobile electronics and were partially offset by a decrease in sales of personal electronics, which we have de-emphasized in our product mix. Comparable store sales increased 7.1% during fiscal 2001.

Gross profit represents net sales less cost of goods sold. Cost of goods sold includes the cost of merchandise net of vendor rebates and discounts and allowances for product shrinkage and obsolescence. Our gross profit was approximately $70,619,000, an increase of $8,327,000, or 13.4%, in fiscal 2001 over the prior fiscal year. The increase in gross profit is directly related to our increase in sales resulting from increased demand for custom labor, home theater systems, digital audio and video equipment, along with a sales mix of higher margin products. Our gross margin percentage was 35.6% in fiscal 2001 compared to 35.1% in fiscal 2000.

Selling, general and administrative expenses, which we refer to as SG&A, includes costs related to sales commissions, salaries, advertising, warehouse and distribution, corporate expenses, store operations, including rent and utilities, and depreciation. SG&A expenses for fiscal 2001 were approximately $61,061,000, an increase of $5,551,000, or 10.0%, over the prior fiscal year. This increase in SG&A expenses was due to increased sales commissions, which are based on the gross profit of products and services sold, increased costs associated with new stores opened in fiscal 2001, and an increase due to the acquisition of Showcase Home Entertainment, net of reduction in advertising costs. SG&A expenses as a percentage of net sales decreased to 30.8% in fiscal 2001 from 31.3% in the prior fiscal year. The decrease was partially attributable to a lower rate of growth in SG&A expenses due to some fixed expenses, during a period of increased sales from existing and new stores.

Income from operations in fiscal 2001 was $9,558,000, an increase of $2,776,000, or 40.9%, over the prior fiscal year. Income from operations as a percentage of net sales increased to 4.8% in fiscal 2001 from 3.8% in fiscal 2000.

Interest expense for fiscal 2001 was $1,968,000, an increase of $602,000 from the prior fiscal year. The increase in interest expense is primarily reflective of a increased level of borrowings net of a decrease in the effective interest rate, in relation to the prior fiscal year.

Other income and expense in 2001 includes a $561,000 charge for the termination of a proposed secondary offering and $695,000 of income from the settlement of certain litigation.

In fiscal 2001, we recorded net tax expense of $3,075,000, our effective tax rate was approximately 39.5% in fiscal 2001.

Net income for fiscal 2001 was approximately $4,709,000, or $1.23 per share basic and $1.08 per share diluted, as compared to a net income of approximately $6,526,000, or $1.74 per share basic and $1.55 per share diluted, in fiscal 2000. The reduction in net income for fiscal 2001 was primarily a result of income tax expense in fiscal 2001 as compared to an income tax benefit in fiscal 2000.

FISCAL 2000 COMPARED TO FISCAL 1999

Net sales for fiscal 2000 were approximately $177,349,000, an increase of $25,225,000 or 16.6% over the prior year. The increase in sales was primarily attributable to an increase in same store sales along with a full year's operation of the two new full-size stores and two Bang & Olufsen stores opened in the prior fiscal year and one additional Bang & Olufsen store acquired in June 1999. Sales increased in the core categories of audio, video, and mobile electronics and were partially offset by a decrease in sales of cellular phones, which have been de-emphasized in our product mix. Comparable store sales increased 13.1% for fiscal 2000 as compared to the prior fiscal year.

Our gross profit was approximately $62,292,000, an increase of $9,061,000, or 17.0%, in fiscal 2000 over the prior year. The increase in gross profit was directly related to our increase in sales resulting from increased demand for custom labor, home theater systems, digital audio and video equipment, along with a sales mix of higher margin products. Our gross margin percentage was 35.1% in fiscal 2000 compared to 35.0% in fiscal 1999.





SG&A expenses for fiscal 2000 were approximately $55,510,000, an increase of $5,617,000, or 11.3%, over the prior year. The reasons for the increase in SG&A expenses were due to increased sales commissions, which are based on the gross profit of products and services sold, increased operating costs associated with new stores opened in late fiscal 1999 and in fiscal 2000, partially offset by a reduction in advertising costs. SG&A as a percentage of net sales decreased to 31.3% in fiscal 2000 from 32.8% in the prior year. The decrease was partially attributable to the rate at which SG&A expenses, based on sales or gross margin, increase in relation to fixed expenses, during a period of increased comparable store sales and new store sales.

Income from operations in fiscal 2000 was $6,782,000, an increase of $3,444,000, or 103.2%, over the prior fiscal year. Income from operations as a percentage of net sales increased to 3.8% in fiscal 2000 from 2.2% in fiscal 1999.

Interest expense for fiscal 2000 was $1,367,000, a reduction of $50,000 from the prior year. The reduction in interest expense was primarily reflective of a decreased level of borrowings net of an increase in the effective interest rate in relation to the comparable periods in the prior fiscal year.

In fiscal 2000, we recorded a net tax benefit of $1,218,000, which included a provision for income taxes payable based on pretax operating income, net of a reduction in the valuation reserve on deferred tax assets of $3,259,000. The valuation reserve was reduced because of our return to sustained profitability and customer acceptance of new technology. The increase in the valuation reserve in the earlier periods resulted in an increase in the effective tax rate as a percent of pretax operating income. At January 31, 2000, there was no valuation allowance for deferred tax assets.

Net income for fiscal 2000 was approximately $6,526,000, or $1.74 per share basic and $1.55 per share diluted, as compared to a net income of approximately $707,000, or $.19 per share basic and $.18 per share diluted, in fiscal 1999. The improvement in net income for fiscal 2000 was primarily a result of increased gross profit resulting from increased same store sales, additional stores and the reduction of the valuation reserve for deferred tax assets.

LIQUIDITY AND CAPITAL RESOURCES

Historically, our primary sources of capital for working capital, expansion and growth have been our revolving line of credit, net cash from operations and vendor credit. Our primary cash requirements are for new store openings, relocations and upgrades of existing stores, acquisitions, as well as working capital to support our inventory requirements and SG&A expenses.

In fiscal 2001, net cash provided by operating activities was approximately $909,000 resulting primarily from cash flows from net income of $4,709,000, which was reduced by increases in inventory of $7,826,000 and receivables of $1,210,000 and was increased by the increase in accrued liabilities of $1,331,000. In connection with our store expansion program, $5,076,000 of capital expenditures were incurred with an additional expenditure of $4,634,000 for the acquisition of Showcase Home Entertainment and were funded from increased borrowings, $909,000 in net cash flows generated from operations and proceeds from the sale of assets. We had working capital of approximately $8,256,000 as of January 31, 2001, a decrease from approximately $13,020,000 from January 31, 2000. The decrease in working capital resulted primarily from increases in short term borrowings, accounts payable and accrued liabilities which were partly offset by increases in inventories and receivables.

Our revolving credit facility was scheduled to expire on July 31, 2001 and was amended on April 19, 2001 to expire on July 31, 2004. The terms of the amended facility allow us to borrow, repay, and reborrow up to $40,000,000 based upon a borrowing base equal to the lesser of 70% of eligible inventory, as defined, at cost, or 55% of eligible inventory at retail selling price. The availability under the facility is reduced by outstanding letters of credit. The amended revolving credit facility bears interest on the outstanding balance at prime rate plus .5% and allows for a LIBOR pricing option for one, two, three or six month periods at 1.75% over the corresponding LIBOR rate for the respective period. We pay a monthly fee based upon the unused portion of the commitment which varies based upon the average outstanding loan balance at .375% per annum. We incurred a renewal and amendment fee of $100,000. We are in compliance with all of our loan covenants.

The amended revolving credit facility contains various affirmative and negative covenants including those requiring us to maintain a quarterly calculation of minimum EBITDA based on trailing 12 months performance. The revolving credit facility limits the incurrence of additional debt, capital expenditures, acquisitions and investments and prohibits cash dividends.

Borrowings under the revolving credit facility are collateralized by our assets, including our cash depository accounts, trade receivables, inventory, some fixed assets and intangible assets.





The interest rate under our revolving credit facility ranged between 8.03% and 10.25% during fiscal 2001. The 8.03% rate is a result of the LIBOR pricing option included as part of the revolving credit facility. As of January 31, 2001, the outstanding borrowings under our revolving credit facility were approximately $18,141,000. The increase of approximately $10,830,000 in outstanding borrowings in fiscal 2001 is primarily attributable to capital expenditures and the acquisition of Showcase Home Entertainment.

In December 1999, we entered into a three year $5,000,000 term loan agreement. Under the terms of the agreement, principal and interest is payable in monthly installments at an effective interest rate of 9.96%. Proceeds from the term loan financing were used to repay borrowings under the revolving credit facility. The term loan is collateralized by the majority of our fixed assets.

The term loan agreement contains various affirmative and negative covenants including those requiring us to maintain a quarterly ratio of current assets to current liabilities of not less than 1.0 to 1.0 and working capital at the end of each quarter of at least $2,000,000. In addition, cumulative net losses after October 1, 1997 may not exceed $4,000,000 and, until January 31, 2001, we were required to maintain a minimum interest coverage ratio as defined of no less than 3.50 to 1.00.

We currently believe that funds from our operations and borrowings available under our revolving credit facility and vendor credit programs will be sufficient to satisfy our currently projected operating cash requirements, and our store expansion and relocation plans during fiscal 2002. However, in order to continue store expansions and upgrades beyond 2002 or to pursue acquisitions as a part of our expansion strategy, we may need to seek additional sources of debt or equity financing.

SEASONALITY AND QUARTERLY RESULTS

Historically, our business has been subject to seasonal variations, with greater sales and profits being realized during the year-end holiday season. One of the goals of our current marketing strategy is to minimize seasonal fluctuations by increasing our promotional activity during the remainder of the year. These promotions are made by advertising through newspapers, radio, catalogs, and direct mail, and include vendor specific promotional sales in selected months. In addition to traditional consumer demand cycles, our results of operations fluctuate based on a number of factors including the timing of new store openings, relocations, changes in volume-related rebates from manufacturers, merchandising costs, price changes or unfavorable local, regional or national economic developments that result in reduced consumer spending.

| | APRIL 30, 1999 | JULY 31, 1999 | OCTOBER 31, 1999 | JANUARY 31, 2000 | APRIL 30, 2000 | JUL 20 |
|---|---|---|---|---|---|---|
| | | | | (DOLLARS IN THOUSANDS) | | |
| Net sales | $38,468 | $40,684 | $39,263 | $58,934 | $42,676 | $4 |
| Gross profit | 13,588 | 13,965 | 14,074 | 20,665 | 15,077 | 1 |
| Income from operations | 961 | 1,227 | 1,266 | 3,328 | 1,515 | |
| Income before income taxes (benefit) | 621 | 881 | 958 | 2,848 | 1,108 | |





INFLATION

We believe, because of competition among manufacturers and technological changes in the consumer electronics industry, inflation has not had a significant effect on results of our operations.

RECENT ACCOUNTING PRONOUNCEMENTS

In March 2000, the Financial Accounting Standards Board ("FASB") issued FASB interpretation ("FIN") 44, "Accounting for Certain Transactions Involving Stock Compensation," which clarifies the application of APB Opinion No. 25 for certain issues. The interpretation was effective July 1, 2000, except for the provisions that relate to modifications that directly or indirectly reduce the exercise price of an award and the definition of an employee, which were effective after December 15, 1998. The adoption of FIN 44 did not have an impact on the Company's consolidated financial position, results of operations or cash flows.

In June 1999, the FASB issued SFAS No. 137, "Accounting for Derivative Instruments and Hedging Activities - Deferral of the Effective Date of FASB Statement No. 133" which amended SFAS 133 to change the effective date to fiscal quarters of fiscal years beginning after June 15, 2000. SFAS No. 133 requires companies to recognize all derivative contracts as either assets or liabilities in the balance sheet and to measure them at fair value. The Company adopted SFAS 133 on February 1, 2001, adoption of SFAS No. 133 did not have an impact on the Company's consolidated financial position, results of operations or cash flows.

In December 1999, the SEC issued Staff Accounting Bulletin No. 101, "Revenue Recognition in Financial Statements" (SAB 101) and amended it in March and June 2000. We adopted the provisions of SAB 101 in the fourth quarter of fiscal 2001. Adoption of SAB 101 did not have an impact on the Company's consolidated financial position, results of operations or cash flows.

FORWARD-LOOKING STATEMENTS

This report contains forward-looking statements (within the meaning of Section 21E. of the Securities Exchange Act of 1934, as amended) representing our current expectations, beliefs, estimates or intentions concerning our future performance and operating results, our products, services, markets and industry, and/or future events relating to or effecting us and our business and operations. When used in this report, the words "believes," "estimates," "plans," "expects," "intends," "anticipates," and similar expressions as they relate to us or our management are intended to identify forward-looking statements. Our actual results or achievements could differ materially from those indicated by the forward-looking statements because of various risks, and uncertainties related to and including, without limitation, the effectiveness of our business and marketing strategies, our product mix, customer demand, availability of existing and new merchandise from and the establishment and maintenance of relationships with suppliers, price competition for products and services sold by us, management of expenses, gross profit margins, our ability to open new stores and improve performance at existing locations, our ability to effectively integrate the new Showcase Home Entertainment operations with our existing operations, availability and terms of financing to refinance or repay existing financings or to fund capital and expansion needs, the continued and anticipated growth of the retail home entertainment and consumer electronics industry, a change in interest rates, exchange rate fluctuations, the seasonality of our business and the other risks and factors detailed in this report and in our other filings with the Securities and Exchange Commission. These risks and uncertainties are beyond our ability to control. In many cases, we cannot predict the risks and uncertainties that could cause actual results to differ materially from those indicated by the forward-looking statements.

RISK FACTORS

You should carefully consider the risks and uncertainties described below and all the other information included in this annual report. Any of the following risks could have a material adverse effect on our business, financial condition or operating results.

IF NEW PRODUCTS ARE NOT INTRODUCED OR ACCEPTED BY CONSUMERS, OR IF WE DO NOT ACCURATELY PREDICT AND RESPOND TO CONSUMER DEMANDS FOR NEW PRODUCTS, OUR BUSINESS WILL BE NEGATIVELY AFFECTED.

The demand for our products depends to a large extent on the periodic introduction and availability of new products and technologies by third parties. Many products that incorporate the newest technologies, such as DVD and HDTV, are subject to significant technological changes and pricing limitations. They are also subject to the actions and cooperation of third parties such as cable and satellite television broadcasters and movie distributors. These products or other new products, including new digital formats, may never achieve widespread





consumer acceptance. Furthermore, the introduction or expected introduction of new products or technologies may depress sales of existing products and technologies, without a comparable increase in sales of new products in the same period due to uncertainty regarding consumer acceptance of the new products. Significant deviation from the projected demand for products we sell may have a material adverse effect on our results of operations and financial condition, either from lost sales or lower margins due to the need to mark down excess inventory. Any sustained failure by us to identify and respond to changes in consumer demand and preferences would have a material adverse effect on our results of operations and financial condition.

A DECLINE IN GENERAL ECONOMIC CONDITIONS COULD RESULT IN REDUCED CONSUMER DEMAND FOR THE PRODUCTS WE SELL AND COULD NEGATIVELY AFFECT OUR BUSINESS.

When general economic conditions are uncertain or negative, consumers may choose to spend less on luxury items. As such, a downturn in the U.S. economy or an uncertain economic outlook could cause a decrease in the consumer demand for many of the products that we market. Current economic volatility may negatively effect our results of operations for fiscal 2002.

WE OPERATE IN A HIGHLY COMPETITIVE BUSINESS ENVIRONMENT AND MAY NOT BE ABLE TO SUSTAIN OUR PROFITABILITY.

The retail consumer electronics industry is highly competitive. We primarily compete against retailers that specialize in one or more types of consumer electronics. We also compete against national and regional large format merchandisers and superstores, such as Circuit City and Best Buy, which sell, among other products, audio and video consumer electronics similar and in some cases identical to those we sell. The large format stores continually expand their geographic markets, and that expansion may increase competition within our markets. To a lesser extent, we compete with Internet retailers of electronic goods. Some of our competitors have substantially greater financial resources than we do, which may increase their ability to purchase inventory at lower costs or to initiate and sustain predatory price competition. A number of different competitive factors could have a material adverse effect on our results of operations and financial condition, including: adoption by existing competitors of a merchandising strategy of upscale products within innovative store formats; pricing strategies on identical products; expansion by existing competitors; entry by new competitors into markets in which we currently operate; and increased operational efficiencies of competitors.

IF WE DO NOT MANAGE OUR GROWTH WELL, OUR BUSINESS WILL BE NEGATIVELY AFFECTED.

Our future growth depends on our ability to open new stores in both existing and new geographic markets and to operate those stores profitably. We may not be able to achieve successful expansion or to integrate effectively any new stores into our existing operations. If we open additional stores in new geographic markets, we may face competitive and merchandising challenges different from those we currently face or previously faced within our existing geographic markets. In addition, we may incur higher costs related to advertising, administration and distribution as we enter new markets. There are a number of factors which could affect our ability to open new stores. Some of these factors also affect the ability of our newly opened stores to achieve sales and profitability levels comparable with our existing stores, or to become profitable at all. These factors include: our identification and acquisition of suitable sites and the negotiation of acceptable leases for our stores; our ability to hire, train and retain skilled personnel; the availability of adequate management and financial resources; our ability to adapt our distribution and other operational and management systems to an expanded network of stores; the ability and willingness of vendors to supply products to us on a timely basis at competitive prices; continued consumer demand for our products at levels that can support acceptable profit margins; our ability to effectively compete in new markets; and our ability to achieve cost effective print and radio advertising.

SINCE A MAJORITY OF OUR STORES ARE LOCATED IN THE STATE OF FLORIDA, OUR BUSINESS COULD BE MATERIALLY HARMED BY CONDITIONS AFFECTING THE STATE OF FLORIDA.

Out of the 33 stores we operate, 30 stores are located in the State of Florida. The geographical concentration of our stores makes us particularly vulnerable to adverse events in these markets, including regional competition, unfavorable regional economic conditions or adverse weather events such as hurricanes.

WE EXPERIENCE SEASONAL FLUCTUATIONS IN OUR SALES WHICH RESULT IN FLUCTUATIONS IN OUR QUARTERLY RESULTS.

Seasonal shopping patterns affect our business. The fourth quarter, which includes the holiday shopping season, generates a substantial portion of our operating income. As a result, any factors negatively affecting us during the fourth calendar quarter, including insufficient quantities of products from vendors or adverse weather, could have a material adverse effect on our results of operations for the entire year.





OUR OPERATING RESULTS AND COMPARABLE STORE SALES MAY FLUCTUATE SIGNIFICANTLY IN THE FUTURE, WHICH COULD CAUSE OUR STOCK PRICE TO DROP.

Our quarterly results of operations and comparable store sales may fluctuate based upon the following factors: timing of new store openings and new store acquisitions; the amount of net sales contributed by new and existing stores; our sales mix; profitability of sales of particular products; consumer trends; changes in our product offering; timing of promotional events; adverse weather conditions; opening of new stores within geographic areas where we have existing stores; and the amount of store pre-opening expenses. Fluctuations in our net income, quarterly operating results or comparable store results could cause the price of our common stock to decline.

OUR EXECUTIVE OFFICERS ARE IMPORTANT TO OUR BUSINESS AND THEIR LOSS WOULD

NEGATIVELY AFFECT US.

Our success depends upon the active involvement of senior management personnel, particularly Peter Beshouri, our Chairman of the Board, Chief Executive Officer and President, and Michael Blumberg, our Senior Vice President. The loss of the full-time services of Messrs. Beshouri or Blumberg or other members of senior management could have a material adverse effect on our results of operations and financial condition. We have entered into employment agreements with Messrs. Beshouri, Blumberg, Christopher O'Neil, our Executive Vice President, Chief Operating Officer and Secretary, and Kenneth L. Danielson, our Chief Financial Officer and Treasurer.

OUR GROWTH STRATEGY PARTIALLY DEPENDS ON ACQUISITIONS. IF WE ARE UNABLE TO ACQUIRE BUSINESSES ON FAVORABLE TERMS OR SUCCESSFULLY INTEGRATE AND MANAGE THE BUSINESSES ACQUIRED, OUR BUSINESS AND FINANCIAL RESULTS MAY BE ADVERSELY AFFECTED.

We recently completed the acquisition of the assets of Showcase Home Entertainment of the Southwest, LLC and we plan to continue to evaluate opportunities to acquire additional stores and operations in Florida and nationally as opportunities arise. Acquisitions may result in greater administrative burdens and in additional operating costs and, if financed with debt, additional interest costs. Acquisitions may involve the following risks: diversion of management's attention to the assimilation of operations and personnel of the acquired companies; the difficulty of integrating acquired companies into our management information and financial reporting systems; possible adverse short-term effects on our operating results and an adverse impact on earnings from the amortization of acquired intangible assets or other costs; if financed with equity, potential per share dilution to existing shareholders; and facing different competitive and merchandising challenges than those we currently face. We cannot assure you that the acquisition of Showcase Home Entertainment of the Southwest will be successful or profitable. There can be no assurance that we will be able to find, finance and complete suitable acquisitions on terms acceptable to us, that we will be able to integrate effectively any acquisitions made, that the businesses acquired can be operated profitably, or that we can assimilate the operations of those businesses into our own operations.

WE RELY ON A LIMITED NUMBER OF SUPPLIERS AND ARE DEPENDENT ON CONTINUED RELATIONSHIPS WITH THEM.

The success of our business depends to a significant degree upon our ability to obtain merchandise from our suppliers, particularly our brand-name suppliers of stereo and video equipment such as Sony, Mitsubishi, Panasonic, Yamaha, B&W, Alpine and Bang & Olufsen. We do not have any long term merchandise purchase contracts with any manufacturers or other vendors and typically order our inventory through purchase orders. Of the approximately 150 manufacturers from whom we purchase products, five accounted for approximately 56% of our purchases during fiscal 2001. The loss of any of these key vendors or our failure to establish and maintain relationships with these or other vendors could have a material adverse effect on our results of operations and financial condition. It is possible that we will be unable to acquire sufficient quantities or an appropriate mix of consumer electronics at acceptable prices.

COSTS AND AVAILABILITY OF THE INVENTORY WE PURCHASE FROM FOREIGN VENDORS OR THEIR DOMESTIC AFFILIATES MAY BE SUBJECT TO GREATER UNPREDICTABILITY THAN DOMESTICALLY PURCHASED INVENTORY.

We purchase a portion of our inventory from overseas vendors, particularly vendors headquartered in Japan or their domestic affiliates. While all of our purchases are made in U.S. dollars, changes in trade regulations, currency fluctuations or other factors may increase the cost of items we purchase from foreign vendors or create shortages of these items, which could in turn have a material adverse effect on our results of operations and financial condition.





WE MAY NEED ADDITIONAL CAPITAL AND MAY NOT BE ABLE TO OBTAIN IT.

We currently anticipate that our available cash resources will be sufficient to meet our presently anticipated working capital and capital expenditure requirements for the next 12 months. However, if we need to raise additional funds in order to support further expansion, develop new or enhanced services and products, respond to competitive pressures, acquire complementary businesses or respond to unanticipated requirements, we have no assurance that additional financing will be available when needed on terms favorable to us.

FUTURE SALES OF OUR COMMON STOCK COULD DEPRESS OUR STOCK PRICE.

As of the date hereof, we have 4,073,745 shares of common stock outstanding and approximately 907,000 shares of common stock are issuable pursuant to currently exercisable options and warrants. Sales of substantial amounts of common stock in the public market, or the perception that those sales could occur, could have a material adverse effect on the market price of the common stock.

WE HAVE ANTITAKEOVER DEFENSES THAT COULD DELAY OR PREVENT AN ACQUISITION OF OUR COMPANY.

Some provisions of our articles of incorporation, bylaws and Florida law could have the effect of delaying, deferring or preventing an acquisition of our company. For example, we have a staggered board of directors and cumulative voting can be used if so elected by a holder of 15% or more of our common stock. In May 1997, our board of directors adopted a common stock purchase rights plan and subsequently declared a dividend distribution of one common stock purchase right on each outstanding share of common stock. As amended, each right has an initial exercise price of $50.00 for one share of common stock. Generally, the rights will be exercisable only if a person or group acquires 15% or more of the common stock or announces a tender offer, the consummation of which would result in ownership by a person or group of 15% or more of the common stock. Upon that occurrence, each right, other than rights owned by the person or group making that acquisition or announcing that tender offer, will entitle the holder to purchase from us the number of shares of common stock having a market value equal to twice the exercise price of the right. Generally, prior to the acquisition by a person or group of beneficial ownership of 15% or more of the common stock, the rights are redeemable for $.001 per right at the option of the board of directors. The rights plan could have the effect of making it more difficult for a third party to acquire, or discourage a third party from attempting to acquire, control of us without negotiating with our board of directors.

OUR EXECUTIVE OFFICERS AND DIRECTORS WILL BE ABLE TO CONTROL AND GENERALLY DIRECT THE AFFAIRS OF OUR COMPANY.

Our executive officers and directors beneficially own approximately 21.49% of our outstanding common stock. As a result, those parties would be able to significantly influence our affairs if they were to act together.

OUR STOCK PRICE MAY BE VOLATILE, WHICH MIGHT MAKE IT HARDER TO SELL SHARES AT A PREDICTABLE PRICE, IF AT ALL, AND MAY ALSO RESULT IN LITIGATION AGAINST US THAT COULD NEGATIVELY IMPACT OUR BUSINESS.

The trading price of our common stock has been and is likely to continue to be highly volatile and could be subject to wide fluctuations in response to a variety of internal and external factors. The stock market in general, and the Nasdaq National Market in particular, have experienced extreme price and volume fluctuations that have often been unrelated or disproportionate to the operating performance of particular companies. These broad market factors may have a material adverse effect on the market price of our common stock, regardless of our actual operating performance. In the past, following periods of volatility in the market price of a company's securities, securities class action litigation has often been instituted against the company. This type of litigation, if instituted against us, could result in substantial costs and a diversion of management's attention and our resources, which would materially adversely affect our results of operations and financial condition.





ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our exposure to market risk for changes in interest rates is limited to our outstanding revolving credit borrowings. Based on our outstanding revolving credit borrowings at the end of fiscal 2001, a one percent change in the average effective interest rate would have an effect on income before income taxes of approximately $181,000.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

The Consolidated Financial Statements and notes thereto and the Consolidated Financial Statement Schedule and the report of the independent auditors thereon set forth on pages F-1 to F-23 and S-1 herein are filed as part of this report and incorporated herein by reference.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

Not applicable.





PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT.

Incorporated by reference from the Registrant's 2001 definitive proxy statement to be filed, pursuant to General Instruction G(3) to the Form 10-K, except that the information regarding the Registrant's executive officers called for by Item 401 of Regulation S-K has been included in Item 4.1 in PART I of this report.

ITEM 11. EXECUTIVE COMPENSATION.

Incorporated by reference from the Registrant's 2001 definitive proxy statement to be filed, pursuant to General Instruction G(3) to the Form 10-K.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT.

Incorporated by reference from the Registrant's 2001 definitive proxy statement to be filed, pursuant to General Instruction G(3) to the Form 10-K.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.

Incorporated by reference from the Registrant's 2001 definitive proxy statement to be filed, pursuant to General Instruction G(3) to the Form 10-K.





PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K.

(a) 1. and 2. The financial statements and the required financial statement schedule listed in the accompanying Table of Contents to Consolidated Financial Statements and Financial Statement Schedule at page F-1 herein are filed as part of this report.

3. The exhibits listed in the Exhibit Index are filed with or incorporated by reference as part of this report.

EXHIBIT INDEX

| EXHIBIT NO. | |
|---|---|
| 3.1 | Amended and Restated Articles of Incorporation, of the Registrant (incorporated by reference from Registrant's quarterly report on Form 10-Q for the quarter ended Octo 31, 1999, Exhibit 3.3, File No. 0-15194) |
| 3.2 | By-laws of the Registrant (incorporated by reference from Registration Statement No. 33-5942, Exhibit 3.2, filed May 23, 1986) |
| 4.1 | Form of 1997 Common Stock Purchase Rights Agreement, dated as of May 5, 1997, betwee Registrant and American Stock Transfer & Trust Company (incorporated by reference fr Registrant's Registration Statement on Form 8-A, Exhibit 4.1, filed on May 13, 1997) |
| 9. | Right of First Refusal and Voting Trust Agreement, dated June 30, 1986, among Peter Beshouri, Gregory Sturgis, Michael Blumberg and Joseph Piccirilli (incorporated by reference from the Registrant's Annual Report on Form 10-K for the fiscal year ended 30, 1986, Exhibit 9, File No. 33-5942) |
| 10.1 | Loan and Security Agreement (without schedules), dated as of April 11, 1996, between Registrant and Foothill Capital Corporation (incorporated by reference from the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 1996, Exh 10.2, File No. 0-15194) Amendment Number One to Loan and Security Agreement dated as December 8, 1997 between Registrant and Foothill Capital Corporation (incorporated b reference from the Registrant's Quarterly Report on form 10-Q for the quarter ended December 1, 1997, Exhibit 10.1, File No. 0-15194) Amendment Number Two to Loan and Security Agreement dated as of January 31, 1999 between Registrant and Foothill Capi Corporation (incorporated by reference from the Registrant's Annual Report on Form 1 |

for the fiscal year ended January 31, 1999, Exhibit 10.1, File No. 0-15194) Combined Amendment Number One to Loan and Security Agreement dated as of April 16, 2001 betwe Registrant and Foothill Capital Corporation (filed herewith)

10.2 Master Security Agreement dated as of December 23, 1999 between the Registrant and H Financial Leasing, Inc. (incorporated by reference from the Registrant's Annual Repo Form 10-K for the fiscal year ended January 31, 2000, Exhibit 10.2, File No. 0-15194





EXHIBIT
NO.
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10.4* Second Amended and Restated Sound Advice, Inc. 1986 Stock Option Plan (incorporated reference from the Registrant's Registration Statement No. 333-27051 on Form S-8, Ex 4.3, filed on May 14, 1997)

10.5* Sound Advice, Inc. Employee Stock Ownership Plan and Trust, made January 15, 1990, b the Registrant and Peter Beshouri, Michael Blumberg, Gregory Sturgis, Joseph Picciri and Jacob E. Farkas, the trustees (incorporated by reference from the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 1990, Exhibit 10.2, Fi 0-15194), First Amendment to the Sound Advice, Inc. Employee Stock Ownership Plan an Trust, dated as of December 23, 1992 (incorporated by reference from the Registrant' Quarterly Report on Form 10-Q for the quarter ended December 31, 1992, Exhibit 10.2, No. 0-15194), Second Amendment to the Sound Advice, Inc. Employee Stock Ownership Pl Trust, dated as of July 9, 1993 (incorporated by reference from the Registrant's Ann Report on Form 10-K for the fiscal year ended June 30, 1993, Exhibit 10.15, File No. 0-15194) and Third Amendment to the Sound Advice, Inc. Employee Stock Ownership Plan Trust, dated as of December 30, 1994 (incorporated by reference from the Registrant' Annual Report on Form 10-K for the fiscal year ended June 30, 1995, Exhibit 10.9, Fi 0-15194)

10.6* Employment Agreements, dated June 30, 1986, between Registrant and each of Peter Bes and Michael Blumberg (incorporated by reference from the Registrant's Annual Report Form 10-K for the fiscal year ended June 30, 1986, Exhibit 10.26, File No. 33-5942), Amendments to Employment Agreements, both dated as of May 20, 1989, between the Regi and each of Peter Beshouri and Michael Blumberg (incorporated by reference from Registration Statement No. 33-28745, Exhibit 10.20, filed May 16, 1989), Second Amen to Employment Agreements, both dated as of October 27, 1989, between the Registrant each of Peter Beshouri and Michael Blumberg (incorporated by reference from the Registrant's Quarterly Report on Form 10-Q for the quarter ended December 31, 1989, Exhibit 10.2, File No. 0-15194), Third Amendments to Employment Agreements, both dat of July 1, 1992, between the Registrant and each of Peter Beshouri and Michael Blumb (incorporated by reference from the Registrant's Annual Report on Form 10-K for the year ended June 30, 1992, Exhibit 10.15, File No. 0-15194), Fourth Amendments to Employment Agreements, both dated as of July 1, 1993, between the Registrant and eac Peter Beshouri and Michael Blumberg (incorporated by reference from the Registrant's Annual Report on Form 10-K for the fiscal year ended June 30, 1993, Exhibit 10.16, F No. 0-15194), Fifth Amendments to Employment Agreements, both effective as of July 1 1994, between the Registrant and each of Peter Beshouri and Michael Blumberg (incorp by reference from the Registrant's Quarterly Report on Form 10-Q for the quarter end December 31, 1994, Exhibit 10.2, File No. 0-15194), Sixth Amendments to Employment Agreements, both effective as of July 1, 1995, between the Registrant and each of Pe

Beshouri and Michael Blumberg (incorporated by reference from the Registrant's Quart
Report on Form 10-Q for the quarter ended September 30, 1995, Exhibit 10.1, File No.
0-15194), Seventh Amendments to Employment Agreements, both effective as of July 1,
between the Registrant and each of Peter Beshouri and Michael Blumberg (incorporated
reference from the Registrant's Annual Report on Form 10-K for the fiscal year ended
30, 1996, Exhibit 10.8, File No. 0-15194),





| EXHIBIT NO. | |
|---|---|
| | Eighth Amendment(s) to Employment Agreements, both dated as of May 24, 1997, between Registrant and each of Peter Beshouri and Michael Blumberg (incorporated by referenc the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 1997, Exhibit 10.2, File No. 0-15194), Ninth Amendment(s) to Employment Agreements, both d as of March 18, 1998 between the Registrant and each of Peter Beshouri and Michael Blumberg (incorporated by reference from the Registrant's Annual Report on Form 10-K the fiscal year ended January 31, 1999, Exhibit 10.5, File No. 0-15194). Tenth Amendment(s) to Employment Agreements, both dated as of February 1, 1999, between th Registrant and each of Peter Beshouri and Michael Blumberg, (incorporated by referen from the Registrant's quarterly report on Form 10-Q for the quarter ended July 31, 1 Exhibits 10.1 and 10.2, File No. 0-15194) |
| 10.7* | Form of Agreement entered into as of May 1, 1997, between the Registrant and each of executive officers of the Registrant (Kenneth L. Danielson and Christopher P. O'Neil twelve other employees of the Registrant relating to the making of a severance payme (two years gross wages for the executive officers and six months gross wages for the employees) under certain circumstances upon a change of control (as defined) (incorp by reference from the Registrant's Annual Report on Form 10-K for the fiscal year en June 30, 1997, Exhibit 10.6, File No. 0-15194) |
| 10.8 | Associate Agreement, dated March 1, 1986 between the Registrant and Progressive Reta Organization, Inc. ("PRO"), together with PRO Policy and Procedure Manual (incorpora reference from Amendment No. 1 to Registration Statement No. 33-5942, Exhibit 10.28, June 24, 1986) |
| 10.9 | Lease, dated September 23, 1987, between Designer's Place at Dania, a Florida genera partnership consisting of Marvin Mandel, Philip Mandel and G&E Investment Company, a Registrant (incorporated by reference from the Registrant's Quarterly Report on Form for the quarter ended September 30, 1987, Exhibit 10.1, File No. 0-15194) |
| 10.10 | Amended and Restated Lease, dated as of December 1, 1991, between Chase, Gunsaullus, Scherer and the Registrant (incorporated by reference from the Registrant's Annual R on Form 10-K for the fiscal year ended June 30, 1992, Exhibit 10.19, File No. 015194 |
| 10.12 | Form of Warrant to Purchase 5,000 Shares of Common Stock of Sound Advice, Inc. enter into as of April 29, 1997, by the Registrant with and in favor of each of Gregory St Richard W. McEwen and Herbert A. Leeds, who are directors of the Registrant (incorpo by reference from the Registrant's Annual Report on Form 10-K for the fiscal year en June 30, 1997, Exhibit 10.11, File No. 0-15194) |

| EXHIBIT NO. | |
|---|---|
| 10.14 | Sales Agreement, dated August 10, 1989, between Progressive Casualty Insurance Compa the Registrant (incorporated by reference from the Registrant's Annual Report on For for the fiscal year ended June 30, 1992, Exhibit 10.32, File No. 0-15194) |
| 10.15 | Lease, dated as of May 22, 1993, between L&T Limited Partnership, as landlord, and t Registrant, as tenant (incorporated by reference from the Registrant's Annual Report Form 10-K for the fiscal year ended June 30, 1993, Exhibit 10.34, File No. 0-15194) |
| 10.18 | Employment Agreement, dated as of January 31, 1999, between the Registrant and Kenne Danielson (incorporated by reference from the Registrant's quarterly report on Form for the quarter ended July 31, 1999, Exhibit 10.3, File No. 0-15194) Amended and Res Employment Agreement dated as of January 2, 2001 (filed herewith) |
| 10.19 | Employment Agreement, dated as of January 31, 1999, between the Registrant and Chris P. O'Neil (incorporated by reference from the Registrant's quarterly report on Form for the quarter ended July 31, 1999, Exhibit 10.3, File No. 0-15194) Amended and Res Employment Agreement dated as of January 2, 2001 (filed herewith) |
| 10.20* | 1999 Stock Option Plan (incorporated by reference from the Registrant's Schedule 14A Appendix B, filed February 3, 2000, File No. 0-15194) |
| 21 | Subsidiaries of the Registrant (filed herewith) |
| 23 | Consent of Independent Public Accountants of KPMG LLP (filed herewith) |

* Management contract or compensation plan or arrangement required to be filed as an exhibit to this report pursuant to Item 14(c) of Form 10-K.

(b) Reports on Form 8-K.

No Reports on Form 8-K were filed during the last quarter of fiscal year 2001.





SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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, on the 30th day of April 2001.

Sound Advice, Inc.

By: /s/ PETER BESHOURI

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