

# Audiovox deal to make exec \$16 million man

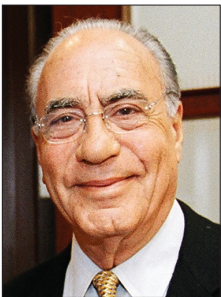
## Christopher earns windfall for 'personally held intangibles'

By KEN SCHACHTER

HAUPPAUGE – An Audiovox Corp. subsidiary will pay its top executive \$16 million for his “goodwill” as part of the unit’s pending sale to a California company.

Philip Christopher, the 55-year-old president and chief executive officer of Audiovox Communications Corp. and executive vice president of the parent company for 21 years, will get the windfall in connection with the subsidiary’s sale, announced in June, to Alameda, Calif.-based UTStarcom Inc.

“I’d say it’s pretty unusual,” said Matthew Bodie, an associate professor specializing in business and employment at Hofstra School of Law, noting that the \$16 million payout “is a pretty hefty part” of the \$165.1 million sale price, subject to post-closing adjustments, of the subsidiary.



John Shalam

Audiovox, in a government filing, said Christopher’s “personally held intangibles” include personal contacts and personal and professional relationships with suppliers, customers, contractors, financiers, employees and ex-employees of ACC, and his personal know-how, trademarks, trade names and patentable assets.

The company said it needed to buy that goodwill to complete the subsidiary’s sale.

In addition to the \$16 million, Christopher will receive \$4 million as a long-term incentive compensation award from Audiovox. Christopher has agreed to a three-year contract at a base salary of \$500,000

with UTStarcom after the closing of the sale, which is expected before year’s end.

An Audiovox spokesman, citing the quiet period related to the sale, declined comment on the payout.

Audiovox also agreed to buy out Toshiba’s minority stake in the mobile-phone venture as part of sale. In June, Audiovox bought 5 percent of the subsidiary’s stock from Toshiba for \$1.41 million and agreed to buy Toshiba’s remaining 20 percent stake when the sale closes.

Nevertheless, shares of Audiovox have been relatively stable since the company announced the sale, while the stock of UTStarcom, which also disclosed accounting problems recently, has been cut in half.

Also benefiting from the deal will be the chief executive of Audiovox Corp., John Shalam, who will receive \$1.9 million as a long-term incentive compensation award.

Though Audiovox is seeking shareholder approval of the UTStarcom deal through a preliminary proxy statement, Shalam, the largest shareholder with 1.9 million VOXX shares, has signed off.

Money manager Thomas Kahn, whose Kahn Brothers & Co. Inc. controls 1.7 million shares, or 8 percent of stock outstanding, praised the sale of the subsidiary.

“We think strategically this is a good move – namely, that they’re getting out of this phone importation business,” Kahn said. Toshiba, which manufactures the phones for Audiovox, has “not been timely” in producing models with new, popular features and the field has become crowded, he added.

Meanwhile, Kahn said, the sale provides Audiovox with cash, allowing it to concentrate on its consumer electronics business.

As for the payment to Christopher, Kahn said it’s Shalam’s call.

“John Shalam is a smart businessman,” Kahn said. “He’s making a decision on what to pay Christopher. A lot of this is his



Alon Kapen

money. Not a lot happens at Audiovox without John Shalam.”

As part of the \$16 million payout to Christopher, Audiovox brought in Wharton Valuation Associates, based in Livingston, N.J., to put a value on the executive’s intangibles. When contacted, a Wharton official declined comment.

Alon Kapen, a securities lawyer with Farrell Fritz in Uniondale, said the company was wise to hire Wharton to justify the \$16 million payout as a “procedural safeguard” to fend off possible attacks by shareholders.

“Otherwise there could be allegations that he [Christopher] engineered a lucrative package for himself,” he said.

As for Christopher’s worth, “he clearly was someone in possession of valuable assets, both in his talent and the assets he had title to,” Kapen said.

Bodie said the payment to Christopher was unusual in that the Audiovox subsidiary is buying goodwill and personal business contacts from an employee.

“It does raise some flags,” Bodie said. “It’s like paying a bonus to a former employee for work that he has done and work he will do in the future even though he’s not with [the Audiovox subsidiary].”