AUDIOVOX

1998 ANNUAL REPORT

Technology for the way we live.

HIGHLIGHTS OF THE YEAR

ACC introduces first CDMA phone. Unit sales of digital phones reach 32% of total in fourth quarter, 18% for the year

ACC signs $100 million contract with PrimeCo for supply of CDMA/PCS phones

Electronics Division achieves QS/ISO 9001 Registration

Electronics Division signs contract with Nissan for supply of Mobile Video in 1999 Quest minivans

Audiovox Corporation completes installation of multi-million dollar management information system (MIS), which gives the Company global MIS control, fulfillment capability and resolves Y2K issues.

COMPANY PROFILE

Audiovox Corporation is an international leader in the marketing of wireless products, auto sound, vehicle security, mobile video systems, FRS Radios (Family Radio Service) and home and portable leisure products.

Marketing of the Company's products in the US is separated into two groups: Communications and Electronics. In addition, Audiovox maintains a majority ownership of Audiovox Venezuela and Audiovox Malaysia for the distribution of electronics products. Results of these operations are consolidated into the company's revenues.

Audiovox Communications Corp. (ACC), a majority-owned subsidiary of the Company, markets wireless products including cellular telephones in a variety of different technologies. ACC specializes in distribution of its products to the carrier market with 80% of its 1998 sales going to that outlet.

The Electronic Division divides its sales into Mobile Electronics and Consumer Electronics. The mobile electronics group focuses on the 12-Volt specialist and car dealer while the consumer group targets the mass merchandisers and national chains. The Electronics division also supports a considerable OE and private label effort for vehicle manufacturers.

The Company has several equity investments including; a 30.8% ownership in TALK Corporation which manufacturers some of its cellular telephone and auto sound products; and a 20% ownership interest in Bliss-tel Company, Limited, which distributes cellular telephones and accessories in Thailand. In addition the Company has a 50%, non-controlling ownership interest in five other companies.

SELECTED FINANCIAL DATA

(Dollars in thousands, except per share data)	1998	1997	1996	1995	1994
	Years Ended November 30, 1998, 1997, 1996, 1995 and 1994				
Net sales	**$616,695**	$639,082	$597,915	$500,740	$486,448
Net income (loss)	**2,972 (a)**	21,022 (b)	(26,469) (c)	(11,883) (d)	26,028 (f)
Net income (loss) per common share, basic	**0.16 (a)**	1.11 (b)	(2.82) (c)	(1.31) (d)	2.88 (f)
Net income (loss) per common share, diluted	**0.16 (a)**	1.09 (b)	(2.82) (c)	(1.31) (d)	2.22 (f)
Total assets	**279,679**	289,827	265,545	308,428	239,098
Long-term obligations, less current installments	**33,724**	38,996	70,413	142,802	110,698
Stockholders' equity	**177,720 (e)**	187,892 (e)	131,499 (e)	114,595 (e)	92,034

(a) Includes a pre-tax charge of $6.6 million for inventory write-downs.

(b) Includes a pre-tax charge of $12.7 million for costs associated with the exchange of $21.5 million of subordinated debentures into 2,860,925 shares of common stock in addition to tax expense on the exchange of $158,000. Additionally, includes a net gain of $23.2 million on sale of CellStar shares.

(c) Includes a pre-tax charge of $26.3 million for costs associated with the exchange of $41.3 million of subordinated debentures into 6,806,580 shares of common stock in addition to tax expense on the exchange of $2.9 million.

(d) Includes a pre-tax charge of $2.9 million associated with the issuance of warrants, a pre-tax charge of $11.8 million for inventory write-downs and the down-sizing of the retail operations and a pre-tax gain on the sale of an equity investment of $8.4 million.

(e) Includes a $4.2 million unrealized gain on marketable securities, net, and a $929,000 gain on hedge of available-for-sale securities in 1998 and a $12.2 million unrealized gain on marketable securities, net, a $773,000 unrealized gain on equity collar, net, and a $20.8 million increase as a result of the exchange of $21.5 million of subordinated debentures in 1997 and a $10.3 million unrealized gain on marketable securities, net, and a $34.4 million increase as a result of the exchange of $41.3 million of subordinated debentures in 1996 and a $31.7 million unrealized gain on marketable securities, net, for 1995.

(f) Includes a cumulative effect change of ($178,000) or ($0.02) per share, basic, and ($0.01) per share, diluted. Also includes a pre-tax gain on sale of an equity investment of $27.8 million and a gain on public offering of equity investment of $10.6 million.

QUARTERLY FINANCIAL DATA

(Unaudited)

(In thousands, except share and per share amounts)	Feb. 28	May 31	Aug. 31	Nov. 30
	Quarter Ended			
1998				
Net sales	**$120,974**	**$132,411**	**$154,501**	**$208,809**
Gross profit	**22,259**	**14,044 (a)**	**24,878**	**27,360**
Operating expenses	**19,724**	**22,001**	**20,950**	**20,995**
Income (loss) before provision for (recovery of) income taxes	**2,236**	**(8,720) (a)**	**4,201**	**6,084**
Provision for (recovery of) income taxes	**597**	**(4,025)**	**1,620**	**2,637**
Net income (loss)	**1,639**	**(4,695) (a)**	**2,581**	**3,447**
Net income (loss) per common share (basic)	**0.09**	**(0.24)**	**0.14**	**0.18**
Net income (loss) per share (diluted)	**0.09**	**(0.24)**	**0.14**	**0.18**
1997				
Net sales	$ 166,614	$ 148,195	$ 153,124	$ 171,149
Gross profit	28,002	25,055	25,634	28,071
Operating expenses	23,486	21,243	20,606	21,732
Income before provision for income taxes	15,328 (b)	14,032 (d)	5,565 (f)	8,517 (h)
Provision for income taxes	11,125 (c)	5,678 (e)	2,467 (g)	3,150 (i)
Net income	4,203	8,354	3,098	5,367
Net income per common share (basic)	0.24	0.43	0.16	0.28
Net income per share (diluted)	0.23	0.43	0.16	0.27

(a) Includes a pre-tax charge of $6.6 million for inventory write-downs.

(b) Includes a pre-tax charge of $12.7 million for costs associated with the exchange of $21.5 million of subordinated debentures into 2,860,925 shares of Class A Common Stock and a pre-tax gain of $23.8 million on the sale of CellStar shares.

(c) Includes $158,000 for income taxes associated with the exchange of $21.5 million of subordinated debentures into 2,860,925 shares of Class A Common Stock and income taxes of $9.0 million for the gain on sale of CellStar shares.

(d) Includes $10.2 million of pre-tax gain on the sale of CellStar shares.

(e) Includes $3.9 million of income taxes on the gain on sale of CellStar shares.

(f) Includes $303,000 of pre-tax gain on the sale of CellStar shares.

(g) Includes $115,000 of income taxes on the gain on the sale of CellStar shares.

(h) Includes $3.2 million of pre-tax gain on the sale of CellStar shares.

(i) Includes $1.2 million of income taxes on the gain on sale of CellStar shares.

Although revenues and profits were down in fiscal '98 to $616.7 million and $3.0 million, respectively, we ended the year on a high note. Third and fourth quarter sales were fueled by the introduction of CDMA digital phones, our first CDMA/PCS phone and two exciting new product lines in our electronics division-Mobile Video and FRS (Family Radio Service). Sales of these products allowed us to overcome losses posted in the first half of the year as a result of a write-down on existing analog phone inventories. In addition, sales of our Malaysian operation which were adversely affected by the Asian economic crisis also showed signs of returning to profitability by year end.

Audiovox Communications Corp. (ACC), our wireless subsidiary was cited by an independent research company as the fastest growing digital company in the fourth quarter, 1998. Digital phone sales, non-existent in fourth quarter '97, represented 32% of unit sales in the fourth quarter and 18% for the year overall. ACC signed a $100 million contract with PrimeCo to supply CDMA/PCS phones and shipments against that contract began in the fourth quarter. Additional digital products to be introduced this year include a GSM phone, which will be sold in Europe and Southeast Asia, and TDMA technology, for the U.S. and South America.

I expect 1999 to be a strong year particularly for our wireless company. One in which we should achieve our stated goal of being a major supplier of all the available wireless technologies. With the addition of those new products, Audiovox for the first time will be positioned to penetrate overseas markets and benefit from the tremendous expansion and demand for wireless product throughout the world.

The 65 million current U.S. subscribers represent only 25% market penetration and industry statistics indicate growth rates of 20% over the next three years and 110 million subscribers by 2001. Statistics for worldwide growth are even more staggering with 435 million wireless phone subscribers representing only a 4.33% penetration. Our sophisticated distribution network combined with our strong carrier relationships should allow us to capitalize on this growth.

Despite losses in Malaysia, the Electronics Division posted strong profits and enjoyed a good year. For the Division, the expansion of its Mobile Video line and the introduction of FRS further highlighted 1998. Mobile video sales which in 1997 accounted for $1.5 million, exceeded $10 million in 1998, and we expect to pass that mark early in the second quarter 1999. Fourth quarter sales of mobile video were driven by the promotion by Nissan Motors to equip their 1999 Quest minivan with an Audiovox mobile video system. This promotion, originally scheduled for fourth quarter was so successful that it has been extended well into 1999. During 1999, the Electronics Division plans to continue to introduce products in emerging technologies like GPS, Navigation and portable DVD.

Quality products have always been a major element in our company's success. In late 1998 and early 1999, we were recognized for those quality standards as our Electronics Division achieved QS/ISO 9001 Registration and our wireless subsidiary was granted ISO 9001 Registration. In addition, two of our joint venture companies also achieved registrations, Audiovox Venezuela for QS/ISO 9001 and Audiovox Specialized Application, Indiana for ISO 9001. These quality ratings will greatly improve our chances to expand our OEM business with car manufacturers as well as with Bell operating companies and other service providers. I am very proud of the effort put forth by all of the employees of these subsidiaries. Achieving registration takes a tremendous amount of commitment and dedication.

Finally 1998 saw a substantial investment in our systems and facilities. We completed a multi-million-dollar upgrade of our Management Information Systems that addresses Y2K issues and positions us for global growth. In the spring, our wireless subsidiary occupied a 70,000 square foot state of the art facility that should provide it with ample room to grow its service capabilities. Our Electronics Division office, which also houses the corporate headquarters, is undergoing a major renovation, which includes the addition of 5,000 square feet of office space for their engineering group.

As I have said in numerous letters before, we operate in a highly competitive marketplace marked by fast changing technology and continually eroding prices. That said, I believe that 1999 will be a very positive year for Audiovox that will create strong shareholder value and reward your patience and support.

John J. Shalam
Chairman,
President & CEO

"I believe that 1999 will be a very positive year for Audiovox that will create strong shareholder value and reward your patience and support."

Audiovox Communications Corp. is a majority-owned subsidiary of Audiovox Corporation. The Communications group's 1998 revenues of $441.6 million represented 72% of the total for Audiovox Corporation. Our net sales have grown at a compounded annual growth rate of over 22.8% from 1993 to 1998. International sales accounted for 13% of total ACC revenue for fiscal year 1998.

ACC is one of the top four suppliers of wireless products and specializes in developing strategic partnerships with the carriers. Our growth has been driven principally by increases in domestic and worldwide demand for wireless products, expansion into new technologies and those continued strong relationships with domestic and international carriers. Since our entree into the wireless industry in 1984, we have consistently been among the market leaders.

In 1998 we began providing our customer base with digital technology. Our first digital phone, the CDM 3000 sold over 447,244 units in 1998. Unit sales of digital product went from 0% in 1997 to 32% in fourth quarter 1998 and 18% of total for overall 1998. In fact, We were the fastest growing company in the CDMA market during 4th quarter 1998.

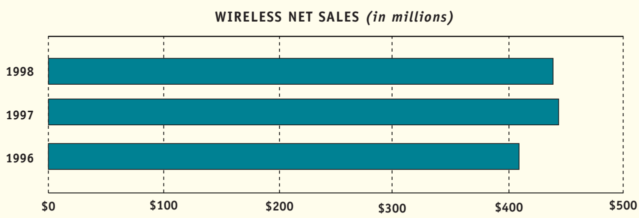
We market our products worldwide with operation centers and/or sales offices in United States, Canada, Japan, Korea, Malaysia, Taiwan, Thailand, Peru, Venezuela and the Netherlands. In all, we have more than 800 customers located in 42 countries on six continents. Our customer base includes Bell Operating Companies, other carriers, agents, distributors and retailers.

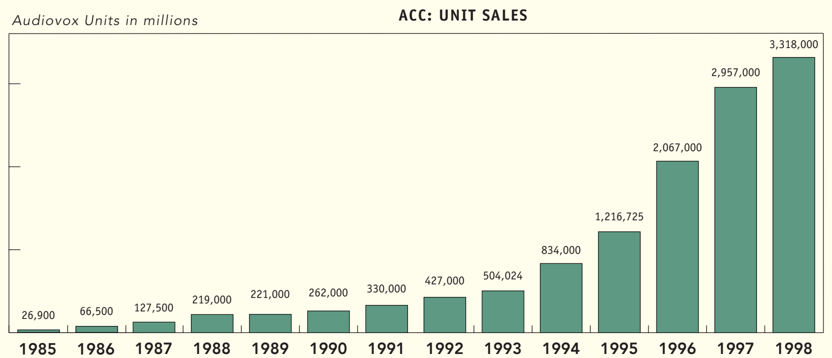
Although we do not manufacture our own products, we believe that the combination of our engineering support with that of our manufacturing partners, provides our customers with the most up to date technology. For several years we were named the number one cellular telephone by an independent consumer preference survey. We were the first company to introduce one touch dialing. We were first with voice activation and SID management (the feature that allows the customer to program their phone for multi-city use). And we were the first to provide digital features like caller ID and short message service on our analog phones. We are one of only three suppliers who provide N-AMPS handsets and one of only two suppliers who provide mobile (in car installed) cellular telephones.

We currently supply wireless products in AMPS and N-AMPS as well as the digital technologies of CDMA, CDMA/PCS and GSM/PCS, and will add GSM during 1999.

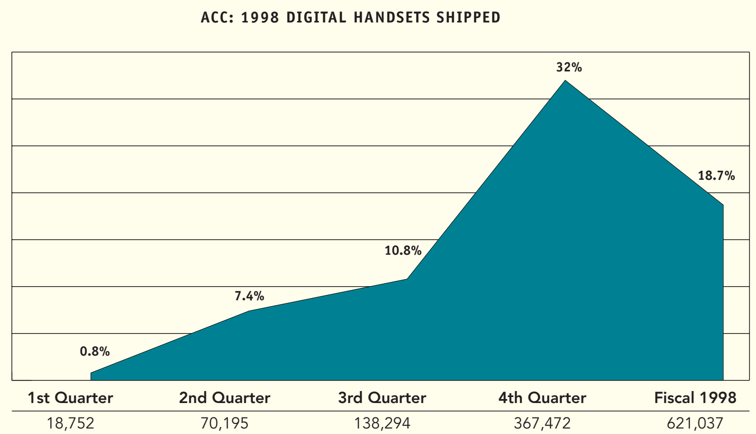
"Digital sales in the 4th quarter reached 32% of total. Our CDM 3000 was the number one selling digital phone in the market."

—Philip Christopher
President and Chief Executive Officer
Audiovox Communications Corp.





Since our entrée into the market in 1984, ACC has kept pace with the rapidly growing wireless industry. In 1998 we began the shift from analog to digital phones and ended the year with over 18% of all phones shipped being digital.



1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Fiscal 1998
18,752	70,195	138,294	367,472	621,037

Figures represent % of Total Cellular Units

In 1998, ACC moved into a state of the art facility in Hauppauge. This 70,000 square foot building provides our company with the space and facilities needed to respond to the growing wireless industry.

"We don't say we're better, other people do."

The CDM 4000 second generation CDMA telephone scheduled for early second quarter '99 delivery.

I N N O V A T I O N

"We have a series of 'firsts' to our credit, from the first one touch key to the first company to offer voice activation, SID management and digital features on analog phones."

—Philip Christopher

Our core business objective is to increase our earnings by expanding into new technologies; new global markets made accessible by those products and continued improvements to our operating performance. Our business strategy is to leverage our competitive strengths and capitalize on key trends in the global wireless industry. Key elements of that strategy are:

- **Supply High Quality Products in all the Available Technologies**. We believe that our broad distribution network and our relationship with our customers permit us to closely monitor needs and changes in wireless product technologies. Our unique position as a 'manufacturer without a factory' allows sourcing all of the available technologies without the investment in factories and raw materials.
- **Expand Global Presence.** We intend to be a global supplier of wireless products. And we believe that the addition of GSM products to our line should allow us to participate in the rapidly expanding GSM international markets. We intend to capitalize on our strong relationships with domestic carriers who are expanding their footprint in international markets.
- **Expand Value Added "Fulfillment" Revenues.** Carriers have begun to outsource an increasing amount of product management and inventory control functions in order to reduce costs and increase their productivity and efficiency. We believe that we can capitalize on this trend by offering a wide variety of distribution and value added fulfillment services that effectively and efficiently move wireless handsets and accessories for our customers.
- **Promote Company Brand Awareness.** During our 15 years in the wireless business, we have invested heavily in promoting the brand "Audiovox". This promotion was done through direct advertising in various types of media, market development funds, advertising brochures and literature. We intend to continue investing in our brand to further leverage its presence in our expanding sales channels.
- **Limit Fixed Plant and Capital Risk.** A key component of our operating strategy has been to bring to market quality products under our own brand names or on a private label basis, while limiting our investment in fixed assets. We do this by controlling the design of our products while having those products produced by quality manufacturers. We intend to continue this business model and devote a greater portion of our capital resources to design and marketing activities and inventory purchases, rather than invest in factories and the associated overhead that would be required if we manufactured our own products.

1998 revenues for the Division were $175 million with international sales accounting for 24% of the total. Every year since its inception, the Electronic Division has consistently met its sales and profit targets. In 1998 every operation within the division posted increases over 1997, except for the Company's Malaysian subsidiaries. Here, sales were off significantly due to the economic crisis in Asia. However, we anticipate that our Malaysian subsidiaries will return to profitability in 1999.

The electronic division divides its sales into Mobile Electronics and Consumer Electronics. The mobile electronics group focuses on the 12-Volt specialist and car dealer while the consumer group targets the mass merchandiser. The Electronics division also supports a considerable OE and private label effort for vehicle manufacturers.

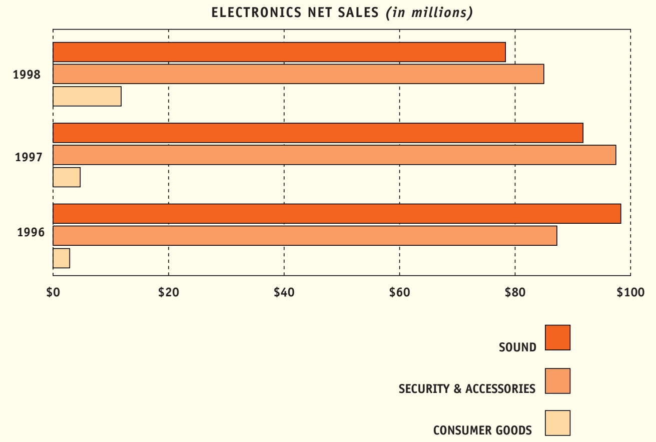
In 1998, the division expanded its mobile video line and introduced a new line of FRS Radios (Family Radio Service). Mobile video sales which in 1997 accounted for $1.5 million, exceeded $10 million in 1998, and we expect to pass that mark early in the second quarter 1999. The product line expansion focuses on the addition of vehicle specific overhead consoles for use in SUV's. In addition, we have redesigned the universal roof mount system to a slimmer profile, which should broaden the vehicle options to include regular passenger cars. Fourth quarter sales of mobile video were driven by the promotion with Nissan Motors to equip their 1999 Quest minivan with an Audiovox mobile video system. This promotion, originally scheduled for only the fourth quarter was so successful that it has been extended well into 1999.

FRS, introduced in 1998 was the newest edition to our leisure product line. In 1996, our division entered the home and portable leisure products business. Since that time we have watched direct sales grow from $2.5 million to $5 million to $12 million in fiscal years 1996, 1997 and 1998 respectively. Our leisure products group also enjoyed over $15 million in consumer product sales sold under license agreements. Plans for continued expansion of this line include the introduction of video products such as TV's, VCR/TV combos, portable DVD players, and audio products such as mini disc players and Home Theater.

The Division's auto sound and vehicle security groups posted slight decreases in sales, primarily due to industry wide decreases in selling prices and the economic problems suffered in Malaysia where sales were off by 82%. New product introductions in the Prestige auto sound line that feature the new mobile theater technology will help increase sales in the category for 1999. In addition, the division has introduced a series of high-end security systems that include remote start, extended range and two-way communication.

“Our business strategy is to leverage our ability to source product and our marketing flexibility to capitalize on consumer trends.”

—Patrick Lavelle
Senior Vice President
Automotive Electronics



Clockwise from top left: vehicle specific video console, remote start transmitter, In-dash mobile theater, universal overhead mobile video mount and headrest mounted TV's.

Clockwise from top left: portable DVD player, FRS radio, Personal Navigator and Under Counter TV.

V I S I O N

"QS/ISO 9001 Registration should go a long way in helping us increase our OE business."

—Patrick Lavelle

The Division's ability to attract substantial OE business has been enhanced by the awarding of QS/ISO 9001 Registration. In addition, the company's Venezuelan subsidiary, which does considerable business with GM and Chrysler of Venezuela, has also achieved QS/ISO 9001 certification for its assembly facility.

Our core business objective is to increase our earnings by capitalizing on emerging technology opportunities and increasing our penetration in global markets. Our business strategy is to leverage our ability to source product and our marketing flexibility to capitalize on consumer trends. Key elements of that strategy are:

- **Invest in Emerging Technologies.** We believe that our broad distribution network allows us the opportunity to market a variety of different products to different channels. We are targeting new technologies such as GPS (Global Positioning Service), Navigation, Video, including portable DVD and satellite radios for inclusion into the division's product mix. We intend to continue our policy controlling the design of our products while having those products produced by quality manufacturers. This allows us to devote a greater portion of our capital resources to design and marketing activities and inventory purchases, rather than invest in factories and the associated overhead that would be required if we manufactured our own products.
- **Increase our OE Business.** The QS/ISO 9001 Registration both domestic and in our Venezuelan operation, should help us to increase our vehicle manufacturer OE business. In addition, the new mobile video product line has provided us with additional opportunities to pursue business with existing OE customers as well as new ones.
- **Expand Global Presence.** During 1998 we added distribution of our products in England, Spain, and Italy as well as increased sales in other countries in Western Europe. We believe that the addition of our RDS (European Band) audio products will increase business opportunities in those regions. In addition, we will continue efforts to expand into other countries.
- **Promote Company Brand Awareness.** During our 35-year history, we have invested heavily in promoting the brand "Audiovox". This promotion was done through direct advertising in various types of media, market development funds, advertising brochures and literature. We intend to continue investing in our brand to further leverage its presence in our expanding sales channels.

Report of the CFO

As our chairman reported in his letter to the shareholders, we have made several changes to the Company's operating systems during 1998. We have completed an upgrade of our Management Information Systems that resolves issues related to international business, foreign currency and addresses Y2K issues. In addition, we have made substantial investments in information technology to improve our intranet and internet capabilities. We believe that these changes and improvements position us for future growth.

Balance Sheet and Cash Flow

During 1998 the Company's financial ratios improved and our cash flow position remains strong. We were able to provide approximately $17 million from operations this year versus a usage of $37 million in 1997. We believe this result is partially attributable to strong cash flow management and an improvement in our asset efficiencies. This cash flow has allowed us to fund capital expenditures for our systems and equipment and has also helped reduce our interest bearing bank debt. In addition, we have recently increased our banking facilities to include a multi-currency line that will provide us with the funds necessary for our 1999 growth plans.

Equity Investments

Audiovox Corporation maintains equity investments in unconsolidated entities that it utilizes to augment operations and distribution. Talk Corporation, a 31% investment, provides us with wireless products for distribution in North and South America. Audiovox Specialized Applications LLC (50% owned) provides us the ability to market products to the specialized van, truck, RV and agricultural industries. Our 20% ownership of Bliss-tel in Thailand provides a distribution outlet for our product in that country.

“Increased multi-currency bank lines should help fund 1999 growth plans.”

—Michael Stoehr
Senior Vice President
Chief Financial Officer

The Company markets its products under its own brand as well as private labels to a large and diverse distribution network both domestically and internationally. The Company's products are distributed by two separate marketing groups: Communications and Automotive. The Communications group consists of Audiovox Communications Corp. (ACC) and the Quintex retail operations (Quintex), both of which are wholly-owned subsidiaries of the Company. The Communications group markets cellular telephone products and receives activation commissions and residual fees from its retail sales. The price at which the Company's retail outlets sell cellular telephones is often affected by the activation commission the Company will receive in connection with such sale. The activation commission paid by a cellular telephone carrier is based upon various service plans and promotional marketing programs offered by the particular cellular telephone carrier. The monthly residual payment is based upon a percentage of the customer's usage and is calculated based on the amount of the cellular phone billings generated by the base of customers activated by the Company on a particular cellular carrier's system. The Automotive group consists of Audiovox Automotive Electronics (AAE) and, through February 28, 1997, Heavy Duty Sound, which are divisions of the Company, Audiovox Communications (Malaysia) Sdn. Bhd., Audiovox Holdings (M) Sdn. Bhd. and Audiovox Venezuela, C.A., which are majority-owned subsidiaries. Products in the Automotive group include automotive sound and security equipment, car accessories, home and portable sound products and mobile video. The Company allocates interest and certain shared expenses to the marketing groups based upon estimated usage. General expenses and other income items which are not readily allocable are not included in the results of the various marketing groups.

This Report on Form 10-K contains forward-looking statements relating to such matters as anticipated financial performance and business prospects. When used in this Report, the words "anticipates," "expects," "may," "intend" and similar expressions are intended to be among the statements that identify forward-looking statements. From time to time, the Company may also publish forward-looking statements. The Private Securities Litigation Reform Act of 1995 provides a safe harbor for forward-looking statements. In order to comply with the terms of the safe harbor, the Company notes that a variety of factors, including, but not limited to, foreign currency risks, political instability, changes in foreign laws, regulations and tariffs, new technologies, competition, customer and vendor relationships, seasonality, inventory obsolescence and availability, could cause the Company's actual results and experience to differ materially from the anticipated results or other expectations expressed in the Company's forward-looking statements.

The following table sets forth for the periods indicated certain statements of income (loss) data for the Company expressed as a percentage of net sales:

	Percentage of Net Sales Years Ended November 30,		
	1998	1997	1996
Net sales:			
Product sales:			
Cellular wholesale	**64.6%**	61.1%	58.6%
Cellular retail	**0.7**	1.0	1.3
Sound	**12.7**	14.4	16.4
Security and accessories	**13.8**	15.2	14.6
Consumer goods and all other	**3.8**	2.7	2.8
	95.6	94.4	93.7
Activation commissions	**3.7**	4.9	5.5
Residual fees	**0.7**	0.7	0.8
Total net sales	**100.0**	100.0	100.0
Cost of sales	**(85.6)**	(83.3)	(83.9)
Gross profit	**14.4**	16.7	16.1
Warehousing and assembly	**(2.0)**	(1.9)	(1.8)
Selling	**(5.7)**	(6.0)	(6.7)
General and administrative	**(5.9)**	(5.8)	(5.4)
Total operating expenses	**(13.6)**	(13.7)	(13.9)
Operating income	**0.8**	3.0	2.2
Interest expense	**(0.8)**	(0.4)	(1.4)
Income of equity investments	**0.2**	0.2	0.1
Gain on sale of equity investment	**—**	5.9	0.2
Debt conversion expense	**—**	(2.0)	(4.4)
Other income (expense)	**0.4**	—	(0.1)
Income tax expense	**(0.1)**	(3.5)	(1.0)
Net income	**0.5%**	3.3%	(4.4)%

Fiscal 1998 Compared to Fiscal 1997

Consolidated Results

Net sales were $616,695 for 1998, a decrease of $22,387, or 3.5%, over the same period in 1997. The decrease in net sales was accompanied by a corresponding decrease in gross profit margins to 14.4% from 16.7% in 1997. Operating expenses decreased to $83,670 from $87,067, a 3.9% decrease. Operating income for 1998 was $4,871, a decrease of $14,824, or 75.3%, compared to 1997. During 1997, the Company sold 1,835,000 shares of its holdings of CellStar for a net gain of $23,232. Also during 1997, the Company exchanged $21,479 of its subordinated debentures for 2,860,925 shares of Class A Common Stock. Costs associated with this exchange were $12,844, including income taxes.

The net sales and percentage of net sales by product line and marketing group for the fiscal years ended November 30, 1998, 1997 and 1996 are reflected in the following table. Certain reclassifications have been made to the data for periods prior to fiscal 1997 in order to conform to fiscal 1998 presentation.

	Years Ended November 30,					
	1998		1997		1996	
Net sales:						
Communications						
Cellular wholesale	**$398,113**	**64.6%**	$390,230	61.1%	$350,299	58.6%
Cellular retail	**4,493**	**0.7**	6,280	1.0	7,665	1.3
Activation commissions	**22,785**	**3.7**	31,061	4.9	33,102	5.5
Residual fees	**4,452**	**0.7**	4,688	0.7	4,828	0.8
Other	**11,747**	**1.9**	12,141	1.9	12,785	2.1
Total Communications	**441,590**	**71.6**	444,400	69.5	408,679	68.4
Automotive						
Sound	**78,338**	**12.7**	91,763	14.4	98,303	16.4
Security and accessories	**84,973**	**13.8**	97,446	15.2	87,234	14.6
Consumer goods	**11,794**	**1.9**	4,701	0.7	2,879	0.5
Total Automotive	**175,105**	**28.4**	193,910	30.3	188,416	31.5
Other	**—**	**—**	772	0.1	820	0.1
Total	**$616,695**	**100.0%**	$639,082	100.0%	$597,095	100.0%

Communication Results

The Communications group is composed of ACC and Quintex, both wholly-owned subsidiaries of Audiovox Corporation. Since principally all of the net sales of Quintex are cellular in nature, all operating results of Quintex are being included in the discussion of the Communications group's product line.

Net sales were $441,590, a decrease of $2,810, or 0.6%, from the same period in 1997. Unit sales of cellular telephones increased 354,000 units, or 12.0%, over 1997. Average unit selling prices decreased approximately 6.9%. The number of new cellular subscriptions processed by Quintex decreased 22.8%, with a corresponding decrease in activation commissions of approximately $8,276. Part of the decrease was due to the closing of some retail locations. The average commission received by Quintex per activation also decreased by approximately 4.9% from 1997. Unit gross profit margins decreased to 7.3% from 11.1% in 1997, primarily due to reduced selling prices, however, were partially offset by a corresponding decrease of 3.0% in average unit cost. In addition, the Company recorded a $6.6 million charge to adjust the carrying value of certain cellular inventories, partially offset by a $1.0 credit from a supplier. This charge was the result of a software problem in certain analog cellular phones, as well as a continuing decrease in the selling prices of analog telephones due to pressure from the growing digital presence in the market. While the analog market is still quite large, the Communications group may experience lower gross profits in the future due to the price sensitivity of this market place. Operating expenses decreased to $48,257 from $49,582. As a percentage of net sales, operating expenses decreased to 10.9% during 1998 compared to 11.2% in 1997. Selling expenses decreased $1,763 from 1997, primarily in commissions, salesmen salaries, payroll taxes and benefits, partially offset by increases in market development funds and co-operative advertising. General and administrative expenses increased over 1997 by $632, primarily in occupancy costs and temporary personnel. Warehousing and assembly expenses decreased over 1997 by $194, primarily in tooling and direct labor. Pre-tax loss for 1998 was $1,786, a decrease of $13,368 compared to 1997.

Management believes that the cellular industry is extremely competitive and that this competition could affect gross margins and the carrying value of inventories in the future.

The following table sets forth for the periods indicated certain statements of income data for the Communications group expressed as a percentage of net sales:

COMMUNICATIONS

	1998		1997	
Net sales:				
Cellular product—wholesale	**$398,113**	**90.1%**	$390,230	87.8%
Cellular product—retail	**4,493**	**1.0**	6,280	1.4
Activation commissions	**22,785**	**5.1**	31,061	7.0
Residual fees	**4,452**	**1.0**	4,688	1.1
Other	**11,747**	**2.7**	12,141	2.7
Total net sales	**441,590**	**100.0**	444,400	100.0
Gross profit	**52,270**	**11.8**	66,117	14.9
Total operating expenses	**48,257**	**10.9**	49,582	11.2
Operating income	**4,013**	**0.9**	16,535	3.7
Other expense	**(5,799)**	**(1.3)**	(4,953)	(1.1)
Pre-tax income (loss)	**$ (1,786)**	**(0.4)%**	$ 11,582	2.6%

Automotive Results

Net sales decreased approximately $18,805 from 1997, a decrease of 9.7%. This decrease was primarily from a $21.3 million decrease in net sales in the Company's foreign subsidiaries, primarily Malaysia, composed chiefly of security and accessory products. Domestic operation sales of Automotive sound, security, accessories and consumer goods products increased approximately $4.7 million, or 3.7%, from 1997. The main components of this increase being the mobile video and leisure products categories. The domestic operations sales grew by $7.3 million, or 5.9%, before the Heavy Duty Sound division was transferred to one of the Company's equity investments during 1997.

Operating expenses decreased 3.1% from 1997 to $27,126, primarily in our international operations. This was partially offset by an increase in domestic operating expenses. Selling expenses decreased during 1998, primarily in commissions and salaries in our foreign companies and market development funds and co-operative advertising in our domestic operations. This was partially offset by increases in domestic commissions and trade show expenses. General and administrative expenses decreased from 1997, mostly in foreign office expenses, bad debt expense and executive salaries, both domestic and foreign. These decreases were partially offset by increases in office salaries, domestically, and professional fees, both domestic and foreign. Warehousing and assembly expenses increased from 1997, primarily in field warehousing and direct labor. Pre-tax income decreased $2,065 from last year, primarily due to a decrease of $2.6 million from foreign operations, partially offset by an increase in pre-tax income from domestic operations.

The Company believes that the Automotive group has an expanding market with a certain level of volatility related to both domestic and international new car sales. Also, certain of its products are subject to price fluctuations which could affect the carrying value of inventories and gross margins in the future.

The following table sets forth for the periods indicated certain statements of income data for the Automotive group expressed as a percentage of net sales:

AUTOMOTIVE

	1998		1997	
Net sales:				
Sound	**$ 78,338**	**44.8%**	$ 91,763	47.3%
Security and accessories	**84,973**	**48.5**	97,446	50.3
Consumer goods	**11,794**	**6.7**	4,701	2.4
Total net sales	**175,105**	**100.0**	193,910	100.0
Gross profit	**36,433**	**20.8**	40,326	20.8
Total operating expenses	**27,126**	**15.5**	27,989	14.4
Operating income	**9,307**	**5.3**	12,337	6.4
Other expense	**(3,370)**	**(1.9)**	(4,335)	(2.2)
Pre-tax income	**$ 5,937**	**3.4%**	$ 8,002	4.1%

Other Income and Expense

Interest expense and bank charges increased $2,227 during 1998 from 1997. This increase was primarily due to an increase in average outstanding interest bearing debt. Another major factor was the increase in interest rates experienced by the Company's subsidiary in Venezuela. The increase in the rate, coupled with the additional outstanding debt as a result of the growth of that operation, resulted in an increase in Venezuelan interest expense of $975.

Management fees and equity in income from joint venture investments decreased by approximately $361 for 1998 compared to 1997 as detailed in the following table:

	1998			1997		
	Management Fees	**Equity Income (Loss)**	**Total**	Management Fees	Equity Income (Loss)	Total
Bliss-tel	**—**	**$ (13)**	**$ (13)**	—	—	—
ASA	**—**	**1,860**	**1,860**	—	$1,857	$1,857
TALK	**—**	**(509)**	**(509)**	—	—	—
G.L.M.	**$ 7**	**—**	**7**	$ 12	—	12
Pacific	**—**	**(337)**	**(337)**	—	(685)	(685)
Posse	**29**	**70**	**99**	97	187	284
	$36	**$1,071**	**$1,107**	$109	$1,359	$1,468

During 1998, the Company purchased 400,000 Japanese Yen (approximately $3,132) of Shintom Convertible Debentures (Shintom Debentures). The Company exercised its option to convert the Shintom Debentures into shares of Shintom Common Stock.

Also during 1998, the Company purchased an additional 400,000 Japanese Yen (approximately $2,732) of Shintom Debentures. The Company exercised its option to convert the Shintom Debentures into shares of Shintom Common Stock. The Company sold the Shintom Common Stock yielding net proceeds of $3,159 and a gain of $427.

In addition, the Company purchased 1,000,000 Japanese Yen (approximately $6,854) of Shintom Debentures. The Company exercised its option to convert 337,212 Japanese Yen of Shintom Debentures into shares of Shintom Common Stock. The Company sold the Shintom Common Stock yielding net proceeds of $2,671 and a gain of $360.

During January 1997, the Company completed an exchange of $21,479 of its subordinated debentures for 2,860,925 shares of Class A Common Stock (Exchange). As a result of the Exchange, a charge of $12,686 was recorded. The charge to earnings represents (i) the difference in the fair market value of the shares issued in the Exchange and the fair market value of the shares that would have been issued under the terms of the original conversion feature plus (ii) a write-off of the debt issuance costs associated with the subordinated debentures plus (iii) expenses associated with the Exchange offer. The Exchange resulted in taxable income due to the difference in the face value of the bonds converted and the fair market value of the shares issued and, as such, a current tax expense of $158 was recorded. An increase in paid in capital was reflected for the face value of the bonds converted, plus the difference in the fair market value of the shares issued in the Exchange and the fair market value of the shares that would have been issued under the terms of the original conversion feature for a total of $33,592.

During 1997 the Company sold a total of 1,835,000 shares of CellStar for net proceeds of $45,937 and a net gain of $23,232.

Provision for Income Taxes

Income taxes are provided for at a blended federal and state rate of 40% for profits from normal business operations. During 1998, the Company recorded $350 of tax benefit as a result of certain tax examinations. In addition, the Company implemented various tax strategies which have resulted in lowering the effective tax rate. During 1997, the Company had several non-operating events which had tax provisions calculated at specific rates, determined by the nature of the transaction.

Fiscal 1997 Compared to Fiscal 1996

Consolidated Results

Net sales were $639,082 for 1997, an increase of $41,167, or 6.9%, from 1996. The increase in net sales was accompanied by a corresponding increase in gross profit margins to 16.7% from 16.1% in 1996. Operating expenses increased to $87,067 from $83,313, a 4.5% increase. Operating income for 1997 was $19,695, an increase of $6,620, or 50.6%, compared to 1996. During 1997, the Company sold 1,835,000 shares of its holdings of CellStar for a net gain of $23,232. Also during 1997, the Company exchanged $21,479 of its subordinated debentures for 2,860,925 shares of Class A Common Stock. Costs associated with this exchange were $12,844, including income taxes.

The net sales and percentage of net sales by product line and marketing group for the fiscal years ended November 30, 1997, 1996 and 1995 are reflected in the following table. Certain reclassifications have been made to the data for periods prior to fiscal 1996 in order to conform to fiscal 1997 presentation.

	Years Ended November 30,					
	1997		1996		1995	
Net sales:						
Communications						
Cellular wholesale	$390,230	61.1%	$350,299	58.6%	$261,997	52.3%
Cellular retail	6,280	1.0	7,665	1.3	14,177	2.8
Activation commissions	31,061	4.9	33,102	5.5	38,526	7.7
Residual fees	4,688	0.7	4,828	0.8	4,781	1.0
Other	12,141	1.9	12,785	2.1	11,293	2.3
Total Communications	444,400	69.5	408,679	68.4	330,774	66.1
Automotive						
Sound	91,763	14.4	98,303	16.4	101,757	20.3
Security and accessories	97,446	15.2	87,234	14.6	67,560	13.5
Other	4,701	0.7	2,879	0.5	649	0.1
Total Automotive	193,910	30.3	188,416	31.5	169,966	33.9
Other	772	0.1	820	0.1	—	—
Total	$639,082	100.0%	$597,915	100.0%	$500,740	100.0%

Communication Results

The Communications group is composed of ACC and Quintex, both wholly-owned subsidiaries of Audiovox Corporation. Since principally all of the net sales of Quintex are cellular in nature, all operating results of Quintex are being included in the discussion of the Communications group's product line.

Net sales were $444,400, an increase of $35,721, or 8.7%, from 1996. Unit sales of cellular telephones increased 892,000 units, or 43.2%, over 1996. Average unit selling prices decreased approximately 21.2% but were offset by a corresponding decrease of 22.9% in average unit cost. The number of new cellular subscriptions processed by Quintex decreased 9.1%, with a corresponding decrease in activation commissions of approximately $2,041. The average commission received by Quintex per activation, however, increased approximately 3.2% from 1996. Unit gross profit margins increased to 11.1% from 9.0% in 1996, primarily due to increased unit sales and reduced unit costs. Operating expenses decreased to $49,582 from $50,710. As a percentage of net sales, operating expenses decreased to 11.2% during 1997 compared to 12.4% in 1996. Selling expenses decreased $3,203 from 1996, primarily in advertising and divisional marketing, partially offset by increases in commissions and salesmen salaries. General and administrative expenses increased over 1996 by $572, primarily in office salaries and temporary personnel. Warehousing and assembly expenses increased over 1996 by $1,503, primarily in tooling and direct labor. Pre-tax income for 1997 was $11,582, an increase of $8,476 compared to 1996.

Though gross margins have improved over 1996, management believes that the cellular industry is extremely competitive and that this competition could affect gross margins and the carrying value of inventories in the future.

The following table sets forth for the periods indicated certain statements of income data for the Communications group expressed as a percentage of net sales:

COMMUNICATIONS

	1997		1996	
Net sales:				
Cellular product—wholesale	$390,230	87.8%	$350,299	85.7%
Cellular product—retail	6,280	1.4	7,665	1.9
Activation commissions	31,061	7.0	33,102	8.1
Residual fees	4,688	1.1	4,828	1.2
Other	12,141	2.7	12,785	3.1
Total net sales	444,400	100.0	408,679	100.0
Gross profit	66,117	14.9	60,245	14.7
Total operating expenses	49,582	11.2	50,710	12.4
Operating income	16,535	3.7	9,535	2.3
Other expense	(4,953)	(1.1)	(6,429)	(1.6)
Pre-tax income	$ 11,582	2.6%	$ 3,106	0.8%

Automotive Results

Net sales increased approximately $5,494 compared to 1996, an increase of 2.9%. Increases were experienced in security and accessories and were partially offset by a decrease in sound products. A majority of the increase was from the group's international operations, both from an increase in existing business and the formation of a new subsidiary in Venezuela. Automotive sound decreased 6.7% compared to 1996, due to the transfer of the Heavy Duty Sound division to a new joint venture. Excluding sound sales from the Heavy Duty Sound division for fiscal 1997 and 1996, sound sales decreased 0.6%. Automotive security and accessories increased 11.7% compared to 1996, primarily

due to increased sales in Prestige Security, Protector Hardgoods and alarms and video, partially offset by decreases in net sales of AA security and cruise controls. Gross margins increased to 20.8% from 18.9% in 1996. This increase was experienced in the AV and Private Label sound lines and cruise control, Protector Hardgoods and AA security accessory lines, partially offset by decreases in Prestige Security. Operating expenses increased to $27,989 from $25,559. Selling expenses increased over 1996 by $1,151, primarily in our international operations, in commissions and advertising. General and administrative expenses increased over 1996 by $1,512, primarily from our international operations, in occupancy, office expenses and bad debt expense. Warehousing and assembly expenses decreased from 1996 by $233, primarily from the transfer of Heavy Duty Sound business to the new joint venture. Pre-tax income for 1997 was $8,002, an increase of $2,303 compared to 1996. Without the transfer of the Heavy Duty Sound business, pre-tax income increased $2,796 compared to 1996.

The Company believes that the Automotive group has an expanding market with a certain level of volatility related to both domestic and international new car sales. Also, certain of its products are subject to price fluctuations which could affect the carrying value of inventories and gross margins in the future.

The following table sets forth for the periods indicated certain statements of income data for the Automotive group expressed as a percentage of net sales:

AUTOMOTIVE

	1997		1996	
Net sales:				
Sound	$ 91,763	47.3%	$ 98,303	52.2%
Security and accessories	97,446	50.3	87,234	46.3
Other	4,701	2.4	2,879	1.5
Total net sales	193,910	100.0	188,416	100.0
Gross profit	40,326	20.8	35,622	18.9
Total operating expenses	27,989	14.4	25,559	13.6
Operating income	12,337	6.4	10,063	5.3
Other expense	(4,335)	(2.2)	(4,364)	(2.3)
Pre-tax income	$ 8,002	4.1%	$ 5,699	3.0%

Other Income and Expense

Interest expense and bank charges decreased by $5,938 for 1997 compared to 1996. This was due to reduced interest bearing debt and the decrease in interest bearing subordinated debentures which were exchanged for shares of common stock.

Management fees and equity in income from joint venture investments increased by approximately $651 for 1997 compared to 1996 as detailed in the following table:

	1997			1996		
	Management Fees	Equity Income (Loss)	Total	Management Fees	Equity Income (Loss)	Total
ASA	—	$1,857	$1,857	—	—	—
ASMC	—	—	—	—	$ 948	$ 948
G.L.M.	$ 12	—	12	$100	—	100
Pacific	—	(685)	(685)	22	(334)	(312)
Quintex West	—	—	—	18	—	18
Posse	97	187	284	46	17	63
	$109	$1,359	$1,468	$186	$ 631	$ 817

Audiovox Pacific has experienced an overall decline in gross margins, as the cellular market in Australia has experienced the same competitive factors as those in the United States.

During January 1997, the Company completed an exchange of $21,479 of its subordinated debentures for 2,860,925 shares of Class A Common Stock (Exchange). As a result of the Exchange, a charge of $12,686 was recorded. The charge to earnings represents (i) the difference in the fair market value of the shares issued in the Exchange and the fair market value of the shares that would have been issued under the terms of the original conversion feature plus (ii) a write-off of the debt issuance costs associated with the subordinated debentures plus (iii) expenses associated with the Exchange offer. The Exchange resulted in taxable income due to the difference in the face value of the bonds converted and the fair market value of the shares issued and, as such, a current tax expense of $158 was recorded. An increase in paid in capital was reflected for the face value of the bonds converted, plus the difference in the fair market value of the shares issued in the Exchange and the fair market value of the shares that would have been issued under the terms of the original conversion feature for a total of $33,592.

During 1997, the Company sold a total of 1,835,000 shares of CellStar for net proceeds of $45,937 and a net gain of $23,232.

Provision for Income Taxes

Income taxes are provided for at a blended federal and state rate of 41% for profits from normal business operations. During 1997, the Company had several non-operating events which had tax provisions calculated at specific rates, determined by the nature of the transaction. The tax treatment for the debt conversion expense of $12,686, which lowered income before provision for income taxes, did not reduce taxable income as it is a non-deductible item. Instead of recording a tax recovery of $5,201, which would have lowered the provision for income taxes, the Company actually recorded a tax expense of $158. This and other various tax treatments resulted in an effective tax rate of 51.6% for 1997.

Liquidity and Capital Resources

The Company's cash position at November 30, 1998 was approximately $47 below the November 30, 1997 level. Operating activities provided approximately $17,378, primarily from decreases in inventory and increases in accounts payable, accrued expenses and other current liabilities. These events were partially offset by an increase in accounts receivable and a decrease in income taxes payable. Investing activities used approximately $9,197, primarily from the purchases of investment securities and property, plant and equipment, partially offset by the net proceeds from the sale of investment securities. Financing activities used approximately $8,113, primarily from net repayments under line of credit agreements and repurchase of Class A Common Stock and warrants.

On February 9, 1996, the Company's 10.8% Series AA and 11.0% Series BB Convertible Debentures matured. The Company paid $4,362 to holders on that date. The remaining $1,100 was converted into 206,046 shares of Common Stock. On November 25, 1996, the Company concluded an exchange of $41,252 of its 6¼% subordinated debentures for 6,806,580 shares of the Company's Class A Common Stock. Accounting charges to earnings for this transaction were $29,206, including income taxes on the gain of the exchange of the bonds. As a result of the exchange, stockholders' equity was increased by $34,426.

On October 1, 1996, business formally conducted by the Company's cellular division was continued in a newly-formed, wholly-owned subsidiary called Audiovox Communications Corp. Capitalization of this company was accomplished by exchanging the assets of the former division, less their respective liabilities, for all of the common stock.

On May 5, 1995, the Company entered into the Second Amended and Restated Credit Agreement (the Credit Agreement) which superseded the prior agreement in its entirety. From its inception on May 5, 1995 through November 30, 1998, the Credit Agreement was amended a total of 13 times providing for various changes to the terms. The terms as of November 30, 1998 are summarized below.

Under the Credit Agreement, the Company may obtain credit through direct borrowings and/or letters of credit to a maximum aggregate amount of $95,000. These borrowings are subject to certain conditions with borrowings based on a formula which takes into account the amount and quality of the Company's accounts receivable and inventory. The obligations of the Company under the Credit Agreement are guaranteed by certain of the Company's subsidiaries and are secured by accounts receivable of the Company and those subsidiaries.

On December 23, 1998, the Company entered into the Third Amended and Restated Credit Agreement (the Revised Credit Agreement) which superseded the Second Amended and Restated Credit Agreement in its entirety. The major changes in the Revised Credit Agreement included an increase in the maximum aggregate amount of borrowings to $112,500 and allowed for a sub-limit for foreign currency borrowing of $15,000. The Revised Credit Agreement contains covenants requiring, among other things, minimum levels of pre-tax income and minimum levels of net worth as follows: pre-tax income of not less than $1,500 for the two consecutive fiscal quarters ending May 31, 1999, 2000 and 2001; not less than $2,500 for two consecutive fiscal quarters ending November 30, 1999, 2000 and 2001; and not less than $4,000 for any fiscal year ending on or after November 30, 1999. Further, the Company may not incur a pre-tax loss in excess of $1,000 for any fiscal quarter and may not incur a pre-tax loss for two consecutive fiscal quarters. In addition, the Company must maintain a net worth base amount of $172,500 at any time prior to February 28, 1999; $175,000 at any time on or after February 28, 1999 but prior to February 28, 2000; $177,500 at any time on or after February 28, 2000, but prior to February 28, 2001; and $180,000 at any time thereafter. Further, the Company must at all times maintain a debt to worth ratio of not more than 1.75 to 1. The Revised Credit Agreement includes restrictions and limitations on payments of dividends, stock repurchases and capital expenditures. The Revised Credit Agreement expires on December 31, 2001.

The Company believes that it has sufficient liquidity to satisfy its anticipated working capital and capital expenditure needs through November 30, 1999 and for the reasonable foreseeable future.

Impact of Inflation and Currency Fluctuation

Inflation has not had and is not expected to have a significant impact on the Company's financial position or operating results. However, as the Company expands its operations into Latin America and the Pacific Rim, the effects of inflation and currency fluctuations in those areas, if any, could have growing significance to the financial condition and results of the operations of the Company.

The Company has operations and conducts local business in Asia. The recent fluctuations in the foreign exchange rates have not materially impacted the consolidated financial position, results of operations or liquidity. Management believes that continued fluctuations will not have a material adverse effect on the Company's consolidated financial position, however the impact on the results of operations or liquidity, particularly our Malaysian subsidiaries, is unknown.

While the prices that the Company pays for the products purchased from its suppliers are principally denominated in United States dollars, price negotiations depend in part on the relationship between the foreign currency of the foreign manufacturers and the United States dollar. This relationship is dependent upon, among other things, market, trade and political factors.

Seasonality

The Company typically experiences some seasonality. The Company believes such seasonality could be attributable to increased demand for its products during the Christmas season, which commences in October, for both wholesale and retail operations.

Year 2000 Date Conversion

Many of the Company's computerized systems could be affected by the Year 2000 issue, which refers to the inability of such systems to properly process dates beyond December 31, 1999. The Company also has numerous computerized interfaces with third parties and is possibly vulnerable to failure by such third parties if they do not adequately address their Year 2000 issues. System failures resulting from these issues could cause significant disruption to the Company's operations and result in a material adverse effect on the Company's business, results of operations, financial condition or liquidity.

Management believes that a significant portion of its "mission critical" computer systems are Year 2000 compliant and is continuing to assess the balance of its computer systems as well as equipment and other facilities systems. Management plans to complete its investigation, remediation and contingency planning activities for all critical systems by mid 1999, although there can be no assurance that it will. At this time, management believes that the Company does not have any internal critical Year 2000 issues that it cannot remedy.

Management is in the process of surveying third parties with whom it has a material relationship primarily through written correspondence. Despite its efforts to survey its customers, management is depending on the response of these third parties in its assessment of Year 2000 readiness. Management cannot be certain as to the actual Year 2000 readiness of these third parties or the impact that any noncompliance on their part may have on the Company's business, results of operations, financial condition or liquidity.

The Company expects to incur internal staff costs as well as consulting and other expenses in preparing for the Year 2000. Because the Company has replaced or updated a significant portion of its computer systems, both hardware and software, in recent years, the cost to be incurred in addressing the Year 2000 issue are not expected to have a material impact on the Company's business, results of operations, financial condition or liquidity. This expectation assumes that our existing forecast of costs to be incurred contemplates all significant actions required and that we will not be obligated to incur significant Year 2000 related costs on behalf of our customers, suppliers and other third parties.

Recent Accounting Pronouncements

In June 1997, the Financial Accounting Standards Board (FASB) issued Statement No. 130, "Reporting Comprehensive Income", effective for fiscal years beginning after December 15, 1997. This Statement requires that all items that are required to be recognized under accounting standards as components of comprehensive income be reported in a financial statement that is displayed with the same prominence as other financial statements. This Statement further requires that an entity display an amount representing total comprehensive income for the period in that financial statement. This Statement also requires that an entity classify items of other comprehensive income by their nature in a financial statement. For example, other comprehensive income may include foreign currency items and unrealized gains and losses on investments in equity securities. Reclassification of financial statements for earlier periods, provided for comparative purposes, is required. Based on current accounting standards, this Statement is not expected to have a material impact on the Company's consolidated financial statements. The Company will adopt this accounting standard effective December 1, 1999, as required.

In June 1997, the FASB issued Statement 131, "Disclosures about Segments of an Enterprise and Related Information", effective for fiscal years beginning after December 15, 1997. This Statement establishes standards for reporting information about operating segments in annual financial statements and requires selected information about operating segments in interim financial reports issued to shareholders. It also establishes standards for related disclosures about products and services, geographic areas and major customers. Operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. This Statement requires reporting segment profit or loss, certain specific revenue and expense items and segment assets. It also requires reconciliations of total segment revenues, total segment profit or loss, total segment assets and other amounts disclosed for segments to corresponding amounts reported in the consolidated financial statements. Restatement of comparative information for earlier periods presented is required in the initial year of application. Interim information is not required until the second year of application, at which time comparative information is required. The Company has not determined the impact that the adoption of this new accounting standard will have on its consolidated financial statements disclosures. The Company will adopt this accounting standard effective December 1, 1999, as required.

The FASB issued Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities" (Statement 133). Statement 133 established accounting and reporting standards for derivative instruments embedded in other contracts and for hedging activities. Statement 133 is effective for all fiscal quarters of all fiscal years beginning after June 15, 1999. Early application of all the provisions of this Statement is encouraged but is permitted only as of the beginning of any fiscal quarter that begins after issuance of this Statement. Management of the Company has not yet determined the impact that the implementation of Statement 133 will have on its financial position, results of operations or liquidity.

CONSOLIDATED BALANCE SHEETS

November 30, 1998 and 1997

(In thousands, except share data)	**1998**	1997
Assets		
Current assets:		
Cash	**$ 9,398**	$ 9,445
Accounts receivable, net	**131,120**	104,698
Inventory, net	**72,432**	105,242
Receivable from vendor	**734**	5,000
Prepaid expenses and other current assets	**6,724**	9,230
Deferred income taxes	**6,088**	4,673
Equity collar	**—**	1,246
Total current assets	**226,496**	239,534
Investment securities	**17,089**	22,382
Equity investments	**10,387**	10,693
Property, plant and equipment, net	**17,828**	8,553
Excess cost over fair value of assets acquired and other intangible assets, net	**6,052**	5,557
Other assets	**1,827**	3,108
	$279,679	$289,827
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	**$ 34,063**	$ 24,237
Accrued expenses and other current liabilities	**15,359**	16,538
Income taxes payable	**5,210**	9,435
Bank obligations	**7,327**	6,132
Documentary acceptances	**3,911**	3,914
Capital lease obligation	**17**	—
Total current liabilities	**65,887**	60,256
Bank obligations	**17,500**	24,300
Deferred income taxes	**3,595**	8,505
Long-term debt	**6,331**	6,191
Capital lease obligation	**6,298**	—
Total liabilities	**99,611**	99,252
Minority interest	**2,348**	2,683
Stockholders' equity:		
Preferred stock, liquidation preference of $2,500	**2,500**	2,500
Common stock:		
Class A; 30,000,000 authorized; 17,258,573 and 17,253,533 issued 1998 and 1997, respectively; 16,760,518 and 16,963,533 outstanding 1998 and 1997, respectively	**173**	173
Class B convertible; 10,000,000 authorized; 2,260,954 issued and outstanding	**22**	22
Paid-in capital	**143,339**	145,155
Retained earnings	**35,896**	32,924
Cumulative foreign currency translation and adjustment	**(5,704)**	(3,428)
Unrealized gain on marketable securities, net	**4,154**	12,194
Unrealized gain on equity collar, net	**—**	773
Gain on hedge of available-for-sale securities, net	**929**	—
Treasury stock, at cost, 498,055 and 290,000 Class A common stock 1998 and 1997, respectively	**(3,589)**	(2,421)
Total stockholders' equity	**177,720**	187,892
Commitments and contingencies		
Total liabilities and stockholders' equity	**$279,679**	$289,827

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF INCOME (LOSS)

Years Ended November 30, 1998, 1997 and 1996

(In thousands, except per share data)	**1998**	1997	1996
Net sales	**$616,695**	$639,082	$597,915
Cost of sales (including an inventory write-down to market in 1998 of $6,600)	**528,154**	532,320	501,527
Gross profit	**88,541**	106,762	96,388
Operating expenses:			
Selling	**35,196**	38,044	40,033
General and administrative	**35,890**	37,000	32,452
Warehousing, assembly and repair	**12,584**	12,023	10,828
Total operating expenses	**83,670**	87,067	83,313
Operating income	**4,871**	19,695	13,075
Other income (expense):			
Debt conversion expense	**—**	(12,686)	(26,318)
Interest and bank charges	**(4,769)**	(2,542)	(8,480)
Equity in income of equity investments	**1,071**	1,359	631
Management fees and related income	**36**	109	186
Gain on sale of investments	**787**	37,471	985
Other, net	**1,805**	36	(714)
Total other income (expense)	**(1,070)**	23,747	(33,710)
Income (loss) before provision for income taxes	**3,801**	43,442	(20,635)
Provision for income taxes	**829**	22,420	5,834
Net income (loss)	**$ 2,972**	$ 21,022	$ (26,469)
Net income (loss) per common share (basic)	**$ 0.16**	$ 1.11	$ (2.82)
Net income (loss) per common share (diluted)	**$ 0.16**	$ 1.09	$ (2.82)

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

Years Ended November 30, 1998, 1997 and 1996

(In thousands, except share data)	Preferred Stock	Common Stock	Paid-In Capital	Unearned Compen-sation	Retained Earnings	Cumulative Foreign Currency Translation Adjustment	Unrealized Gain (Loss) On Marketable Securities	Unreal-ized Gain on Equity Collar	Gain On Hedge of Available for-Sale-Securities	Treasury Stock	Total Stock-holders' Equity
Balance at November 30, 1995	2,500	90	43,286	(410)	38,371	(963)	31,721	—	—	—	114,595
Net loss	—	—	—	—	(26,469)	—	—	—	—	—	(26,469)
Equity adjustment from foreign currency translation	—	—	—	—	—	(213)	—	—	—	—	(213)
Compensation expense	—	—	39	258	—	—	—	—	—	—	297
Options and non-performance restricted stock forfeitures due to employee terminations	—	—	(27)	27	—	—	—	—	—	—	—
Issuance of 250,000 shares of common stock	—	3	—	—	—	—	—	—	—	—	3
Conversion of debentures into 7,012,626 shares of common stock	—	70	64,660	—	—	—	—	—	—	—	64,730
Net unrealized loss on marketable securities, net of tax effect of ($13,143)	—	—	—	—	—	—	(21,444)	—	—	—	(21,444)
Balance at November 30, 1996	2,500	163	107,958	(125)	11,902	(1,176)	10,277	—	—	—	131,499
Net income	—	—	—	—	21,022	—	—	—	—	—	21,022
Equity adjustment from foreign currency translation	—	—	—	—	—	(2,252)	—	—	—	—	(2,252)
Compensation expense	—	—	118	17	—	—	—	—	—	—	135
Options and non-performance restricted stock forfeitures due to employee terminations	—	—	(23)	23	—	—	—	—	—	—	—
Issuance of 352,194 shares of common stock	—	3	3,489	—	—	—	—	—	—	—	3,492
Conversion of debentures into 2,860,925 shares	—	29	33,592	—	—	—	—	—	—	—	33,621
Issuance of warrants	—	—	106	—	—	—	—	—	—	—	106
Acquisition of 290,000 common shares	—	—	—	—	—	—	—	—	—	(2,421)	(2,421)
Net unrealized gain on marketable securities, net of tax effect of $1,174	—	—	—	—	—	—	1,917	—	—	—	1,917
Unrealized gain on equity collar, net of tax effect of $473	—	—	—	—	—	—	—	773	—	—	773
Balance at November 30, 1997	2,500	195	145,240	(85)	32,924	(3,428)	12,194	773	—	(2,421)	187,892
Net income	**—**	**—**	**—**	**—**	**2,972**	**—**	**—**	**—**	**—**	**—**	**2,972**
Equity adjustment from foreign currency translation	**—**	**—**	**—**	**—**	**—**	**(2,276)**	**—**	**—**	**—**	**—**	**(2,276)**
Compensation expense (income)	**—**	**—**	**(23)**	**76**	**—**	**—**	**—**	**—**	**—**	**—**	**53**
Options and non-performance restricted stock forfeitures due to employee terminations	**—**	**—**	**(9)**	**9**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Purchase of warrants	**—**	**—**	**(1,869)**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(1,869)**
Acquisition of 208,055 common shares	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(1,168)**	**(1,168)**
Net unrealized loss on marketable securities, net of tax effect of $4,928	**—**	**—**	**—**	**—**	**—**	**—**	**(8,040)**	**—**	**—**	**—**	**(8,040)**
Sale of equity collar, net of tax effect of $1,043	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(773)**	**929**	**—**	**156**
Balances at November 30, 1998	**2,500**	**195**	**143,339**	**—**	**35,896**	**(5,704)**	**4,154**	**—**	**929**	**(3,589)**	**177,720**

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended November 30, 1998, 1997 and 1996

(In thousands)	**1998**	1997	1996
Cash flows from operating activities:			
Net income (loss)	**$ 2,972**	$ 21,022	$ (26,469)
Adjustment to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Debt conversion expense	**—**	12,386	25,629
Depreciation and amortization	**2,471**	1,903	3,298
Provision for bad debt expense	**581**	1,300	429
Equity in income of equity investments	**(1,107)**	(1,468)	(614)
Minority interest	**(320)**	1,623	767
Gain on sale of investments	**(787)**	(37,471)	(985)
Provision for (recovery of) deferred income taxes, net	**(902)**	(3,123)	468
Provision for unearned compensation	**53**	135	297
Expense relating to issuance of warrants	**—**	106	—
Gain on disposal of property, plant and equipment, net	**(151)**	(9)	(32)
Changes in:			
Accounts receivable	**(27,940)**	6,853	(21,848)
Receivable from vendor	**4,266**	—	532
Inventory	**31,705**	(36,823)	27,688
Accounts payable, accrued expenses and other current liabilities	**9,385**	(2,855)	12,445
Income taxes payable	**(4,034)**	2,181	5,360
Prepaid expenses and other, net	**1,186**	(2,659)	(2,954)
Net cash provided by (used in) operating activities	**17,378**	(36,899)	24,011
Cash flows from investing activities:			
Purchases of investment securities	**(12,719)**	(4,706)	—
Purchases of property, plant and equipment, net	**(4,932)**	(3,986)	(2,805)
Net proceeds from sale of investment securities	**5,830**	45,937	1,000
Proceeds from sale of equity collar	**1,499**	—	—
Proceeds from distribution from equity investment	**1,125**	450	317
Net cash provided by (used in) investing activities	**(9,197)**	37,695	(1,488)
Cash flows from financing activities:			
Net repayments under line of credit agreements	**(5,047)**	(3,765)	(14,040)
Net borrowings (repayments) under documentary acceptances	**(3)**	413	(3,620)
Principal payments on long-term debt	**—**	—	(5,029)
Debt issuance costs	**—**	(13)	(392)
Principal payments on capital lease obligation	**(26)**	—	(158)
Proceeds from issuance of Class A Common Stock	**—**	2,328	—
Repurchase of Class A Common Stock	**(1,168)**	(2,421)	—
Purchase of warrants	**(1,869)**	—	—
Proceeds from release of restricted cash	**—**	—	5,959
Net cash used in financing activities	**(8,113)**	(3,458)	(17,280)
Effect of exchange rate changes on cash	**(115)**	(243)	31
Net increase (decrease) in cash and cash equivalents	**(47)**	(2,905)	5,274
Cash and cash equivalents at beginning of period	**9,445**	12,350	7,076
Cash at end of period	**$ 9,398**	$ 9,445	$ 12,350

See accompanying notes to consolidated financial statements.

(1) Summary of Significant Accounting Policies

(a) Description of Business

Audiovox Corporation and its subsidiaries (the Company) design and market cellular telephones and accessories, automotive aftermarket sound and security equipment, other automotive aftermarket accessories and certain other products, principally in the United States, Canada and overseas. In addition to generating product revenue from the sale of cellular telephone products, the Company's retail outlets, as agents for cellular carriers, are paid activation commissions and residual fees from such carriers.

The Company's automotive sound, security and accessory products include stereo cassette radios, compact disc players and changers, amplifiers, speakers and mobile LCD TV and video cassette playback units; key based remote control security systems; cruise controls and door and trunk locks. These products are marketed through mass merchandise chain stores, specialty automotive accessory installers, distributors and automobile dealers.

(b) Principles of Consolidation

The consolidated financial statements include the financial statements of Audiovox Corporation and its wholly-owned and majority-owned subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation.

(c) Cash Equivalents

Cash equivalents of $1,337 at November 30, 1995 consisted of short-term investments with terms of less than three months. For purposes of the statements of cash flows, the Company considers investments with original maturities of three months or less to be cash equivalents.

(d) Cash Discount, Co-operative Advertising Allowances and Market Development Funds

The Company accrues for estimated cash discounts, trade and promotional co-operative advertising allowances and market development funds at the time of sale. These discounts and allowances are reflected in the accompanying consolidated financial statements as a reduction of accounts receivable as they are utilized by customers to reduce their trade indebtedness to the Company.

(e) Inventory

Inventory consists principally of finished goods and is stated at the lower of cost (primarily on a weighted moving average basis) or market. The markets in which the Company competes are characterized by declining prices, intense competition, rapid technological change and frequent new product introductions. The Company maintains a significant investment in inventory and, therefore, is subject to the risk of losses on write-downs to market and inventory obsolescence. During the second quarter of 1998, the Company recorded a charge of approximately $6,600 to accurately reflect the Company's inventory at the lower of cost or market. No estimate can be made of losses that are reasonably possible should additional write-downs to market be required in the future.

(f) Derivative Financial Instruments

The Company, as a policy, does not use derivative financial instruments for trading purposes. A description of the derivative financial instruments used by the Company follows:

(1) Forward Exchange Contracts

The Company conducts business in several foreign currencies and, as a result, is subject to foreign currency exchange rate risk due to the effects that exchange rate movements of these currencies have on the Company's costs. To minimize the effect of exchange rate fluctuations on costs, the Company enters into forward exchange rate contracts. The Company, as a policy, does not enter into forward exchange contracts for trading purposes. The forward exchange rate contracts are entered into as hedges of inventory purchase commitments and of trade receivables due in foreign currencies.

Gains and losses on the forward exchange contracts that qualify as hedges are reported as a component of the underlying transaction. Foreign currency transactions which have not been hedged are marked-to-market on a current basis with gains and losses recognized through income and reflected in other income (expense). In addition, any previously deferred gains and losses on hedges which are terminated prior to the transaction date are recognized in current income when the hedge is terminated (Note 17(a)(1)).

(2) Equity Collar

As of November 30, 1997, the Company had an equity collar for 100,000 of its shares in CellStar Corporation (CellStar) (Note 6). The equity collar was recorded on the balance sheet at fair value with gains and losses on the equity collar reflected as a separate component of stockholders' equity (Note 17(a)(2)). The equity collar acts as a hedging item for the CellStar shares. Being that the item being hedged, the CellStar shares, is an available-for-sale security carried at fair market value with unrealized gains and losses recorded as a separate component of stockholders' equity, the unrealized gains and losses on the equity collar are also recorded as a separate component of stockholders' equity.

During 1998, the Company sold the equity collar for $1,499 in cash. As of November 30, 1998, the net gain on the equity collar of $929 is recorded as a separate component of stockholders' equity.

The Financial Accounting Standards Board (FASB) issued Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities" (Statement 133). Statement 133 established accounting and reporting standards for derivative

instruments embedded in other contracts and for hedging activities. Statement 133 is effective for all fiscal quarters of all fiscal years beginning after June 15, 1999. Early application of all the provisions of this Statement is encouraged but is permitted only as of the beginning of any fiscal quarter that begins after issuance of this Statement. Management of the Company has not yet determined the impact, if any, that the implementation of Statement 133 will have on its financial position, results of operations or liquidity.

(g) Investment Securities

The Company classifies its debt and equity securities in one of three categories: trading, available-for-sale, or held-to-maturity. Trading securities are bought and held principally for the purpose of selling them in the near term. Held-to-maturity securities are those securities in which the Company has the ability and intent to hold the security until maturity. All other securities not included in trading or held-to-maturity are classified as available-for-sale.

Trading and available-for-sale securities are recorded at fair value. Held-to-maturity securities are recorded at amortized cost, adjusted for the amortization or accretion of premiums or discounts. Unrealized holding gains and losses on trading securities are included in earnings. Unrealized holding gains and losses, net of the related tax effect, on available-for-sale securities are excluded from earnings and are reported as a separate component of stockholders' equity until realized. Realized gains and losses from the sale of available-for-sale securities are determined on a specific identification basis.

A decline in the market value of any available-for-sale or held-to-maturity security below cost that is deemed other than temporary results in a reduction in carrying amount to fair value. The impairment is charged to earnings and a new cost basis for the security is established. Premiums and discounts are amortized or accreted over the life of the related held-to-maturity security as an adjustment to yield using the effective interest method. Dividend and interest income are recognized when earned.

(h) Debt Issuance Costs

Costs incurred in connection with the issuance of the convertible subordinated debentures and restructuring of the Series A and Series B convertible subordinated notes (Note 10) and the restructuring of bank obligations (Note 9(a)) have been capitalized. These charges are amortized over the lives of the respective agreements. Amortization expense of these costs amounted to $37 and $1,109 for the years ended November 30, 1997 and 1996, respectively. During 1997 and 1996, the Company wrote-off $245 and $3,249, respectively, of debt issuance costs (Note 10). There were no debt issuance costs recorded as of November 30, 1998.

(i) Property, Plant and Equipment

Property, plant and equipment are stated at cost. Equipment under capital lease is stated at the present value of minimum lease payments. Depreciation is calculated on the straight-line method over the estimated useful lives of the assets as follows:

Buildings	20-30 years
Furniture, fixtures and displays	5-10 years
Machinery and equipment	5-10 years
Computer hardware and software	5 years
Automobiles	3 years

Leasehold improvements are amortized over the shorter of the lease term or estimated useful life of the asset. Assets acquired under capital lease are amortized over the term of the lease.

(j) Intangible Assets

Intangible assets consist of patents, trademarks, non-competition agreements and the excess cost over fair value of assets acquired for certain subsidiary companies and equity investments. Excess cost over fair value of assets acquired is being amortized over periods not exceeding twenty years. The costs of other intangible assets are amortized on a straight-line basis over their respective lives.

Accumulated amortization approximated $2,148 and $1,759 at November 30, 1998 and 1997, respectively. Amortization of the excess cost over fair value of assets acquired and other intangible assets amounted to $382, $363 and $145 for the years ended November 30, 1998, 1997 and 1996, respectively. During 1997, the Company made investments in two companies that resulted in additional excess cost over fair value of assets acquired (Note 8).

On an ongoing basis, the Company reviews the valuation and amortization of its intangible assets. As a part of its ongoing review, the Company estimates the fair value of intangible assets taking into consideration any events and circumstances which may diminish fair value.

The recoverability of the excess cost over fair value of assets acquired is assessed by determining whether the amortization over its remaining life can be recovered through undiscounted future operating cash flows of the acquired operation. The amount of impairment, if any, is measured based on projected discounted future operating cash flows using a discount rate reflecting the Company's average cost of funds. The assessment of the recoverability of the excess cost over fair value of assets acquired will be impacted if estimated future operating cash flows are not achieved.

(k) Equity Investments

The Company has common stock investments which are accounted for by the equity method (Note 8).

(l) Cellular Telephone Commissions

Under various agency agreements, the Company receives an initial activation commission for obtaining subscribers for cellular telephone services. Additionally, the agreements may contain provisions for commissions based upon usage and length of continued subscription. The agreements also provide for the reduction or elimination of initial activation commissions if subscribers deactivate service within stipulated periods. The Company has provided a liability for estimated cellular deactivations which is reflected in the accompanying consolidated financial statements as a reduction of accounts receivable.

The Company recognizes sales revenue for the initial activation, length of service commissions and residual commissions based upon usage on the accrual basis. Such commissions approximated $27,237, $35,749 and $37,930 for the years ended November 30, 1998, 1997 and 1996, respectively. Related commissions paid to outside selling representatives for cellular activations are reflected as a reduction of sales in the accompanying consolidated statements of income (loss) and amounted to $13,877, $19,924 and $20,443 for the years ended November 30, 1998, 1997 and 1996, respectively.

(m) Advertising

The Company expenses the production costs of advertising as incurred and expenses the costs of communicating advertising when the service is received. During the years ended November 30, 1998, 1997 and 1996, the Company had no direct response advertising.

(n) Warranty Expenses

Warranty expenses are accrued at the time of sale based on the Company's estimated cost to repair expected returns for products. At November 30, 1998 and 1997, the liability for future warranty expense amounted to $1,915 and $2,257, respectively.

(o) Foreign Currency

With the exception of an operation in Venezuela, assets and liabilities of those subsidiaries and equity investments located outside the United States whose cash flows are primarily in local currencies have been translated at rates of exchange at the end of the period. Revenues and expenses have been translated at the weighted average rates of exchange in effect during the period. Gains and losses resulting from translation are accumulated in the cumulative foreign currency translation account in stockholders' equity. For the operation in Venezuela, financial statements are translated at either current or historical exchange rates, as appropriate. These adjustments, along with gains and losses on currency transactions, are reflected in the consolidated statements of income (loss). Exchange gains and losses on hedges of foreign net investments and on intercompany balances of a long-term investment nature are also recorded in the cumulative foreign currency translation adjustment account. Other foreign currency transaction gains of $924 for the year ended November 30, 1998 were included in other income. Other foreign currency gains and losses were not material for the years ended November 30, 1997 and 1996.

(p) Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

(q) Net Income (Loss) Per Common Share

In February 1997, the FASB issued Statement No. 128, "Earnings per Share" (Statement 128). Statement 128 replaces the calculation of primary and fully diluted earnings per share with basic and diluted earnings per share. Basic earnings per share excludes any dilution. It is based upon the weighted average number of common shares outstanding during the period. Diluted earnings per share reflects the potential dilution that would occur if securities or other contracts to issue common stock were exercised or converted into common stock. Earnings per share amounts for all periods presented have been restated to conform to the new presentation.

(r) Supplementary Financial Statement Information

Advertising expenses approximated $15,789, $16,981 and $21,794 for the years ended November 30, 1998, 1997 and 1996, respectively.

Interest income of approximately $896, $1,525 and $1,097 for the years ended November 30, 1998, 1997 and 1996, respectively, is included in other in the accompanying consolidated statements of income (loss).

Included in accrued expenses and other current liabilities is $3,511 and $4,091 of accrued wages and commissions at November 30, 1998 and 1997, respectively.

(s) Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of the contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(t) Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of

On December 1, 1996, the Company adopted Statement No.121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of" (Statement 121). Statement 121 requires that long-lived assets and certain identifiable intangibles be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is

measured by comparison of the carrying amount of an asset to the future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceed the fair value of assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less cost to sell. Adoption of Statement 121 did not have a material impact on the Company's financial position, results of operations or liquidity.

(u) Accounting for Stock-Based Compensation

Prior to December 1, 1996, the Company accounted for its stock option plan in accordance with the provisions of Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" (Opinion 25), and related interpretations. As such, compensation expense would be recorded on the date of grant only if the current market price of the underlying stock exceeded the exercise price. On December 1, 1996, the Company adopted Statement No. 123, "Accounting for Stock-Based Compensation" (Statement 123), which permits entities to recognize, as expense over the vesting period, the fair value of all stock-based awards on the date of grant. Alternatively, Statement 123 also allows entities to continue to apply the provisions of Opinion 25 and provide pro-forma net income and pro-forma earnings per share disclosures for employee stock option grants made in fiscal 1996 and future years as if the fair-value-based method defined in Statement 123 had been applied. The Company has elected to continue to apply the provisions of Opinion 25 and provide the pro-forma disclosure provisions of Statement 123.

(v) Reporting Comprehensive Income

In June 1997, the FASB issued Statement No. 130, "Reporting Comprehensive Income" (Statement 130). Statement 130 requires that all items that are required to be recognized under accounting standards as components of comprehensive income be reported in a financial statement that is displayed with the same prominence as other financial statements. Statement 130 further requires that an entity display an amount representing total comprehensive income for the period in that financial statement. Statement 130 also requires that an entity classify items of other comprehensive income by their nature in a financial statement. For example, other comprehensive income may include foreign currency items and unrealized gains and losses on investments in equity securities. Reclassification of financial statements for earlier periods, provided for comparative purposes, is required. Based on current accounting standards, Statement 130 is not expected to have a material impact on the Company's financial position, results of operation or liquidity. The Company will adopt this accounting standard effective December 1, 1998, as required.

(w) Disclosure About Segments of an Enterprise and Related Information

In June 1997, the FASB issued Statement No. 131, "Disclosures about Segments of an Enterprise and Related Information" (Statement 131). Statement 131 establishes standards for reporting information about operating segments in annual financial statements and requires selected information about operating segments in interim financial reports issued to shareholders. It also establishes standards for related disclosures about products and services, geographic areas and major customers. Operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. Statement 131 requires reporting segment profit or loss, certain specific revenue and expense items and segment assets. It also requires reconciliations of total segment revenues, total segment profit or loss, total segment assets, and other amounts disclosed for segments to corresponding amounts reported in the consolidated financial statements. Restatement of comparative information for earlier periods presented is required in the initial year of application. Interim information is not required until the second year of application, at which time comparative information is required. The Company has not determined the impact that the adoption of this new accounting standard will have on its consolidated financial statements disclosures. The Company will adopt this accounting standard in fiscal 1999, as required, however, Statement 131 will not have any impact on the Company's financial position, results of operations or liquidity.

(2) Business Acquisitions/Dispositions

During 1997, the Company formed Audiovox Venezuela C.A. (Audiovox Venezuela), an 80%-owned subsidiary, for the purpose of expanding its international business. The Company made an initial investment of $478 which was used by Audiovox Venezuela to obtain certain licenses, permits and fixed assets.

In April 1996, the Company formed Audiovox Holdings (M) Sdn. Bhd. (Audiovox Holdings) and Audiovox Communications (Malaysia) Sdn. Bhd. (Audiovox Communications), which are 80% and 72%-owned subsidiaries of Audiovox Asia, Inc. (Audiovox Asia), respectively, which, in turn, is a wholly-owned subsidiary of the Company. In 1996, Audiovox Communications formed Vintage Electronics Holdings (Malaysia) Sdn. Bhd., a wholly-owned subsidiary. The Company formed these subsidiaries to assist in its planned expansion of its international business.

In October 1996, the Company contributed the net assets of its cellular division into a newly-formed, wholly-owned subsidiary Audiovox Communications Corp. (ACC).

(3) Supplemental Cash Flow Information

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

	For the Years Ended November 30,		
	1998	1997	1996
Cash paid during the years for:			
Interest, net of $801 capitalized in 1998	**$1,587**	$ 1,560	$7,666
Income taxes	**$4,496**	$23,530	$ 272

During 1998, the Company exercised its option to convert 1,137,212 Japanese Yen (approximately $8,176) of Shintom Co. Ltd. (Shintom) Convertible Debentures (Shintom Debentures) into approximately 7,500,000 shares of Shintom Common Stock (Note 6).

During 1998, a capital lease obligation of $6,340 was incurred when the Company entered into a building lease (Note 16).

During 1998, the Company sold its equity collar for $1,499. The transaction resulted in a net gain on hedge of available-for-sale securities of $929 which is reflected as a separate component of stockholders' equity (Note 17).

As of November 30, 1998 and 1997, the Company recorded an unrealized holding gain relating to available-for-sale marketable equity securities, net of deferred income taxes, of $4,154 and $12,194, respectively, as a separate component of stockholders' equity (Note 6).

During January 1997, the Company completed an exchange of $21,479 of its $65,000 6¼% convertible subordinated debentures (Subordinated Debentures) into 2,860,925 shares of Class A Common Stock (Note 10).

During 1997, the Company issued a credit of $1,250 on open accounts receivable and issued 250,000 shares of its Class A Common Stock, valued at five dollars per share, in exchange for a 20% interest in Bliss-tel Company, Limited (Bliss-tel) (Note 8).

During 1997, the Company contributed $6,475 in net assets in exchange for a 50% ownership interest in Audiovox Specialized Applications, LLC (ASA) which resulted in $5,595 of excess cost over fair value of net assets (Note 8).

As of November 30, 1997, the Company recorded an unrealized holding gain relating to the equity collar, net of deferred income taxes, of $773 as a separate component of stockholders' equity (Note 17).

On February 9, 1996, the Company's 10.8% Series AA and 11.0% Series BB convertible debentures matured. As of February 9, 1996, $1,100 of the Series BB convertible debentures converted into 206,046 shares of Common Stock (Note 10).

On November 25, 1996, the Company completed an exchange of $41,252 of its Subordinated Debentures into 6,806,580 shares of Common Stock (Note 10).

During 1996, the Company contributed $97 of property, plant and equipment in exchange for a 50% ownership interest in a newly-formed joint venture, Quintex Communications West, LLC (Quintex West), (Note 8).

(4) Transactions With Major Suppliers

The Company engaged in transactions with Shintom, a stockholder who owned approximately 1.7% at November 30, 1996 of the outstanding Class A Common Stock and all of the outstanding Preferred Stock of the Company at November 30, 1998 and 1997. The Company has a 30.8% interest in a Japanese company, TALK Corporation (TALK) (Note 8).

Transactions with Shintom and TALK include financing arrangements and inventory purchases which approximated 19%, 29% and 26% for the years ended November 30, 1998, 1997 and 1996, respectively, of total inventory purchases. At November 30, 1998, the Company had recorded $15 of liability due to TALK for inventory purchases included in accounts payable. The Company also has documentary acceptance obligations payable to TALK as of November 30, 1998 and 1997 (Note 9(b)). At November 30, 1998 and 1997, the Company had recorded a receivable from TALK in the amount of $734 and $5,000, respectively, payable with interest (Note 8).

TALK, which holds world-wide distribution rights for product manufactured by Shintom, has given the Company exclusive distribution rights on all wireless personal communication products for all countries except Japan, China, Thailand and several mid-eastern countries. The Company granted Shintom a license agreement permitting the use of the Audiovox trademark to be used with TALK video cassette recorders sold in Japan from August 29, 1994 to August 28, 1997, in exchange for royalty fees. For the years ended November 30, 1997 and 1996, no such royalty fees were earned by the Company.

Inventory purchases from a major supplier approximated 42%, 32% and 28% of total inventory purchases for the years ended November 30, 1998, 1997 and 1996, respectively. Although there are a limited number of manufacturers of its products, management believes that other suppliers could provide similar products on comparable terms. A change in suppliers, however, could cause a delay in product availability and a possible loss of sales, which would affect operating results adversely.

(5) Accounts Receivable

Accounts receivable is comprised of the following:

	November 30,	
	1998	1997
Trade accounts receivable	**$142,211**	$113,498
Receivables from equity investments (Note 8)	**1,035**	1,921
	143,246	115,419
Less:		
Allowance for doubtful accounts	**2,944**	3,497
Allowance for cellular deactivations	**875**	1,363
Allowance for co-operative advertising, cash discounts and market development funds	**8,307**	5,861
	$131,120	$104,698

See Note 17(c) for concentrations of credit risk.

(6) Investment Securities

As of November 30, 1998, the Company's investment securities consist primarily of 1,730,000 shares of CellStar Common Stock, 1,904,000 shares of Shintom Common Stock and 662,788 Japanese Yen of Shintom Debentures, respectively, which were classified as available-for-sale marketable securities. As of November 30, 1997, the Company's investment securities consist primarily of 1,730,000 shares of CellStar Common Stock (adjusted for the CellStar 2 for 1 stock split that occurred during 1998). The cost, gross unrealized gains and losses and fair value of the investment securities available-for-sale as of November 30, 1998 were as follows:

	Cost	Gross Unrealized Holding Gain	Gross Unrealized Holding Loss	Fair Value
CellStar Common Stock	$ 2,715	$8,422	—	$11,137
Shintom Common Stock	3,132	—	$1,723	1,409
Shintom Debentures	4,543	—	—	4,543
	$10,390	$8,422	$1,723	$17,089

The Shintom Debentures mature on September 30, 2002.

A related deferred tax liability of $2,546 and $7,473 was recorded at November 30, 1998 and 1997, respectively, as a reduction to the unrealized holding gain included as a separate component of stockholders' equity.

During 1998, the Company purchased 400,000 Japanese Yen (approximately $3,132) of Shintom Debentures. The Company exercised its option to convert the Shintom Debentures into shares of Shintom Common Stock. These shares are included in the Company's available-for-sale marketable securities at November 30, 1998.

During 1998, the Company purchased an additional 400,000 Japanese Yen (approximately $2,732) of Shintom Debentures. The Company exercised its option to convert the Shintom Debentures into shares of Shintom Common Stock. The Company sold the Shintom Common Stock yielding net proceeds of $3,159 and a gain of $427.

During 1998, the Company purchased 1,000,000 Japanese Yen (approximately $6,854) of Shintom Debentures. The Company exercised its option to convert 337,212 Japanese Yen of Shintom Debentures into shares of Shintom Common Stock. The Company sold the Shintom Common Stock yielding net proceeds of $2,671 and a gain of $360. The remaining debentures of 662,788 Japanese Yen are included in the Company's available-for-sale marketable securities at November 30, 1998.

During 1997, the Company sold 1,835,000 shares of CellStar Common Stock yielding net proceeds of approximately $45,937 and a gain, net of taxes, of approximately $23,232.

(7) Property, Plant and Equipment

A summary of property, plant and equipment, net, is as follows:

	November 30, 1998	November 30, 1997
Land	**$ 363**	$ 363
Buildings	**1,605**	2,099
Property under capital lease	**7,141**	—
Furniture, fixtures and displays	**3,184**	3,418
Machinery and equipment	**5,023**	4,341
Computer hardware and software	**9,767**	14,307
Automobiles	**633**	800
Leasehold improvements	**3,943**	3,510
	31,659	28,838
Less accumulated depreciation and amortization	**(13,831)**	(20,285)
	$ 17,828	$ 8,553

The amortization of the property under capital lease is included in depreciation and amortization expense.

Computer software includes approximately $3,149 and $1,672 of unamortized costs as of November 30, 1998 and 1997, respectively, related to the acquisition and installation of management information systems for internal use.

Depreciation and amortization of plant and equipment amounted to $2,089, $1,503 and $2,044 for the years ended November 30, 1998, 1997 and 1996, respectively. Included in accumulated depreciation and amortization is amortization of computer software costs of $350, $19 and $364 for the years ended November 30, 1998, 1997 and 1996, respectively. Included in accumulated depreciation and amortization is amortization of property under capital lease of $160 for the year ended November 30, 1998.

(8) Equity Investments

As of November 30, 1998, the Company had a 30.8% ownership interest in TALK. As of November 30, 1998, the Company's 72% owned subsidiary, Audiovox Communications, had a 29% ownership interest in Avx Posse (Malaysia) Sdn. Bhd. (Posse) which monitors car security commands through a satellite based system in Malaysia. As of November 30, 1998, the Company had a 20% ownership interest in Bliss-tel which distributes cellular telephones and accessories in Thailand. Additionally, the Company had 50% non-controlling ownership interests in five other entities: Protector Corporation (Protector) which acts as a distributor of chemical protection treatments; ASA which acts as a distributor to specialized markets for RV's and van conversions, of televisions and other automotive sound, security and accessory products; Audiovox Pacific Pty., Limited (Audiovox Pacific) which distributes cellular telephones and automotive sound

and security products in Australia and New Zealand; G.L.M. Wireless Communications, Inc. (G.L.M.) which is in the cellular telephone, pager and communications business in the New York metropolitan area; and Quintex West, which is in the cellular telephone and related communication products business, as well as the automotive aftermarket products business on the West Coast of the United States.

During 1997, the Company purchased a 20% equity investment in Bliss-tel in exchange for 250,000 shares of the Company's Class A Common Stock and a credit for open accounts receivable of $1,250. The issuance of the common stock resulted in an increase to additional paid-in capital of approximately $1,248. The Company accounts for its investment in Bliss-tel under the equity method of accounting. In connection with the purchase, excess of the fair value of net assets acquired over cost amounting to $320 was recorded and is being amortized on a straight-line basis over 10 years.

During 1997, the Company purchased a 50% equity investment in a newly-formed company, ASA, for approximately $11,131. The Company contributed the net assets of its Heavy Duty Sound division, its 50% interest in Audiovox Specialty Markets Co. (ASMC) and $4,656 in cash. In connection with this investment, excess cost over fair value of net assets acquired of $5,595 resulted, which is being amortized on a straight-line basis over 20 years. The other investor (Investor) contributed its 50% interest in ASMC and the net assets of ASA Electronics Corporation. In connection with this investment, the Company entered into a stock purchase agreement with the Investor in ASA. The agreement provides for the sale of 352,194 shares of Class A Common Stock at $6.61 per share (aggregate proceeds of approximately $2,328) by the Company to the Investor. The transaction resulted in a net increase to additional paid-in capital of approximately $2,242. The selling price of the shares are subject to adjustment in the event the Investor sells shares at a loss during a 90-day period, beginning with the later of the effective date of the registration statement filed with the Securities and Exchange Commission to register such shares or May 13, 1998. The adjustment to the selling price will equal the loss incurred by the Investor up to a maximum of 50% of the shares. During 1998, the Investor sold its shares at a loss which resulted in the Company recording an adjustment to the selling price of $410 as additional goodwill. No further adjustments to the selling price can be made.

The Company's net sales to the equity investments amounted to $4,528, $6,132 and $6,483 for the years ended November 30, 1998, 1997 and 1996, respectively. The Company's purchases from the equity investments amounted to $15,383, $7,484 and $115,109 for the years ended November 30, 1998, 1997 and 1996, respectively. The Company recorded $1,752, $2,027 and $2,130 of outside representative commission expenses for activations and residuals generated by G.L.M. on the Company's behalf during fiscal year 1998, 1997 and 1996, respectively, (Note 1(l)).

Included in accounts receivable at November 30, 1998 and 1997 are trade receivables due from its equity investments aggregating $1,035 and $1,921, respectively. Receivable from vendor is interest bearing and represents claims on late deliveries, product modifications and price protection from TALK as well as prepayments on product shipments. Interest is payable in monthly installments at 6.5%. Amounts representing prepayments of $734 were repaid via receipt of product shipments in December 1998. At November 30, 1998 and 1997, other long-term assets include management fee receivables of $1,271 and $1,496, respectively. At November 30, 1998 and 1997, included in accounts payable and other accrued expenses were obligations to equity investments aggregating $1,049 and $9,783, respectively. Documentary acceptance obligations were outstanding from TALK at November 30, 1998 (Note 9(b)).

During 1997, the Company recorded interest income from TALK relating to the receivable from vendor, reimbursement of interest expense incurred under the subordinated loan to finance the TALK investment (Note 10) and other short-term loans made to TALK during 1997 at market interest rates. For the years ended November 30, 1998, 1997 and 1996, interest income earned on equity investment notes and other receivables approximated $480, $653 and $725, respectively. Interest expense on equity investment documentary acceptances approximated $256, $203 and $198 in 1998, 1997 and 1996, respectively.

(9) Financing Arrangements

(a) Bank Obligations

The Company maintains a revolving credit agreement with various financial institutions. Subsequent to year end, the credit agreement has been amended and restated in its entirety, extending the expiration date to December 31, 2001. As a result, bank obligations under the credit agreement have been classified as long-term at November 30, 1998. The amended and restated credit agreement provides for $112,500 of available credit.

Under the credit agreement, the Company may obtain credit through direct borrowings and letters of credit. The obligations of the Company under the credit agreement are guaranteed by certain of the Company's subsidiaries and is secured by accounts receivable, inventory and the Company's shares of ACC. As of November 30, 1998, availability of credit under the credit agreement is a maximum aggregate amount of $95,000, subject to certain conditions, and is based upon a formula taking into account the amount and quality of its accounts receivable and inventory. At November 30, 1998, the amount of unused available credit is $43,085.

Outstanding obligations under the credit agreement at November 30, 1998 and 1997 were as follows:

	November 30,	
	1998	1997
Revolving Credit Notes	**$ 2,500**	$18,300
Eurodollar Notes	**15,000**	6,000
	$17,500	$24,300

Through February 8, 1996, interest on revolving credit notes were .25% above the prime rate, which was 8.75% at November 30, 1995. For the same period, interest on Eurodollar Notes were 2% above the Libor rate which was approximately 5.1% at November 30, 1995 and interest on

bankers' acceptances were 2% above the bankers' acceptance rate which was approximately 6.25% at November 30, 1995. Pursuant to an amendment on February 9, 1996, the interest rates were increased to the following: revolving credit notes at .50% above the prime rate, which was approximately 7.75%, 8.5% and 8.25% at November 30, 1998, 1997 and 1996, respectively, and Eurodollar Notes at 2.75% above the Libor rate which was approximately 5.62%, 5.97% and 5.5% at November 30, 1998, 1997 and 1996, respectively. Interest on bankers' acceptances remained at 2% above the bankers' acceptance rate which was approximately 5.5%, 5.77% and 5.75% at November 30, 1998, 1997 and 1996, respectively. The maximum commitment fee on the unused portion of the line of credit is .25% as of November 30, 1998.

The credit agreement contains several covenants requiring, among other things, minimum levels of pre-tax income and minimum levels of net worth and working capital. Additionally, the agreement includes restrictions and limitations on payments of dividends, stock repurchases and capital expenditures. During 1998, the Company violated its covenant regarding maintenance of pre-tax income for the fiscal quarter and six months ended May 31, 1998 which was waived.

The Company also has a revolving credit facility with a Malaysian bank (Malaysian Credit Agreement) to finance additional working capital needs. As of November 30, 1998 and 1997, the available line of credit for direct borrowing, letters of credit, bankers' acceptances and other forms of credit approximated $8,195 and $8,017, respectively. The credit facility is partially secured by two standby letters of credit totaling $5,320, by the Company and is payable upon demand or upon expiration of the standby letters of credit on August 31, 1999. The obligations of the Company under the Malaysian Credit Agreement are secured by the property and building owned by Audiovox Communications. Outstanding obligations under the Malaysian Credit Agreement at November 30, 1998 and 1997 were approximately $4,711 and $4,146, respectively. At November 30, 1998, interest on the credit facility ranged from 9.5% to 12.0%. At November 30, 1997, interest on the credit facility ranged from 8.25% to 11.10%.

On October 28, 1997, Audiovox Venezuela issued a note payable to a Venezuelan bank in the amount of 994,000 Venezuelan Bolivars (approximately $1,986 at November 30, 1997) to finance additional working capital needs. Interest on the note payable is 20%. The note was repaid in 1998. As of November 30, 1998, Audiovox Venezuela has notes payable of 1,500,000 Venezuelan Bolivars (approximately $2,617 at November 30, 1998) outstanding. Interest on the notes payable is 50%. The notes are scheduled to be repaid within one year and, as such, are classified as short term. The notes payable are secured by a standby letter of credit in the amount of $4,000, by the Company and is payable upon demand or upon expiration of the standby letter of credit on June 30, 1999.

The maximum month-end amounts outstanding under the credit agreement and Malaysian Credit Agreement borrowing facilities during the years ended November 30, 1998, 1997 and 1996 were $42,975, $28,420 and $44,213, respectively. Average borrowings during the years ended November 30, 1998, 1997 and 1996 were $26,333, $18,723 and $33,662, respectively, and the weighted average interest rates were 8.7%, 7.7% and 8.9%, respectively.

(b) Documentary Acceptances

During 1998, the Company had various unsecured documentary acceptance lines of credit available with suppliers to finance inventory purchases. The Company does not have written agreements specifying the terms and amounts available under the lines of credit. At November 30, 1998, $3,911 of documentary acceptances were outstanding of which all was due to TALK.

The maximum month-end documentary acceptances outstanding during the years ended November 30, 1998, 1997 and 1996 were $4,809, $4,162 and $9,792, respectively. Average borrowings during the years ended November 30, 1998, 1997 and 1996 were $3,885, $3,199 and $5,845, respectively, and the weighted average interest rates, including fees, were 6.6%, 6.3% and 5.1%, respectively.

(10) Long-Term Debt

A summary of long-term debt follows:

	November 30,	
	1998	1997
Convertible subordinated debentures:		
6¼%, due 2001, convertible at		
$17.70 per share	**$2,269**	$2,269
Subordinated note payable	**4,062**	3,922
	6,331	6,191
Less current installments	**—**	—
	$6,331	$6,191

On March 15, 1994, the Company completed the sale of $65,000, 6¼% Subordinated Debentures due 2001 and entered into an Indenture Agreement. The Subordinated Debentures are convertible into shares of the Company's Class A Common Stock, par value $.01 per share at an initial conversion price of $17.70 per share, subject to adjustment under certain circumstances. The Indenture Agreement contains various covenants. The bonds are subject to redemption by the Company in whole, or in part, at any time after March 15, 1997, at certain specified amounts. On May 9, 1995, the Company issued warrants to certain beneficial holders of these Subordinated Debentures (Note 13(d)).

On November 25, 1996, the Company completed an exchange of $41,252 of its $65,000 Subordinated Debentures for 6,806,580 shares of Class A Common Stock (Exchange). As a result of the Exchange, a charge of $26,318 was recorded. The charge to earnings represents (i) the difference in the fair market value of the shares issued in the

Exchange and the fair market value of the shares that would have been issued under the terms of the original conversion feature plus (ii) a write-off of the debt issuance costs associated with the Subordinated Debentures (Note 1(h)) plus (iii) expenses associated with the Exchange offer. The Exchange resulted in taxable income due to the difference in the face value of the bonds converted and the fair market value of the shares issued and, as such, a current tax expense of $2,888 was recorded. An increase to paid in capital was reflected for the face value of the bonds converted, plus the difference in the fair market value of the shares issued in the Exchange and the fair market value of the shares that would have been issued under the terms of the original conversion feature for a total of $63,564.

During January 1997, the Company completed additional exchanges totaling $21,479 of its $65,000 Subordinated Debentures for 2,860,925 shares of Class A Common Stock (Additional Exchanges). As a result of the Additional Exchanges, similar to that of the Exchange described earlier, a charge of $12,686, tax expense of $158 and an increase to paid in capital of $33,592, was recorded. As a result of the Exchange and Additional Exchanges, the remaining Subordinated Debentures are $2,269.

On March 8, 1994, the Company entered into a Debenture Exchange Agreement and exchanged certain debentures for Series AA and Series BB Convertible Debentures (Debentures). The Debentures were convertible at any time at $5.34 per share, which is subject to adjustment in certain circumstances, and were secured by a standby letter of credit. Although the Debenture Exchange Agreement provides for optional prepayments under certain circumstances, such prepayments are restricted by the credit agreement (Note 9(a)). On February 9, 1996, the holders of $1,100 of the Series BB Convertible Debentures exercised their right to convert into 206,046 shares of Class A Common Stock. The remaining balance of the Debentures were repaid during 1996; thereby extinguishing the remaining conversion features of these Debentures.

On October 20, 1994, the Company issued a note payable for 500,000 Japanese Yen (approximately $4,062 and $3,922 on November 30, 1998 and 1997, respectively) to finance its investment in TALK (Note 8). The note is scheduled to be repaid on October 20, 2004 and bears interest at 4.1%. The note can be repaid by cash payment or by giving 10,000 shares of its TALK investment to the lender. The lender has an option to acquire 2,000 shares of TALK held by the Company in exchange for releasing the Company from 20% of the face value of the note at any time after October 20, 1995. This note and the investment in TALK are both denominated in Japanese Yen, and, as such, the foreign currency translation adjustments are accounted for as a hedge. Any foreign currency translation adjustment resulting from the note will be recorded in stockholders' equity to the extent that the adjustment is less than or equal to the adjustment from the translation of the investment in TALK. Any portion of the adjustment from the translation of the note that exceeds the adjustment from the translation of the investment in TALK is a transaction gain or loss that will be included in earnings.

During 1995, Audiovox Malaysia entered into a Secured Term Loan for 1,700 Malaysian Ringgits (approximately $675) to acquire a building. The loan was secured by the property acquired and bore interest at 1.5% above the Malaysian base lending rate which was 9.2% on November 30, 1996. The loan was payable in 120 monthly equal installments commencing October 1995, however, was fully repaid in November 1996.

Maturities on long-term debt for the next five fiscal years are as follows:

1999	—
2000	—
2001	$2,269
2002	—
2003	—

(11) Income Taxes

The components of income (loss) before the provision for income taxes are as follows:

	November 30,		
	1998	1997	1996
Domestic Operations	**$ 5,380**	$42,613	$(21,899)
Foreign Operations	**(1,579)**	829	1,264
	$ 3,801	$43,442	$(20,635)

Total income tax expense (recovery) was allocated as follows:

	November 30,	
	1998	1997
Income from continuing operations	**$ 829**	$22,420
Stockholders' equity		
Unrealized holding gain (loss) on investment securities recognized for financial reporting purposes	**(4,928)**	1,174
Unrealized holding gain on equity collar recognized for financial reporting purposes	**(1,043)**	473
Total income tax expense (recovery)	**$(5,142)**	$24,067

The provision for (recovery of) income taxes attributable to income from continuing operations is comprised of:

	Federal	Foreign	State	Total
1996:				
Current	$ 3,711	$ 802	$ 853	$ 5,366
Deferred	330	—	138	468
	$ 4,041	$ 802	$ 991	$ 5,834
1997:				
Current	$ 23,316	$1,159	$1,068	$25,543
Deferred	(2,845)	—	(278)	(3,123)
	$ 20,471	$1,159	$ 790	$22,420
1998:				
Current	**$ 1,499**	**$ (119)**	**$ 351**	**$ 1,731**
Deferred	**(819)**	**—**	**(83)**	**(902)**
	$ 680	**$ (119)**	**$ 268**	**$ 829**

A reconciliation of the provision for (recovery of) income taxes attributable to income (loss) from continuing operations computed at the Federal statutory rate to the reported provision for income taxes attributable to income (loss) from continuing operations is as follows:

	November 30,					
	1998		1997		1996	
Tax provision (recovery) at Federal statutory rates	**$1,292**	**34.0%**	$15,205	35.0%	$ (7,222)	(35.0)%
Expense relating to exchange of subordinated debentures	**—**	**—**	4,578	10.5	11,421	55.3
Undistributed losses from equity investments	**287**	**7.6**	123	0.3	128	0.6
State income taxes, net of Federal benefit	**260**	**6.8**	1,637	3.8	275	1.3
(Decrease) increase in beginning-of-the-year balance of the valuation allowance for deferred tax assets	**(340)**	**(8.9)**	(180)	(0.4)	1,270	6.2
Foreign tax rate differential	**(82)**	**(2.2)**	323	0.7	30	0.1
Benefit of concluded examination	**(350)**	**(9.2)**	—	—	—	—
Other, net	**(238)**	**(6.3)**	734	1.7	(68)	(0.2)
	$ 829	**21.8%**	$22,420	51.6%	$ 5,834	28.3%

The significant components of deferred income tax recovery for the years ended November 30, 1998 and 1997 are as follows:

	November 30,	
	1998	1997
Deferred tax recovery (exclusive of the effect of other components listed below)	**$ (562)**	$(2,943)
(Decrease) increase in beginning-of-the-year balance of the valuation allowance for deferred tax assets	**(340)**	(180)
	$ (902)	$(3,123)

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred liabilities are presented below:

	November 30,	
	1998	1997
Deferred tax assets:		
Accounts receivable, principally due to allowance for doubtful accounts and cellular deactivations	**$ 1,210**	$ 1,483
Inventory, principally due to additional costs capitalized for tax purposes pursuant to the Tax Reform Act of 1986	**325**	439
Inventory, principally due to valuation reserve	**1,882**	941
Accrual for future warranty costs	**563**	830
Plant, equipment and certain intangibles, principally due to depreciation and amortization	**804**	719
Net operating loss carryforwards, state and foreign	**2,338**	2,662
Equity collar	**570**	—
Accrued liabilities not currently deductible	**346**	405
Other	**405**	381
Total gross deferred tax assets	**8,443**	7,860
Less: valuation allowance	**(2,373)**	(2,713)
Net deferred tax assets	**6,070**	5,147
Deferred tax liabilities:		
Investment securities	**(3,577)**	(8,506)
Equity collar	**—**	(473)
Total gross deferred tax liabilities	**(3,577)**	(8,979)
Net deferred tax asset (liability)	**$ 2,493**	$(3,832)

The net change in the total valuation allowance for the year ended November 30, 1998 was a decrease of $340. A valuation allowance is provided when it is more likely than not that some portion, or all, of the deferred tax assets will not be realized. The Company has established valuation allowances primarily for net operating loss carryforwards in certain states and foreign countries as well as other deferred tax assets in foreign countries. Based on the Company's ability to carry back future reversals of deferred tax assets to taxes paid in current and prior years and the Company's historical taxable income record, adjusted for unusual items, management believes it is likely that the Company will realize the benefit of the net deferred tax assets existing at November 30, 1998. Further, management believes the existing net deductible temporary differences will reverse during periods in which the Company generates net taxable income. There can be no assurance, however, that the Company will generate any earnings or any specific level of continuing earnings in the future. The amount of the deferred tax asset considered realizable, however, could be reduced in the near term if estimates of future taxable income during the carryforward period are reduced.

At November 30, 1998, the Company had net operating loss carryforwards for state and foreign income tax purposes of approximately $11,239, which are available to offset future state and foreign taxable income, if any, which will expire through the year ended November 30, 2018.

(12) Capital Structure

The Company's capital structure is as follows:

Security	Par Value	Shares Authorized November 30, 1998	Shares Authorized November 30, 1997	Shares Outstanding November 30, 1998	Shares Outstanding November 30, 1997	Voting Rights Per Share	Liquidation Rights
Preferred Stock	$50.00	**50,000**	50,000	**50,000**	50,000	—	$50 per share
Series Preferred Stock	0.01	**1,500,000**	1,500,000	**—**	—	—	—
Class A Common Stock	0.01	**30,000,000**	30,000,000	**16,760,518**	16,963,533	One	Ratably with Class B
Class B Common Stock	0.01	**10,000,000**	10,000,000	**2,260,954**	2,260,954	Ten	Ratably with Class A

The holders of Class A and Class B Common Stock are entitled to receive cash or property dividends declared by the Board of Directors. The Board can declare cash dividends for Class A Common Stock in amounts equal to or greater than the cash dividends for Class B Common Stock. Dividends other than cash must be declared equally for both classes. Each share of Class B Common Stock may, at any time, be converted into one share of Class A Common Stock.

The 50,000 shares of non-cumulative Preferred Stock outstanding are owned by Shintom and have preference over both classes of common stock in the event of liquidation or dissolution.

On May 16, 1997, the Company's Board of Directors approved the repurchase of 1,000,000 shares of the Company's Class A Common Stock in the open market under a share repurchase program (the Program). As of November 30, 1998 and 1997, 498,055 and 290,000 shares, respectively, were repurchased under the Program at an average price of $7.21 and $8.35 per share, respectively, for an aggregate amount of $3,589 and $2,421, respectively.

As of November 30, 1998 and 1997, 1,963,480 and 969,500 shares of the Company's Class A Common Stock are reserved for issuance under the Company's Stock Option and Restricted Stock Plans and 4,167,117 and 5,491,192 for all convertible securities and warrants outstanding at November 30, 1998 and 1997 (Notes 10 and 13).

Undistributed earnings from equity investments included in retained earnings amounted to $2,324 and $1,564 at November 30, 1998 and 1997, respectively.

(13) Stock-Based Compensation and Stock Warrants

(a) Stock Options

The Company has stock option plans under which employees and non-employee directors may be granted incentive stock options (ISO's) and non-qualified stock options (NQSO's) to purchase shares of Class A Common Stock. Under the plans, the exercise price of the ISO's will not be less than the market value of the Company's Class A Common Stock or 110% of the market value of the Company's Class A Common Stock on the date of grant. The exercise price of the NQSO's may not be less than 50% of the market value of the Company's Class A Common Stock on the date of grant. The options must be exercisable no later than ten years after the date of grant. The vesting requirements are determined by the Board of Directors at the time of grant.

Compensation expense is recorded with respect to the options based upon the quoted market value of the shares and the exercise provisions at the date of grant. Compensation expense for the year ended November 30, 1996 was $97. No compensation expense was recorded for the years ended November 30, 1998 and 1997.

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

	Number of Shares	Weighted Average Exercise Price
Outstanding at November 30, 1995	558,250	8.80
Granted	—	—
Exercised	—	—
Canceled	(9,500)	10.17
Outstanding at November 30, 1996	548,750	8.78
Granted	1,260,000	7.09
Exercised	—	—
Canceled	(109,000)	10.95
Outstanding at November 30, 1997	1,699,750	7.38
Granted	10,000	4.63
Exercised	—	—
Canceled	(16,000)	8.79
Outstanding at November 30, 1998	**1,693,750**	**7.33**
Options exercisable, November 30, 1998	**1,117,750**	**7.18**

At November 30, 1998 and 1997, 207,302 and 190,250 shares, respectively, were available for future grants under the terms of these plans.

The Company adopted Statement 123 in fiscal 1997. The Company has elected to disclose the pro-forma net earnings and earnings per share as if such method had been used to account for stock-based compensation costs as described in Statement 123.

The per share weighted average fair value of stock options granted during 1998 was $3.45 on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions: risk free interest rate of 5.7%, expected dividend yield of 0.0%, expected stock volatility of 60% and an expected option life of 10 years.

The per share weighted average fair value of stock options granted during 1997 was $5.73 on the date of the grant using the Black-Scholes option-pricing model with the

following weighted average assumptions: risk free interest rate of 6.49%, expected dividend yield of 0.0%, expected stock volatility of 70% and an expected option life of 10 years. No options were granted in 1996.

The Company applies Opinion 25 in accounting for its stock option grants and, accordingly, no compensation cost has been recognized in the financial statements for its stock options which have an exercise price equal to or greater than the fair value of the stock on the date of the grant. Had the Company determined compensation cost based on the fair value at the grant date for its stock options under Statement 123, the Company's net income and net income per common share would have been reduced to the proforma amounts indicated below:

	1998	1997
Net income:		
As reported	**$2,972**	$21,022
Pro-forma	**1,336**	18,786
Net income per common share (basic):		
As reported	**$ 0.16**	$ 1.11
Pro-forma	**0.07**	0.99
Net income per common share (diluted):		
As reported	**0.16**	1.09
Pro-forma	**0.07**	0.97

Pro-forma net earnings reflect only options granted after November 30, 1995. Therefore, the full impact of calculating compensation cost for stock options under Statement 123 is not reflected in the pro-forma net earnings amounts presented above because compensation cost is reflected over the options' vesting period and compensation cost for options granted prior to December 1, 1995 was not considered. Therefore, the pro-forma net earnings may not be representative of the effects on reported net income for future years.

Summarized information about stock options outstanding as of November 30, 1998 is as follows:

	Outstanding			Exercisable	
Exercise Price Range	Number of Shares	Weighted Average Exercise Price of Shares	Weighted Average Life Remaining In Years	Number of Shares	Weighted Average Price of Shares
$4.63-$ 8.00	1,531,000	$ 6.85	8.15	955,000	$ 6.30
$8.01-$13.00	162,750	$12.08	5.43	162,750	$12.08

(b) Restricted Stock Plan

The Company has restricted stock plans under which key employees and directors may be awarded restricted stock. Total restricted stock outstanding, granted under these plans, at November 30, 1998 and 1997 was 72,428 and 78,500, respectively. Awards under the restricted stock plan may be performance accelerated shares or performance restricted shares. No performance accelerated shares or performance restricted shares were granted in 1998, 1997 or 1996.

Compensation expense for the performance accelerated shares is recorded based upon the quoted market value of the shares on the date of grant. Compensation expense for the performance restricted shares is recorded based upon the quoted market value of the shares on the balance sheet date. Compensation expense (income) for these grants for the years ended November 30, 1998, 1997 and 1996 were $(23), $135 and $200, respectively.

(c) Employee Stock Purchase Plan

In May 1993, the stockholders approved the 1993 Employee Stock Purchase Plan. The stock purchase plan provides eligible employees an opportunity to purchase shares of the Company's Class A Common Stock through payroll deductions up to 15% of base salary compensation. Amounts withheld are used to purchase Class A Common Stock on the open market. The cost to the employee for the shares is equal to 85% of the fair market value of the shares on or about the last business day of each month. The Company bears the cost of the remaining 15% of the fair market value of the shares as well as any broker fees. This Plan provides for purchases of up to 1,000,000 shares.

(d) Stock Warrants

During the third quarter of fiscal 1993, pursuant to a consulting agreement effective April 1993, the Company granted warrants to purchase 100,000 shares of Class A Common Stock, which have been reserved, at $7.50 per share. The warrants, which are exercisable in whole or in part at the discretion of the holder, expired on December 31, 1998. There were no warrants exercised as of November 30, 1998. The consulting agreement, valued at $100, was expensed in 1994 when the services to be provided, pursuant to the consulting agreement, were completed.

In December 1993, the Company granted warrants to purchase 50,000 shares of Class A Common Stock at a purchase price of $14.375 per share as part of the acquisition of H & H Eastern Distributors, Inc. The per share purchase price and number of shares purchasable are each subject to adjustment upon the occurrence of certain events described in the warrant agreement. The warrants are exercisable, in whole or in part, from time-to-time, until September 22, 2003. If the warrants are exercised in whole, the holder thereof has the right to require the Company to file with the Securities Exchange Commission a registration statement relating to the sale by the holder of the Class A Common Stock purchasable pursuant to the warrant.

On May 9, 1995, the Company issued 1,668,875 warrants in a private placement, each convertible into one share of Class A Common Stock at $7 1/8, subject to adjustment under certain circumstances. The warrants were issued to the beneficial holders as of June 3, 1994, of approximately $57,600 of the Company's Subordinated Debentures in exchange for a release of any claims such holders may have against the Company, its agents, directors and employees in connection with their investment in the Subordinated Debentures. As a result, the Company incurred a warrant expense of $2,900 and recorded a corresponding increase to paid-in capital. The warrants are not exercisable after March 15, 2001, unless sooner terminated under certain

circumstances. John J. Shalam, Chief Executive Officer of the Company, has granted the Company an option to purchase 1,668,875 shares of Class A Common Stock from his personal holdings. The exercise price of this option is $7⅞, plus the tax impact, if any, should the exercise of this option be treated as dividend income rather than capital gains to Mr. Shalam. During 1998, the Company purchased approximately 1,324,075 of these warrants at a price of $1.30 per warrant, pursuant to the terms of a self-tender offer. As of November 30, 1998, 344,800 remaining warrants are outstanding.

During fiscal 1997, the Company granted warrants to purchase 100,000 shares of Class A Common Stock, which have been reserved, at $6.75 per share. The warrants, which are exercisable in whole or in part at the discretion of the holder, expire on January 29, 2002. There were no warrants exercised as of November 30, 1998.

(e) Profit Sharing Plans

The Company has established two non-contributory employee profit sharing plans for the benefit of its eligible employees in the United States and Canada. The plans are administered by trustees appointed by the Company. A contribution of $150, $500 and $150 was made by the Company to the United States plan in fiscal 1998, 1997 and 1996, respectively. Contributions required by law to be made for eligible employees in Canada were not material.

(14) Net Income (Loss) Per Common Share

A reconciliation between the numerators and denominators of the basic and diluted earnings per common share is as follows:

	For the Years Ended November 30,		
	1998	1997	1996
Net income (loss) (numerator for net income (loss) per common share, basic)	**$ 2,972**	$ 21,022	$ (26,469)
Interest on 6¼% convertible subordinated debentures, net of tax	**—**	185	—
Adjusted net income (numerator for net income (loss) per common share, diluted)	**$ 2,972**	$ 21,207	$ (26,469)
Weighted average common shares (denominator for net income (loss) per common share, basic)	**19,134,529**	18,948,356	9,398,352
Effect of dilutive securities:			
Employee stock options and stock warrants	**—**	237,360	—
Employee stock grants	**—**	70,845	—
Convertible debentures	**—**	251,571	—
Weighted average common and potential common shares outstanding (denominator for net income (loss) per common share, diluted)	**19,134,529**	19,508,132	9,398,352
Net income (loss) per common share, basic	**$ 0.16**	$ 1.11	$ (2.82)
Net income (loss) per common share, diluted	**$ 0.16**	$ 1.09	$ (2.82)

Employee stock options and stock warrants totaling 2,779,363, 1,908,438 and 2,385,875 for the years ended November 30, 1998, 1997 and 1996, respectively, were not included in the net earnings per share calculation because their effect would have been anti-dilutive.

(15) Export Sales

Export sales of approximately $102,659 for the year ended November 30, 1997, exceeded 10% of sales. Export sales did not exceed 10% of sales for the years ended November 30, 1998 and 1996.

(16) Lease Obligations

During 1998, the Company entered into a 30-year lease for a building with its principal stockholder and chief executive officer. A significant portion of the lease payments, as required under the lease agreement, consists of the debt service payments required to be made by the principal stockholder in connection with the financing of the construction of the building. For financial reporting purposes, the lease has been classified as a capital lease, and, accordingly, a building and the related obligation of approximately $6,340 was recorded (Note 7). In connection with the capital lease, the Company paid certain construction costs on behalf of it principal stockholder and Chief Executive Officer in the amount of $1,210. The amount is payable to the Company with 8% interest.

During 1998, the Company entered into a sale/lease back transaction with its principal stockholder and Chief Executive Officer for $2,100 of equipment. No gain or loss on the transaction was recorded as the book value of the equipment equaled the fair market value. The lease is for five years with monthly rental payments of $34. The lease has been classified as an operating lease.

At November 30, 1998, the Company was obligated under non-cancelable capital and operating leases for equipment and warehouse facilities for minimum annual rental payments as follows:

	Capital Lease	Operating Leases
1999	$ 521	$2,115
2000	522	1,712
2001	530	1,325
2002	553	1,113
2003	554	610
Thereafter	13,652	724
Total minimum lease payments	16,332	$7,599
Less: amount representing interest	10,017	
Present value of net minimum lease payments	6,315	
Less: current installments	17	
Long-term obligation	$ 6,298	

Rental expense for the above-mentioned operating lease agreements and other leases on a month-to-month basis approximated $2,563, $2,516 and $2,292 for the years ended November 30, 1998, 1997 and 1996, respectively.

The Company leases certain facilities and equipment from its principal stockholder and several officers. Rentals for such leases are considered by management of the Company to approximate prevailing market rates. At November 30, 1998, minimum annual rental payments on these related party leases, in addition to the capital lease payments, which are included in the above table, are as follows:

1999	$434
2000	411
2001	411
2002	411
2003	—

(17) Financial Instruments

(a) Derivative Financial Instruments

(1) Forward Exchange Contracts

At November 30, 1998 and 1997, the Company had contracts to exchange foreign currencies in the form of forward exchange contracts in the amount of $5,352 and $26,502, respectively. These contracts have varying maturities with none exceeding one year as of November 30, 1998. For the years ended November 30, 1998, 1997 and 1996, gains and losses on foreign currency transactions which were not hedged were not material. For the years ended November 30, 1998, 1997 and 1996, there were no gains or losses as a result of terminating hedges prior to the transaction date.

(2) Equity Collar

The Company entered into an equity collar on September 26, 1997 to maintain some of the unrealized gains associated with its investment in CellStar (Note 6). The equity collar provides that on September 26, 1998, the Company can put 100,000 shares of CellStar to the counter party to the equity collar (the bank) at $38 per share in exchange for the bank being able to call the 100,000 shares of CellStar at $51 per share. The Company has designated this equity collar as a hedge of 100,000 of its shares in CellStar being that it provides the Company with protection against the market value of CellStar shares falling below $38. Given the high correlation of the changes in the market value of the item being hedged to the item underlying the equity collar, the Company applied hedge accounting for this equity collar. The equity collar is recorded on the balance sheet at fair value with gains and losses on the equity collar reflected as a separate component of equity.

During 1998, the Company sold its equity collar for $1,499. The transaction resulted in a net gain on hedge of available-for-sale securities of $929 which is reflected as a separate component of stockholders' equity.

The Company is exposed to credit losses in the event of non-performance by the counter parties to its forward exchange contracts and its equity collar. The Company anticipates, however, that counter parties will be able to fully satisfy their obligations under the contracts. The Company does not obtain collateral to support financial instruments, but monitors the credit standing of the counter parties.

(b) Off-Balance Sheet Risk

Commercial letters of credit are issued by the Company during the ordinary course of business through major domestic banks as requested by certain suppliers. The Company also issues standby letters of credit principally to secure certain bank obligations of Audiovox Communications and Audiovox Venezuela (Note 9(a)). The Company had open commercial letters of credit of approximately $24,914 and $19,078, of which $20,576 and $10,625 were accrued for as of November 30, 1998 and 1997, respectively. The terms of these letters of credit are all less than one year. No material loss is anticipated due to non-performance by the counter parties to these agreements. The fair value of these open commercial and standby letters of credit is estimated to be the same as the contract values based on the nature of the fee arrangements with the issuing banks.

The Company is a party to a joint and several guarantee on behalf of G.L.M. up to the amount of $200. There is no market for this guarantee and it was issued without explicit cost. Therefore, it is not practicable to establish its fair value.

(c) Concentrations of Credit Risk

Financial instruments, which potentially subject the Company to concentrations of credit risk, consist principally of trade receivables. The Company's customers are located principally in the United States and Canada and consist of, among others, cellular carriers and service providers, distributors, agents, mass merchandisers, warehouse clubs and independent retailers.

At November 30, 1998, three customers, which included two cellular carrier and service providers and a Bell Operating Company accounted for approximately 18.0%, 13.8% and 13.5%, respectively, of accounts receivable. At November 30, 1997, two customers, a cellular carrier and service provider and a Bell Operating Company, accounted for approximately 8.7% and 5.3%, respectively, of accounts receivable.

During the year ended November 30, 1998, two customers, a Bell Operating Company and a cellular carrier and service provider, accounted for approximately 18.3% and 14.9%, respectively, of the Company's 1998 sales. During the year ended November 30, 1997, two customers, a cellular carrier and service provider and a Bell Operating Company, accounted for approximately 11.3% and 9.0%, respectively, of the Company's 1997 sales. During the year ended November 30, 1996, two customers, a Bell Operating Company and a cellular carrier and service provider accounted for approximately 12% and 9%, respectively, of the Company's 1996 sales.

The Company generally grants credit based upon analyses of its customers' financial position and previously established

buying and payment patterns. The Company establishes collateral rights in accounts receivable and inventory and obtains personal guarantees from certain customers based upon management's credit evaluation. At November 30, 1998 and 1997, 34 and 43 customers, representing approximately 74% and 69%, respectively, of outstanding accounts receivable, had balances owed greater than $500.

A portion of the Company's customer base may be susceptible to downturns in the retail economy, particularly in the consumer electronics industry. Additionally, customers specializing in certain automotive sound, security and accessory products may be impacted by fluctuations in automotive sales. A relatively small number of the Company's significant customers are deemed to be highly leveraged.

(d) Fair Value

The carrying value of all financial instruments classified as a current asset or liability is deemed to approximate fair value, with the exception of current installments of long-term debt, because of the short maturity of these instruments. The estimated fair value of the Company's financial instruments are as follows:

	November 30, 1998		November 30, 1997	
	Carrying Amount	**Fair Value**	Carrying Amount	Fair Value
Investment securities	**$17,854**	**$17,854**	$22,382	$22,382
Equity collar (derivative)	**—**	**—**	$ 1,246	$ 1,246
Long-term obligations including current installments	**$23,831**	**$24,202**	$30,491	$30,910
Forward exchange contract obligation (derivative)	**—**	**$ 5,352**	—	$26,125

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value:

Investment Securities

The carrying amount represents fair value, which is based upon quoted market prices at the reporting date (Note 6).

Equity Collar (Derivative)

The carrying amount represents fair value, which is based upon the Black Scholes option-pricing model.

Long-Term Debt Including Current Installments

The carrying amount of bank debt under the Company's revolving credit agreement and Malaysian Credit Agreement approximates fair value because of the short maturity of the underlying obligations. With respect to the Subordinated Debentures, fair values are based on published statistical data.

Forward Exchange Contracts (Derivative)

The fair value of the forward exchange contracts are based upon exchange rates at November 30, 1998 and 1997 as the contracts are short term.

Limitations

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and, therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

(18) Contingencies

The Company is a defendant in litigation arising from the normal conduct of its affairs. The impact of the final resolution of these matters on the Company's results of operations or liquidity in a particular reporting period is not known. Management is of the opinion, however, that the litigation in which the Company is a defendant is either subject to product liability insurance coverage or, to the extent not covered by such insurance, will not have a material adverse effect on the Company's consolidated financial position.

The Company has guaranteed certain obligations of its equity investments and has established standby letters of credit to guarantee the bank obligations of Audiovox Communications and Audiovox Venezuela (Note 17(b)).

The Board of Directors and Stockholders
Audiovox Corporation:

We have audited the accompanying consolidated balance sheets of Audiovox Corporation and subsidiaries as of November 30, 1998 and 1997, and the related consolidated statements of income (loss), stockholders' equity and cash flows for each of the years in the three-year period ended November 30, 1998. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Audiovox Corporation and subsidiaries as of November 30, 1998 and 1997, and the results of their operations and their cash flows for each of the years in the three-year period ended November 30, 1998, in conformity with generally accepted accounting principles.

KPMG LLP

Melville, New York
January 25, 1999

AUDIOVOX CORPORATION AND SUBSIDIARIES

MARKET FOR THE REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Summary of Stock Prices and Dividend Data

Class A Common Shares of Audiovox are traded on the American Stock Exchange under the symbol VOX. No dividends have been paid on the Company's common stock. The Company is restricted by agreements with its financial institutions from the payment of common stock dividends while certain loans are outstanding (see Liquidity and Capital Resources of Management's Discussion and Analysis). There are approximately 4,800 beneficial holders of Class A Common Stock and 4 holders of Class B Common Stock.

CLASS A COMMON STOCK

Fiscal Period	High	Low	Average Daily Trading Volume
1998			
First Quarter	**$ 9**	**$ 5¾**	**103,038**
Second Quarter	**7⁷⁄₁₆**	**4¾**	**77,516**
Third Quarter	**7⁷⁄₁₆**	**3⅝**	**82,948**
Fourth Quarter	**6¾**	**3¹¹⁄₁₆**	**42,024**
1997			
First Quarter	$ 8½	$ 4⅝	368,639
Second Quarter	7⅞	4¹⁵⁄₁₆	171,733
Third Quarter	8¹³⁄₁₆	6⁵⁄₁₆	201,653
Fourth Quarter	10¾	7⁵⁄₁₆	131,779
1996			
First Quarter	$ 6⅜	$ 4¾	15,924
Second Quarter	7⁷⁄₁₆	4¹⁄₁₆	52,039
Third Quarter	6⁵⁄₁₆	4	16,309
Fourth Quarter	6¾	4⅝	95,817

CORPORATE INFORMATION

Audiovox Corporation Board of Directors and Officers

BOARD OF DIRECTORS

John J. Shalam
Chairman, President and Chief Executive Officer

Philip Christopher
Executive Vice President
President, CEO,
Audiovox Communications Corp.

Charles M. Stoehr
Senior Vice President, Chief Financial Officer

Patrick Lavelle
Senior Vice President, Automotive Electronics

Ann Boutcher
Vice President, Marketing

Richard Maddia
Vice President, MIS

Dennis McManus
Telecommunications Consultant

Paul C. Kreuch, Jr.
Principal, Secura Burnett Co., LLC

OFFICERS

John J. Shalam
President and Chief Executive Officer

Philip Christopher
Executive Vice President
President, CEO,
Audiovox Communications Corp.

Charles M. Stoehr
Senior Vice President, Chief Financial Officer

Patrick Lavelle
Senior Vice President, Automotive Electronics

Chris L. Johnson
Vice President, Secretary

Ann Boutcher
Vice President, Marketing

Richard Maddia
Vice President, MIS

INDEPENDENT AUDITORS

KPMG LLP
Melville, New York

LEGAL COUNSEL

Levy & Stopol, LLP
New York, New York

STOCKHOLDER INFORMATION

Corporate Office
Audiovox Corporation
150 Marcus Blvd.
Hauppauge, New York 11788
(516) 231-7750

Stock Exchange Listing
American Stock Exchange
Ticker Symbol: "VOX"

Annual Meeting
The Annual Meeting of Stockholders will be held on Thursday, May 6, 1999 at 10 AM at the Sheraton Smithtown, Hauppauge, New York

Transfer Agent and Registrar
Continental Stock
Transfer and Trust Company
New York, New York

Financial Public Relations
Edelman Public Relations Worldwide
1500 Broadway
New York, New York 10036-4015
(212) 704-8239

Analyst Coverage
The Company is being followed by the brokerage firm Ladenburg, Thalmann & Co. Inc. For more information contact Edelman Public Relations Worldwide.

Form 10-K
Copies of the corporation's annual report on Form 10K are available from:
Audiovox Corporation
Stockholders' Relations at
Edelman Public Relations Worldwide
1500 Broadway
New York, New York 10036-4015

Audiovox Corporation is an Equal Opportunity Employer

Web Site: www.audiovox.com

Except for historical information contained herein, statements made in this release that would constitute forward-looking statements may involve certain risks such as market volatility, price competition and new product introductions. These factors may cause actual results to differ materially from the results suggested in the forward-looking statements, including those risks detailed from time to time in the Company's reports on file at the Securities and Exchange Commission, including the Company's Form 10-K for the fiscal year ended November 30, 1998.

150 Marcus Boulevard

Hauppauge, New York 11788

(516) 231-7750