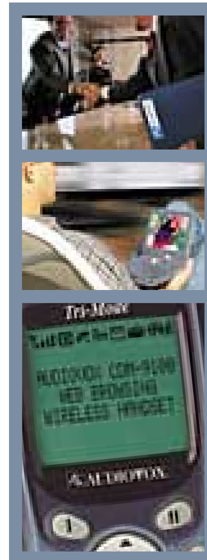
2000



AUDIOVOX

Revolutionizing the telecommunications

and consumer electronics industries.

Annual Report 2000

Highlights of the Year

Net Sales increase 46.8% to a record $1.7 Billion.

Dataquest ranks Audiovox Communications Corp. (ACC) number one in CDMA handsets during second quarter.

ACC begins shipments of web enabled cell phones.

Nearly nine million cell phones sold.

Electronics Division becomes subsidiary, Audiovox Electronics Corp. (AEC).

AEC to supply mobile video entertainment systems to FORD.

Corporate Profile

We generally market our products under the well-recognized Audiovox brand name, which we have used for nearly 40 years. We were a pioneer in the wireless industry, selling our first vehicle-installed wireless telephone in 1984 as a natural expansion of our automotive aftermarket business. Our extensive distribution network and our long-standing industry relationships have allowed us to benefit from growing market opportunities in the wireless industry and to exploit niches in the consumer electronics business. During the second quarter of 2000, we became the number one seller of CDMA handsets in North America. CDMA is currently the fastest growing technology in the wireless industry.

We operate in two primary markets

Wireless Communications: Our Wireless group, Audiovox Communications Corp., a 95% owned subsidiary, accounts for approximately 84% of our revenue. ACC sells wireless handsets and accessories through Bell Operating Companies, domestic and international wireless carriers and their agents, independent distributors and retailers.

Mobile and Consumer Electronics: Our Electronics group, Audiovox Electronics Corp., accounts for approximately 16% of our revenue, sells mobile entertainment products, mobile electronics and consumer electronics primarily to mass merchandiser retailers, specialty retailers, distributors to new car dealers, original equipment manufacturers (OEMs), and the U.S. military.

Selected Financial Data

Years ended November 30, 1996, 1997, 1998, 1999 and 2000:

(Dollars in thousands)	1996	1997	1998	1999	**2000**
Net sales	$597,915	$639,082	$616,695	$1,159,537	**$1,702,296**
Income before extraordinary item	(26,469)	21,022	2,972	27,246	**25,040**
Extraordinary item	—	—	—	—	**2,189**
Net income (loss)	(26,469)	21,022	2,972	27,246	**27,229**
Net income (loss) per common share before extraordinary item:					
Basic	(2.82)	1.11	0.16	1.43	**1.17**
Diluted	(2.82)	1.09	0.16	1.39	**1.11**
Net income (loss) per common share:					
Basic	(2.82)	1.11	0.16	1.43	**1.27**
Diluted	(2.82)	1.09	0.16	1.39	**1.21**
Total assets	265,545	289,827	279,679	475,083	**502,859**
Long-term obligations, less current installments	70,413	38,996	33,724	122,798	**24,440**
Stockholders' equity	131,499	187,892	177,720	216,744	**330,503**

This selected financial data includes:

for 1996:
- *a pre-tax charge of $26.3 million related to the exchange of $41.3 million of subordinated convertible debentures into 6,806,580 shares of common stock and a related tax expense of $2.9 million;*
- *a $64.7 million increase in stockholders' equity as a result of the exchange of $41.3 million of subordinated convertible debentures which is not reflected in net income.*

for 1997:
- *a pre-tax charge of $12.7 million related to the exchange of $21.5 million of subordinated convertible debentures into 2,860,925 shares of common stock and a related tax expense of $158,000;*
- *a pre-tax gain of $37.5 million on sale of shares of CellStar Corporation held by the Company and a related tax expense of $14.2 million; and*
- *a $33.6 million increase in stockholders' equity as a result of the exchange of $21.5 million of subordinated convertible debentures which is not reflected in net income.*

for 1998:
- *a pre-tax charge of $6.6 million for inventory write-downs; and*
- *a $929,000 increase in stockholders' equity, net of tax, as a result of an unrealized gain on a hedge of available-for-sale securities.*

for 1999:
- *a pre-tax charge of $2.0 million due to the other-than-temporary decline in the market value of its Shintom common stock; and*
- *a pre-tax gain of $3.8 million on the issuance of subsidiary shares to Toshiba Corporation.*

for 2000:
- *a pre-tax charge of $8.2 million for an analog inventory cost reduction;*
- *a $2.2 million extraordinary item related to the extinguishment of debt;*
- *a pre-tax gain of $3.9 million on the sale of marketable securities and related recognition of gain on hedge of CellStar common stock;*
- *a $96.6 million increase in stockholders' equity in connection with a common stock offering of 2.3 million shares; and*
- *a $10.1 million decrease in stockholders' equity as a result of an unrealized loss on marketable equity securities.*

Quarterly Financial Data

(Unaudited)

	Quarter Ended			
(Dollars in thousands, except per share data)	Feb. 28	May 31	Aug. 31	Nov. 30
1999				
Net sales	$210,266	$242,069	$296,732	$410,470
Gross profit	26,220	28,721	35,279	44,408
Operating expenses	21,018	23,501	23,764	28,108
Income before provision for income taxes	5,087	10,680	10,415	16,541
Provision for income taxes	2,105	4,226	3,986	5,160
Net income	2,982	6,454	6,429	11,381
Net income per common share:				
Basic	0.16	0.34	0.34	0.59
Diluted	0.16	0.34	0.32	0.56
2000				
Net sales	**$340,156**	**$381,634**	**$470,334**	**$510,172**
Gross profit	**34,868**	**37,131**	**42,747**	**37,622**
Operating expenses	**25,787**	**28,120**	**27,689**	**32,248**
Income before provision for income taxes	**8,773**	**11,071**	**15,427**	**4,694**
Provision for income taxes	**3,473**	**4,160**	**5,471**	**1,821**
Income before extraordinary item	**5,300**	**6,911**	**9,956**	**2,873**
Extraordinary item	—	—	—	**2,189**
Net income	**5,300**	**6,911**	**9,956**	**5,062**
Net income per common share before extraordinary item:				
Basic	**0.27**	**0.32**	**0.45**	**0.13**
Diluted	**0.25**	**0.30**	**0.44**	**0.13**
Net income per common share:				
Basic	**0.27**	**0.32**	**0.45**	**0.23**
Diluted	**0.25**	**0.30**	**0.44**	**0.23**

Over the past several years, I have watched Audiovox reach milestones that quantify the strength of our Company. I am happy to report that 2000 continued this trend as new milestones were reached. New sales records marked the year along with significant market share increases, further product diversification and continued brand awareness. Both of our operating subsidiaries posted sales gains and received industry accolades.

- In our wireless subsidiary, sales were up but most significant was the industry recognition by Dataquest of Audiovox as the number one supplier of CDMA in North America for the second quarter 2000. We expanded our product offerings to include several new web enabled cell phones that have enjoyed immediate success. During the year we began the shift from analog to digital technology and in November announced we would be exiting the low profit analog business. Moving forward ACC's entire marketing emphasis will be on digital product development.
- We formed a wholly-owned subsidiary (Audiovox Electronics Corp.) for our electronics group to allow them to focus on market penetration and diversification. Their mobile video and consumer product sales groups both posted record years. During the year, AEC was named a supplier to FORD and signed a mobile video OE contract with that automaker.

> "Our goals for 2001 are to continue our sales and operational initiatives so that we can increase shareholder value and see our stock price rise to a level commensurate with our success."

  AEC joined forces with Mannesman VDO to market a new line of in-vehicle navigation products as they continue their diversification into new markets.
- The other elements of our business also enjoyed a good year in 2000. Audiovox Venezuela opened a satellite office in Brazil and concluded an OE contract to supply mobile video products to General Motors in that country. Audiovox Malaysia is in its second year of recovery and the Malaysian economy has stabilized and demand for automotive products is increasing.

All of these developments contributed to what was one of the most profitable years in our Company's history. We are in the second year of a brand enhancing advertising and public relations campaign that is gaining widespread public exposure for the Audiovox brand.

Looking forward, our focus will be on expanding our digital product offerings both domestically and abroad, achieving higher gross profits and continuing our strong position in CDMA in the North American Market.

Gross profit margins in the major industries we supply are not high. To counter this, we continually address operational initiatives to keep overhead low and limit risk. In addition to low gross profit margins, the markets in which we operate are characterized by intense competition and rapidly changing technology. Currently, the country is experiencing a significant economic slowdown, which will no doubt effect our performance in 2001. All our efforts will be focused on remaining profitable while we increase market share.

Stocks in the telecom sector have been under pressure for the last several months and have probably been hit hardest in the current stock market. Our stock is trading below book value and we have begun a buy-back program and will continue to purchase stock as we see fit. Our goals for 2001 are to continue our sales and operational initiatives so that we can increase shareholder value and see our stock price rise to a level commensurate with our success.

I would like to express my genuine thanks to our management team and all of our employees for their contribution to a record year and their dedication to our future goals.

Sincerely,

John J. Shalam

Chairman, President & Chief Executive Officer

Record-setting handset sales, expanded product lines, and continued U.S. leadership in the CDMA market sum up the year 2000 for Audiovox Communications Corp.

Handset sales grew to 8.9 million units and $1.4 billion in 2000, an increase of more than 47% and 55%, respectively, over 1999. In 2000, Audiovox became the leading supplier of CDMA handsets in North America for the second quarter, according to Dataquest.

Leading the way in Audiovox sales was the CDM-9000, our first tri-mode, web-browsing handset and the cornerstone of our CDMA product line for 2000. For 2001, we've introduced its successor—the CDM-9100. This tri-mode, web-browsing phone is remarkably compact and lightweight, yet feature rich, and we believe it is destined to become our next flagship handset.

As CDMA further advances its position as the leading U.S. wireless technology, Audiovox's strength in this sector is of growing significance. To that end, we're continually expanding our line of CDMA handsets and incorporating the latest technological developments and convenience features. Recently-introduced CDMA phones include both dual mode and tri-mode models sporting advanced features such as web browsing and data capabilities, two-way short messaging service, T9 predictive text, expanded LCD displays, interchangeable color faceplates and even a phone with a built-in MP-3 player.

For carriers that support 3G CDMA2000 1x systems, we are planning the introduction of a handset that will enable consumers to maximize the increased speed and bandwidth of next generation networks, which should significantly enhance data, video and text transmission and reception. Also scheduled for introduction during 2001 is an Audiovox personal digital assistant phone (PDA). Using a CDMA platform, the PDA unit will follow the form of traditional PDAs and offer digital calling capabilities through hands-free attachments. We expect the Audiovox PDA unit to be the personal communication tool that will enable consumers to surf the 'net, check contact lists and calendars, jot notes and make calls wirelessly.

Recognizing that the needs of domestic and international cellular carriers extend beyond CDMA, Audiovox also plans to expand our TDMA and GSM handset offerings. Among the new phones planned is our first handset for the domestic GSM market as well as tri-band global phones. The domestic GSM dual-band phone will also offer calling capability through much of Europe. Planned TDMA offerings for 2001 will include a new tri-mode handset and a unique fixed base, TDMA wireless phone.

As wireless communication technology continues to evolve, Audiovox Communications Corp. is uniquely positioned to meet the ever-changing needs of consumers and service providers. While we take pride in our accomplishments, our eyes are focused on the future, always looking for new ways to advance the interests of the company and its many important constituents and stakeholders. I invite you to share our vision.

Philip Christopher
President & Chief Executive Officer,
Audiovox Communications Corp.

"As wireless communication technology continues to evolve, Audiovox Communications Corp. is uniquely positioned to meet the ever-changing needs of consumers and service providers."

"As CDMA further advances its position as the leading U.S. wireless technology, Audiovox's strength in this sector is of growing significance."

Audiovox Communications Corp. is a 95% owned subsidiary of Audiovox Corporation. The Communications group's 2000 revenues of $1.4 billion represented a 55% increase over 1999. Handset sales increased 47% over fiscal 1999 to 8.9 million. In fiscal 2000, ACC sales represented 84% of the total for Audiovox Corporation.

Audiovox has been recognized among the leaders in the wireless market by Dataquest and at mid-year 2000 was named the number one supplier of CDMA handsets in North America for the second quarter. In 1998 we began providing our customer base with digital technology and by the end of fiscal 2000, digital handset sales had grown to represent 78% of our total. In November of 2000, we announced that we would be exiting the analog business and concentrating all of our marketing efforts on digital.

We market our products worldwide with operation centers and/or sales offices in the United States, Canada, Japan, Korea, Malaysia, Taiwan, Thailand, Peru, Venezuela and the Netherlands. We sell wireless products to the wireless carriers and their respective agents, distributors and retailers. Some of our key customers in 2000 included Verizon Wireless (created by the merger of Bell Atlantic, GTE Mobilnet, Frontier, Airtouch, Vodafone and PrimeCo), MCI Worldcom, US Cellular, CenturyTel, Movicom, Radio Shack and CompUSA.

Although we do not manufacture our own products, we work closely with both customers and suppliers in the design, development and testing of our products. We test all products in our own facilities to ensure compliance with our own standards and supervise testing in our carrier markets to ensure compliance with carrier specifications. 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. We currently supply wireless products in CDMA, TDMA, GSM and our existing inventories of AMPS and N/AMPS.

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 strategy are:

- **Expand wireless technology offerings to increase market opportunities.** We intend to continue to offer a wide breadth of wireless product in advanced wireless technologies. Some of our planned year 2001 product initiatives will include Personal Digital Assistants (PDA's) with built in 1x wireless connectivity, Third Generation Wireless Handsets, GAIT phones and GPRS. We also plan to continue to design products specifically to meet the unique requirements of our carrier customers.
- **Capitalize on the Audiovox brand name.** We believe that the Audiovox Brand name is one of our greatest strengths. Our wireless products generally bear the Audiovox name or are co-branded with the wireless carriers. We have invested heavily over nearly 40 years in promoting our brand name and we expect to continue that trend.
- **Expand global presence.** During fiscal 2001, we plan to expand our international wireless business as we continue to market products compatible with international wireless technologies such as GSM, TDMA and CDMA. We will be exiting the analog business but will continue to supply analog phones from our existing inventories. We intend to capitalize on our strong relationships with domestic carriers who are expanding their footprint in international markets.
- **Continue to provide added value to our customers and suppliers.** Our customers and suppliers rely on us to provide value-added services such as product design and development, engineering and testing, proprietary handsets and software, technical and sales support and all repair and customer support services. Because of our efficient internal systems, we believe that we provide those services more cost effectively.

Fiscal 2000 was the most successful year in our division as we posted the highest sales and profit in our history. In July, we became a wholly-owned subsidiary of Audiovox Corporation, which will allow us to focus on our core competencies and the product development and diversification necessary for future growth.

Our business plan of expanding product lines and leveraging our strong distribution network has resulted in Audiovox's ability to move into product categories that represent "firsts" for us. In the last three years, we expanded into Mobile Video, FRS two-way Radios, MP 3 Players and Consumer Audio products with fantastic results. Mobile Video is one of the fastest growing product lines in the company's history. Its growth rate was 41% in 2000 and by the end of the year our mobile video business had captured a 36% market share. Mobile DVD will lead the way for us in 2001 with a variety of applications designed to work with our overhead systems and seatback installations. This year, in addition to DVD, we will move into Navigation and Home and Portable Video Products. We expect the move to Navigation to be one of the highlights of 2001 as it adds another dimension to our mobile electronics product offerings. Our product line includes navigation systems with high quality sophisticated features and a variety of options.

In October, we made a major stride in our OE initiatives as we began shipments to FORD of a rear seat entertainment system for the Ford Expedition, one of their most popular SUVs. This contract will strengthen our OEM program and we believe will help us as we continue to expand our OE sales group.

For 2001 our Prestige line of autosound will have over a dozen new products, featuring CD and separates. Rampage by Audiovox, the promotional line of autosound, will have a variety of new CD radios and amps and undergo a packaging face-lift this year. In the auto security category, Audiovox will add to its already broad line, a confirming transmitter system that has over 16 functions. It will be one of the most sophisticated products in its category on the market today.

The diversification that we made several years ago into consumer electronics products continues to be a great success and this product group grew 60% in 2000 making it the largest sales category last year. New for 2001 will be a number of hot new handheld portable DVD models with and without screens. DVD will also be included on a number of home audio shelf systems. Included in our consumer electronics group are FRS two-way radios. For 2001 we have added features like Weather Alert and FM Radio. In addition a 5-mile range GMRS unit with built-in GPS, and two base stations will be part of the new line.

We are confident that consumer acceptance of the Audiovox brand will fuel our expansion and diversification into consumer electronics. We believe that we have all of the marketing elements in place. We have retailer-friendly programs, exciting products and packaging, and strong customer service. We expect 2001 to be a challenging year due to the uncertain economy and tough competition across our product lines, however we believe that we will meet our targets and continue to expand our business.

Patrick M. Lavelle
President & Chief Executive Officer
Audiovox Electronics Corp.

"We are confident that consumer acceptance of the Audiovox brand will fuel our expansion and further diversification in consumer electronics."

Information Technology—During fiscal 2000, we launched several Information Technology (IT) applications to support the Company's growth and new markets. These applications focused on warranty and repair, product purchases, financial reporting and budgeting. There were also further enhancements to the operating systems and Internet capabilities including the launch of a new web site with extensive product information and customer support. Phase Two of that launch was started in 2000 and will be complete in the next few months. This second phase includes a new user-friendly Frequently Asked Questions section in customer service and an improved company store.

Streamlining operations to increase productivity has been a major IT initiative and during the year we also began to implement inventory bar coding programs designed to speed the shipping and return/repair process. In fiscal 2001, we will continue to invest in our IT systems to enhance our productivity and support our company's growth.

Liquidity—Fiscal 2000 saw further improvements to the Company's balance sheet. We successfully completed a follow-on-offering and retired a foreign currency loan. Our balance sheet is strong and we believe that the financial facilities we now have in place position us well for the year 2001.

Equity Investments—From time to time, the Company makes equity investments that we believe enhance our performance or contribute to our profitability. Each year we review those investments to make certain that our objectives are still being met. During 2000, we terminated two such investments, Talk Corporation and Quintex Wireless, LLC. In fiscal 2001, we plan to focus our attention on Audiovox Specialized Applications, LLC (ASA) and Bliss-tel and we will review other opportunistic investments as they arise.

C. Michael Stoehr
Senior Vice President &
Chief Financial Officer

Forward-looking Statements

This Report on Form 10-K contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Words such as "may," "believe," "estimate," "expect," "plan," "intend," "project," "anticipate," "continues," "could," "potential," "predict" and similar expressions may identify forward-looking statements. The Company has based these forward-looking statements on its current expectations and projections about future events, activities or developments. The Company's actual results could differ materially from those discussed in or implied by these forward-looking statements. Forward-looking statements include statements relating to, among other things:

- growth trends in the wireless, automotive and consumer electronic businesses
- technological and market developments in the wireless, automotive and consumer electronics businesses
- liquidity
- availability of key employees
- expansion into international markets
- the availability of new consumer electronic products

These forward-looking statements are subject to numerous risks, uncertainties and assumptions about the Company including, among other things:

- the ability to keep pace with technological advances
- significant competition in the wireless, automotive and consumer electronics businesses
- quality and consumer acceptance of newly introduced products
- the relationships with key suppliers
- the relationships with key customers
- possible increases in warranty expense
- the loss of key employees
- foreign currency risks
- political instability
- changes in U.S. federal, state and local and foreign laws
- changes in regulations and tariffs
- seasonality and cyclicality
- inventory obsolescence and availability

The Company markets its products under the Audiovox brand as well as private labels to a large and diverse distribution network both domestically and internationally. The Company operates through two marketing groups: Wireless and Electronics. Wireless consists of Audiovox Communications Corp. (ACC), a 95%-owned subsidiary of Audiovox, and Quintex, which is a wholly-owned subsidiary of ACC. ACC markets wireless handsets and accessories primarily on a wholesale basis to wireless carriers in the United States and, to a lesser extent, carriers overseas. Quintex is a small operation for the direct sale of handsets, accessories and wireless telephone service. For fiscal 2000, sales through Quintex were $63.5 million or 4.5% of Wireless sales. Quintex receives activation commissions and residual fees from retail sales. Quintex also receives a monthly residual payment which is based upon a percentage of the customer's usage.

The Electronics Group consists of wholly-owned subsidiaries, Audiovox Electronics Corporation (AEC) and American Radio Corp., and three majority-owned subsidiaries, Audiovox Communications (Malaysia) Sdn. Bhd., Audiovox Holdings (M) Sdn. Bhd. and Audiovox Venezuela, C.A. The Electronics Group markets automotive sound and security systems, electronic car accessories, home and portable sound products, FRS radios, in-vehicle video systems, flat-screen televisions, DVD's and navigation systems. Sales are made through an extensive distribution network of mass merchandisers, power retailers and others. In addition, the Company sells some of its products directly to automobile manufacturers on an OEM basis.

The Company allocates interest and certain shared expenses to the marketing groups based upon estimated usage. General expenses and other income items that are not readily allocable are not included in the results of the two marketing groups.

From fiscal 1996 through 2000, several major events and trends have affected the Company's results and financial conditions.

Wireless increased its handset sales from 2.1 million units in fiscal 1996 to 8.9 million units in fiscal 2000. This increase in unit sales was primarily due to:

- the introduction of digital technology, which has allowed carriers to significantly increase subscriber capacity
- increased number of carriers competing in each market
- reduced cost of service and expanded feature options
- increased selling price of digital handsets

During this period, the Company's unit gross profit margin declined due to continued strong competition and increased sales of digital handsets, which have a lower gross profit margin percentage than analog handsets. Despite the margin decline, the Company's gross margin dollars increased significantly due to the large increases in net sales.

Sales by the Electronics Group were $188.4 million in 1996 and $193.9 million in 1997, but declined in 1998 to $185.0 million, primarily due to a financial crisis in Asia, particularly Malaysia. Sales for fiscal 1999 were $242.5 million. Sales for fiscal 2000 were $277.8 million. During this period, the Company's sales were impacted by the following items:

- the growth of our consumer electronic products business from $2.9 million in fiscal 1996 to $60.9 million in fiscal 2000
- the introduction of mobile video entertainment systems and other new technologies
- the Asian financial crisis in 1998
- growth of OEM business

Gross margins in the Company's electronics business increased from 18.9% in 1996 to 21.6% for fiscal 2000 due, in part, to higher margins in mobile video products and other new technologies and products.

The Company's total operating expenses have increased at a slower rate than sales since 1996. Total operating expenses were $83.3 million in 1996 and $113.8 million in 2000. The Company has invested in management systems and improved its operating facilities to increase its efficiency.

During the period 1996 to 2000, the Company's balance sheet was strengthened by the conversion of its $65 million 6 1/4% subordinated convertible debentures due 2001 into approximately 9.7 million shares of Class A common stock, the net gain of $23.7 million from the sale of CellStar stock held by the Company and the 2.3 million share follow-on offering in which the Company received $96.6 million net proceeds.

All financial information, except share and per share data, is presented in thousands.

Results of Operations

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

	Percentage of Net Sales Years Ended November 30,		
	1998	1999	**2000**
Net sales:			
Wireless			
Wireless products	65.1%	76.2%	**81.7%**
Activation commissions	3.5	2.1	**1.7**
Residual fees	0.6	0.3	**0.1**
Other	0.9	0.5	**0.2**
Total Wireless	70.0	79.1	**83.7**
Electronics			
Mobile electronics	14.1	10.1	**7.9**
Sound	13.4	7.1	**4.6**
Consumer electronics	1.9	3.3	**3.6**
Other	0.6	0.3	**0.2**
Total Electronics	30.0	20.9	**16.3**
Total net sales	100.0	100.0	**100.0**
Cost of sales	(85.6)	(88.4)	**(91.0)**
Gross profit	14.4	11.6	**9.0**
Selling	(5.7)	(3.2)	**(2.7)**
General and administrative	(5.9)	(3.8)	**(2.9)**
Warehousing, assembly and repair	(2.0)	(1.3)	**(1.1)**
Total operating expenses	(13.6)	(8.3)	**(6.7)**
Operating income	0.8	3.3	**2.3**
Interest and bank charges	(0.8)	(0.4)	**(0.4)**
Income in equity investments and related income, net	0.2	0.3	**0.2**
Gain on sale of investments	0.1	0.3	**0.1**
Gain on hedge of available-for-sale securities	—	—	**0.1**
Gain on issuance of subsidiary shares	—	0.3	**—**
Other income (expense)	0.3	(0.2)	**0.1**
Provision for income taxes	(0.1)	(1.3)	**(0.9)**
Extraordinary item	—	—	**0.1**
Net income	0.5%	2.3%	**1.6%**

The net sales and percentage of net sales by product line and marketing group for the fiscal years ended November 30, 1998, 1999 and 2000 are reflected in the following table. Certain reclassifications and recaptionings have been made to the data for periods prior to fiscal 2000 in order to conform to fiscal 2000 presentation.

	Fiscal Year Ended November 30,					
	1998		1999		**2000**	
	(Dollars in thousands)					
Net sales:						
Wireless						
Products	$401,184	65.1%	$ 883,537	76.2%	**$1,390,026**	**81.7%**
Activation commissions	21,438	3.5	24,412	2.1	**28,983**	**1.7**
Residual fees	3,592	0.6	2,939	0.3	**1,852**	**0.1**
Other	5,526	0.9	6,197	0.5	**3,619**	**0.2**
Total Wireless	431,740	70.0	917,085	79.1	**1,424,480**	**83.7**
Electronics						
Mobile electronics	86,736	14.1	117,500	10.1	**135,074**	**7.9**
Sound	82,763	13.4	82,843	7.1	**77,825**	**4.6**
Consumer electronics	11,827	1.9	38,150	3.3	**60,968**	**3.6**
Other	3,629	0.6	3,959	0.3	**3,949**	**0.2**
Total Electronics	184,955	30.0	242,452	20.9	**277,816**	**16.3**
Total	$616,695	100.0%	$1,159,537	100.0%	**$1,702,296**	**100.0%**

(Dollars in thousands, except share and per share data)

Fiscal 1999 Compared to Fiscal 2000

Consolidated Results

Net sales for fiscal 2000 were $1,702,296, a 46.8% increase from net sales of $1,159,537 in fiscal 1999. Wireless Group sales were $1,424,480 in fiscal year 2000, a 55.3% increase from sales of $917,085 in fiscal 1999. Unit sales of wireless handsets increased 46.9% to approximately 8,909,000 units in fiscal 2000 from approximately 6,067,000 units in fiscal 1999. The average selling price of the Company's handsets increased to $150 per unit in fiscal 2000 from $140 per unit in fiscal 1999.

Electronics Group sales were $277,816 in fiscal 2000, a 14.6% increase from sales of $242,452 in fiscal 1999. This increase was largely due to increased sales in the mobile video and consumer electronics product lines. Sales by the Company's international subsidiaries increased 2.8% in fiscal 2000 to approximately $25.8 million as a result of improvements in the Malaysian subsidiary.

Gross profit margin for fiscal 2000 was 9.0%, compared to 11.6% in fiscal 1999. This decline in profit margin resulted primarily from an $8,152 analog inventory cost reduction and margin reductions in Wireless attributable to increased sales of digital handsets, which have lower margins. Due to specific technical requirements of individual carrier customers, carriers place large purchase commitments for digital handsets with Wireless, which results in a lower selling price which then lowers gross margins. Gross profit increased 13.2% to $152,368 in fiscal 2000, versus $134,628 in fiscal 1999.

Operating expenses were $113,844 in fiscal 2000, compared to $96,391 in fiscal 1999. As a percentage of net sales, operating expenses decreased to 6.7% in fiscal 2000 from 8.3% in fiscal 1999. Operating income for fiscal 2000 was $38,524, an increase of $287 from fiscal 1999.

During 2000, the Company also recorded an extraordinary gain of $2,189 in connection with the extinguishment of debt.

Net income for fiscal 2000 was $27,229 compared to $27,246 in fiscal 1999. Earnings per share before extraordinary item were $1.17, basic, and $1.11, diluted, and $1.27, basic and $1.21, diluted after extraordinary item, in fiscal 2000 compared to $1.43, basic and $1.39, diluted, in fiscal 1999.

Wireless Results

The following table sets forth for the fiscal years indicated certain statements of income data for Wireless expressed as a percentage of net sales:

	1999		**2000**	
Net sales:				
Wireless products	$883,537	96.3%	**$1,390,026**	**97.6%**
Activation commissions	24,412	2.7	**28,983**	**2.0**
Residual fees	2,939	0.3	**1,852**	**0.1**
Other	6,197	0.7	**3,619**	**0.3**
Total net sales	917,085	100.0	**1,424,480**	**100.0**
Gross profit	81,679	8.9	**93,184**	**6.5**
Total operating expenses	44,248	4.8	**54,524**	**3.8**
Operating income	37,431	4.1	**38,660**	**2.7**
Other expense	(6,176)	0.7	**(7,663)**	**(0.5)**
Pre-tax income	$ 31,255	3.4%	**$ 30,997**	**2.2%**

Wireless is composed of ACC and Quintex, both subsidiaries of the Company.

Net sales were $1,424,480 in fiscal 2000, an increase of $507,395, or 55.3%, from fiscal 1999. Unit sales of wireless handsets increased by 2,842,000 units in fiscal 2000, or 46.9%, to approximately 8,909,000 units from 6,067,000 units in fiscal 1999. This increase was attributable to sales of portable, digital products. The addition of a new supplier also provided a variety of new digital, wireless products that contributed to the sales increase. The average selling price of handsets increased to $150 per unit in fiscal 2000 from $140 per unit in fiscal 1999. The number of new wireless subscriptions processed by Quintex increased 30.9% in fiscal 2000, with a corresponding increase in activation commissions of approximately $4,571 in fiscal 2000. The average commission received by Quintex per activation decreased by approximately 9.3% in fiscal 2000 from fiscal 1999 due to changes within the commission structure with the various carriers. Unit gross profit margins decreased to 5.7% in fiscal 2000 from 7.8% in fiscal 1999, reflecting an increase in average unit cost, partially offset by an increase in selling prices. During 2000, Wireless adjusted the carrying value of its analog inventory by recording an $8,152 cost reduction. This charge will enable Wireless to effectively exit the active analog market. However, even as Wireless and the wireless communications market continues to shift away from analog to digital technology, Wireless will continue to sell analog telephones on a limited basis to specific customers to support specific carrier programs.

Operating expenses increased to $54,524 in fiscal 2000 from $44,248 in fiscal 1999. As a percentage of net sales, however, operating expenses decreased to 3.8% during fiscal 2000 compared to 4.8% in fiscal 1999. Selling expenses increased in fiscal 2000 from fiscal 1999, primarily in commissions and divisional marketing expenses. General and administrative expenses increased in fiscal 2000 from fiscal 1999, primarily in office salaries, temporary personnel, depreciation and amortization. Warehousing, assembly and repair expenses increased in fiscal 2000 from fiscal 1999, primarily in direct labor. Pre-tax income for fiscal 2000 was $30,997, a decrease of $258 from fiscal 1999.

Management believes that the wireless industry is extremely competitive and that this competition could affect gross margins and the carrying value of inventories in the future as new competitors enter the marketplace. Also, timely delivery and carrier acceptance of new product could affect our quarterly performance.

Electronics Results

The following table sets forth for the fiscal years indicated certain statements of income data for the Electronics Group expressed as a percentage of net sales:

	1999		**2000**	
Net sales:				
Mobile electronics	$117,500	48.5%	**$135,074**	**48.6%**
Sound	82,843	34.2	**77,825**	**28.0**
Consumer electronics	38,150	15.7	**60,968**	**21.9**
Other	3,959	1.6	**3,949**	**1.5**
Total net sales	242,452	100.0	**277,816**	**100.0**
Gross profit	53,025	21.9	**60,066**	**21.6**
Total operating expenses	38,645	15.9	**43,360**	**15.6**
Operating income	14,380	5.9	**16,706**	**6.0**
Other expense	(3,021)	(1.2)	**(1,937)**	**(0.7)**
Pre-tax income	$ 11,359	4.7%	**$ 14,769**	**5.3%**

Net sales were $277,816 in fiscal 2000, a 14.6% increase from net sales of $242,452 in fiscal 1999. Mobile and consumer electronics' sales increased over last year, partially offset by decreases in sound and other. Sales of mobile video within the mobile electronics category increased over 40% in fiscal 2000 to approximately $73.2 million from $52.0 million in fiscal 1999. Consumer electronics increased 59.8% to $60,968 in fiscal 2000 from $38,150 in fiscal 1999. These increases were due to the introduction of new product lines in both categories. These increases were partially offset by a decrease in the sound category, particularly SPS, AV, private label and Prestige audio lines.

Operating expenses were $43,360 in fiscal 2000, a 12.2% increase from operating expenses of $38,645 in fiscal 1999. Selling expenses increased during fiscal 2000, primarily in commissions, salesmen's salaries, advertising and divisional marketing. General and administrative expenses increased from fiscal 1999, mostly in office salaries, occupancy costs, depreciation and amortization. Warehousing and assembly expenses increased in fiscal 2000 from fiscal 1999, primarily due to field warehousing expense. Pre-tax income for fiscal 2000 was $14,769, an increase of $3,410 from fiscal 1999.

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

Other Income and Expense

Interest expense and bank charges increased $1,598 during fiscal 2000 from fiscal 1999.

Equity in income of equity investments, net, decreased by approximately $1,685 for fiscal 2000 compared to fiscal 1999. The majority of the decrease was due to decreases in the equity income of ASA and TALK. The decrease in ASA was due to a decrease in sales of mobile video products. The decrease in TALK was due to a change from analog to GSM within the wireless marketplace. During fiscal 2000, the Company disposed of its equity investment in TALK.

During 1999, the Company recorded an other-than-temporary decline in market value of its Shintom common stock in the amount of $1,953 and a related deferred tax benefit of $761. The write-down has been recorded as a component of other expense in the consolidated statements of income.

During 1999, the Company purchased an additional 3,100,000 Japanese yen (approximately $27,467) of Shintom Debentures and exercised its option to convert 2,882,788 Japanese yen of Shintom debentures into shares of Shintom common stock. The Company sold the Shintom common stock yielding net proceeds of $27,916 and a gain of $3,501.

On March 31, 1999, Toshiba Corporation, a major supplier, purchased 5% of the Company's subsidiary, Audiovox Communications Corp. (ACC), a supplier of wireless products for $5,000 in cash. The Company currently owns 95% of ACC; prior to the transaction, ACC was a wholly-owned subsidiary. As a result of the issuance of ACC's shares, the Company recognized a gain of $3,800 ($2,470 net of deferred taxes) during 1999.

During 2000, the Company exercised its option to convert 800,000 Japanese yen of Shintom debentures into shares of Shintom common stock. The Company sold the Shintom common stock, yielding net proceeds of $12,376 and a gain of $1,850.

During 2000, the Company sold 200,000 shares of its CellStar common stock yielding net proceeds of $851 and a gain of $537. In connection with the sale of the shares, the Company recognized $1,499 ($929 net of taxes) representing the net gain on the hedge of the available-for-sale securities (See Note 21(a)(2) to the consolidated financial statements for further discussion).

Provision for Income Taxes

The effective tax rate for 1999 and 2000 was 36.2% and $37.3%, respectively. The increase in the effective tax rate was due to increased foreign taxes offset by a decrease in the valuation allowance and a decrease in state income taxes.

Fiscal 1998 Compared to Fiscal 1999

Consolidated Results

Net sales for fiscal 1999 were $1,159,537, an 88% increase from net sales of $616,595 in fiscal 1998. Wireless Group sales were $917,085 in fiscal year 1999, a 112% increase from sales of $431,740 in fiscal 1998. Unit sales of wireless handsets increased 83.2% to approximately 6,067,000 units in fiscal 1999 from approximately 3,311,000 units in fiscal 1998. The average selling price of the Company's handsets increased to $140 per unit in fiscal 1999 from $114 per unit in fiscal 1998.

Electronics Group sales were $242,452 in fiscal 1999, a 31% increase from sales of $184,955 in fiscal 1998. This increase was largely due to increased sales in the mobile video and consumer electronics product lines. Sales by the Company's international subsidiaries increased 14.2% in fiscal 1999 to approximately $25,100 as a result of improvements in both the Malaysian and Venezuelan subsidiaries.

Gross profit margin for fiscal 1999 was 11.6%, compared to 14.4% in fiscal 1998. This decline in profit margin resulted primarily from margin reductions in Wireless attributable to increased sales of digital handsets, which have lower margins than analog handsets, and was also affected by decreases in Latin American sales and margins. Gross profit increased 52.1% to $134,628 in fiscal 1999, versus $88,541 in fiscal 1998.

Operating expenses were $96,391 in fiscal 1999, compared to $83,670 in fiscal 1998. As a percentage of net sales, operating expenses decreased to 8.3% in fiscal 1999 from 13.6% in fiscal 1998. Operating income for fiscal 1999 was $38,237, an increase of $33,366 from fiscal 1998.

Net income for fiscal 1999 was $27,246, an increase of 817% from net income of $2,972 in fiscal 1998. Earnings per share were $1.43, basic, and $1.39, diluted, in fiscal 1999 compared to $0.16, basic and diluted, in fiscal 1998.

Wireless Results

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

	1998		1999	
Net sales:				
Wireless products	$401,184	92.9%	$883,537	96.3%
Activation commissions	21,438	5.0	24,412	2.7
Residual fees	3,592	0.8	2,939	0.3
Other	5,526	1.3	6,197	0.7
Total net sales	431,740	100.0	917,085	100.0
Gross profit	46,654	10.8	81,679	8.9
Total operating expenses	42,917	9.9	44,248	4.8
Operating income	3,737	0.9	37,431	4.1
Other expense	(5,588)	(1.3)	(6,176)	(0.7)
Pre-tax income (loss)	$ (1,851)	(0.4)%	$ 31,255	3.3%

Wireless is composed of ACC and Quintex, both subsidiaries of the Company.

Net sales were $917,085 in fiscal 1999, an increase of $485,345, or 112%, from fiscal 1998. Unit sales of wireless handsets increased by 2,756,000 units in fiscal 1999, or 83.2%, to approximately 6,067,000 units from approximately 3,311,000 units in fiscal 1998. This increase was attributable to sales of portable, digital products. The addition of four new suppliers also provided a variety of new digital, wireless products that contributed to the sales increase. The average selling price of handsets increased to $140 per unit in fiscal 1999 from $114 per unit in fiscal 1998. The number of new wireless subscriptions processed by Quintex increased 23.3% in fiscal 1999, with a corresponding increase in activation commissions of approximately $2,974 in fiscal 1999. The average commission received by Quintex per activation decreased by approximately 7.5% in fiscal 1999 from fiscal 1998. Unit gross profit margins increased to 7.8% in fiscal 1999 from 7.3% in fiscal 1998, reflecting increased selling prices of approximately 23.3%, which were partially offset by a corresponding increase of 22.7% in average unit cost. During fiscal 1998, the Company recorded a $6,600 charge to adjust the carrying value of certain cellular inventories, partially offset by a $1,000 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 presence of digital handsets in the market.

Operating expenses increased to $44,248 in fiscal 1999 from $42,917 in fiscal 1998. As a percentage of net sales, however, operating expenses decreased to 4.8% during fiscal 1999 compared to 9.9% in fiscal 1998. Selling expenses decreased in fiscal 1999 from fiscal 1998, primarily in divisional marketing and advertising, partially offset by increases in travel expenses. General and administrative expenses increased in fiscal 1999 from fiscal 1998, primarily due to temporary personnel, insurance expense and provisions for doubtful accounts. Warehousing, assembly and repair expenses increased in fiscal 1999 from fiscal 1998, primarily due to direct labor expenses. Pre-tax income for fiscal 1999 was $31,255, an increase of $33,106 from fiscal 1998.

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

Electronics Results

The following table sets forth for the fiscal years indicated certain statements of income data for the Electronics Group expressed as a percentage of net sales:

	1998		1999	
Net sales:				
Mobile electronics	$ 86,736	46.9%	$117,500	48.5%
Sound	82,763	44.7	82,843	34.2
Consumer electronics	11,827	6.4	38,150	15.7
Other	3,629	2.0	3,959	1.6
Total net sales	184,955	100.0	242,452	100.0
Gross profit	42,049	22.7	53,025	21.9
Total operating expenses	32,466	17.6	38,645	15.9
Operating income	9,583	5.1	14,380	5.9
Other expense	(3,581)	(1.9)	(3,021)	(1.2)
Pre-tax income	$ 6,002	3.2%	$ 11,359	4.7%

Net sales were $242,452 in fiscal 1999, a 31.1% increase from net sales of $184,955 in fiscal 1998. All product categories experienced an increase in sales, particularly in the mobile and consumer electronics product lines. Sales of mobile video, in the mobile electronics category, increased over 400% in fiscal 1999 to approximately $52 million from $10 million in fiscal 1998. Consumer electronics increased 223% to $38,150 in fiscal 1999 from $11,827 in fiscal 1998. These increases were due to the introduction of new product lines in both categories and were partially offset by decreases in Prestige audio and SPS sound lines.

Operating expenses were $38,645 in fiscal 1999, a 19.0% increase from operating expenses of $32,466 in fiscal 1998. Selling expenses increased during fiscal 1999, primarily in salaries, commissions and divisional marketing. These increases were partially offset by decreases in advertising. General and administrative expenses increased from fiscal 1998, mostly in salaries, provision for doubtful accounts and temporary personnel. Warehousing and assembly expenses increased in fiscal 1999 from fiscal 1998, primarily due to tooling expenses, warehousing and direct labor. Pre-tax income for fiscal 1999 was $11,359, an increase of $5,357 from fiscal 1998.

The Company believes that the Electronics 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.

Other Income and Expense

Interest expense and bank charges decreased $57 during fiscal 1999 from fiscal 1998.

Equity in income of equity investments, net, increased by approximately $3,150 for fiscal 1999 compared to fiscal 1998. The majority of the increases were due to increases in the equity income of ASA and TALK.

During 1998, the Company purchased 400,000 Japanese yen (approximately $3,132) of Shintom debentures and 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 the fourth quarter of 1999, the Company recorded an other-than-temporary decline in market value of its Shintom common stock in the amount of $1,953 and a related deferred tax benefit of $761. The write-down has been recorded as a component of other expense in the consolidated statements of income.

During 1998, the Company purchased an additional 1,400,000 Japanese yen (approximately $9,586) of Shintom Debentures and exercised its option to convert 737,212 Japanese yen of Shintom debentures into shares of Shintom common stock. The Company sold the Shintom common stock yielding net proceeds of $5,830 and a gain of $787.

During 1999, the Company purchased an additional 3,100,000 Japanese yen (approximately $27,467) of Shintom Debentures and exercised its option to convert 2,882,788 Japanese yen of Shintom debentures into shares of Shintom common stock. The Company sold the Shintom common stock yielding net proceeds of $27,916 and a gain of $3,501.

As of December 1999, the Company completed the liquidation of Audiovox Pacific Pty. Ltd.

Provision for Income Taxes

The effective tax rate for 1998 and 1999 was 21.8% and 36.2%, respectively. In 1998, the valuation allowance was reduced by $340. In addition, the Company received a benefit in the amount of $350, resulting from concluded state tax examinations, thus reducing the 1998 effective tax rate.

Liquidity and Capital Resources

The Company's cash position at November 30, 2000 was $904 above the November 30, 1999 level. Operating activities used approximately $6,628, primarily from increases in accounts receivable partially offset by an increase in accounts payable, accrued expenses and other current liabilities. Even though accounts receivable has increased, days on hand have decreased approximately 6%. Investing activities provided approximately $3,388, primarily from proceeds from the sale of investment securities, partially offset by the purchase of property, plant and equipment. Financing activities provided approximately $4,198, primarily from the sale of common stock and issuance of notes payable, partially offset by net repayments of bank obligations.

The Company maintains a revolving credit agreement with various financial institutions. During the year ended November 30, 1999, the credit agreement was amended and restated in its entirety, extending the expiration date to July 27, 2004. The amended and restated credit agreement provides for $200,000 of available credit, including $15,000 for foreign currency borrowings. In December 1999, the credit agreement was further amended, resulting in an increase in available credit to $250,000.

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, 2000, availability of credit under the credit agreement is a maximum aggregate amount of $250,000, subject to certain conditions, based upon a formula taking into account the amount and quality of its accounts receivable and inventory. At November 30, 2000, the amount of unused available credit is $145,433. The credit agreement also allows for commitment up to $50,000 in forward exchange contracts.

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.

The Company also has revolving credit facilities in Malaysia to finance additional working capital needs. As of November 30, 2000, the available line of credit for direct borrowing, letters of credit, bankers' acceptances and other forms of credit approximately $8,158. The Malaysian credit facilities are partially secured by the Company under one standby letter of credit totaling $1,300 and two standby letters of credit totaling $4,800 and are payable upon demand or upon expiration of the standby letters of credit on January 15, 2002 and August 31, 2001, respectively. The obligations of the Company under the Malaysian credit facilities are secured by the property and building in Malaysia owned by Audiovox Communications Sdn. Bhd.

The Company also has revolving credit facilities in Venezuela to finance additional working capital needs. The Venezuelan credit facility is secured by the Company under a standby letter of credit in the amount of $3,500 which expires on May 31, 2001 and is payable upon demand or upon expiration of the standby letter of credit.

In February 2000, the Company completed a follow on offering of 3,565,000 Class A common shares at a price to the public of $45.00 per share. Of the 3,565,000 shares sold, the Company offered 2,300,000 shares and 1,265,000 shares were offered by selling shareholders. Audiovox received approximately $96,573 after deducting expenses. The Company used these net proceeds to repay a portion of amounts outstanding under their revolving credit facility, any portion of which can be reborrowed at any time. The Company did not receive any of the net proceeds from the sale of shares by the selling shareholders.

The Company believes that it has sufficient liquidity to satisfy its anticipated working capital and capital expenditure needs through November 30, 2001 and for the reasonable foreseeable future.

Impact of Inflation and Currency Fluctuation

Inflation has not had a significant impact on the Company's financial position or operating results. To the extent that the Company expands its operations into Latin America and the Pacific Rim, the effects of inflation and currency fluctuations in those areas could have growing significance to its financial condition and results of operations. Fluctuations in the foreign exchange rates in Pacific Rim countries have not had a material adverse effect on the Company's consolidated financial position, results of operations or liquidity.

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 in its operations. The Company generally experiences a substantial amount of its sales during September, October and November. December is also a key month for the Company due to increased demand for its products during the holiday season. This increase results from increased promotional and advertising activities from the Company's customers to end-users.

Recent Accounting Pronouncements

In June 1999 and June 2000, respectively, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 137, "Accounting for Derivative Instruments and Hedging Activities-Deferral of the "Effective Date of FASB Statement No. 133" and SFAS No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities". SFAS 137 and 138 amend SFAS 133, "Accounting for Derivative Instruments and Hedging Activities," which was issued in June 1998. SFAS 137 deferred the effective date of SFAS 133 to all fiscal quarters of fiscal years beginning after June 15, 2000. SFAS 133 establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts and for hedging activities. It requires that an entity recognize all derivatives as either assets or liabilities in the statement of financial position and measures those instruments at fair value. Management of the Company does not believe that the implementation of SFAS 133 will have a material impact on its financial position, results of operations or liquidity.

On December 3, 1999, the Securities and Exchange Commission (SEC) issued Staff Accounting Bulletin No. 101—"Revenue Recognition in Financial Statements" (SAB No. 101). SAB No. 101 provides the SEC staff's views in applying generally accepted accounting principles to revenue recognition in the financial statements. SAB No. 101B delayed the implementation date for registrants to adopt the accounting guidance contained in SAB No. 101 by no later than the fourth fiscal quarter of the fiscal year beginning after December 15, 1999. Management of the Company does not believe that applying the accounting guidance of SAB No. 101 will have a material effect on its financial position, results of operations or liquidity.

In September 2000, the Emerging Issues Task Force (EITF) issued EITF 00–22, "Accounting for Points and Certain Other Time-Based or Volume-Based Sales Incentive Offers, and Offers for Free Products or Services to Be Delivered in the Future". EITF 00-22 addresses, among other issues, how a vendor should account for an offer to a customer to rebate or refund a specified amount of cash that is redeemable only if a customer completes a specified cumulative level of revenue transactions or remains a customer for a specified time period. At the January 2001 meeting, the Task Force affirmed its conclusions reached at the November 2000 meeting, at which time they concluded that a vendor should recognize a cash rebate or refund obligation as a reduction of revenue based upon a systematic and rational allocation of the cost of honoring rebates or refunds earned and claimed to each of the underlying revenue transactions. The consensus is effective for interim or annual periods ending after February 15, 2001. A portion of the Company's sales programs are in the form of volume incentive rebates which, as of November 30, 2000, have been recorded in selling expenses on the accompanying consolidated statements of income. Implementation of EITF 00-22 for the Company will be in the first fiscal quarter of 2001. Management of the Company is in the process of assessing the impact that implementation will have on the consolidated financial statements.

Quantitative and Qualitative Disclosures About Market Risk

Market Risk Sensitive Instruments

The market risk inherent in the Company's market risk sensitive instruments and positions is the potential loss arising from adverse changes in marketable equity security prices, foreign currency exchange rates and interest rates.

Marketable Securities

Marketable securities at November 30, 2000, which are recorded at fair value of $5,484 and include net unrealized losses of $307, have exposure to price risk. This risk is estimated as the potential loss in fair value resulting from a hypothetical 10% adverse change in prices quoted by stock exchanges and amounts to $548 as of November 30, 2000. Actual results may differ.

Interest Rate Risk

The Company's bank loans expose earnings to changes in short-term interest rates since interest rates on the underlying obligations are either variable or fixed for such a short period of time as to effectively become variable. The fair values of the Company's bank loans are not significantly affected by changes in market interest rates.

The change in fair value of the Company's long-term debt resulting from a hypothetical 10% decrease in interest rates as of November 30, 2000 is not material.

Foreign Exchange Risk

In order to reduce the risk of foreign currency exchange rate fluctuations, the Company hedges transactions denominated in a currency other than the functional currencies applicable to each of its various entities. The instruments used for hedging are forward contracts with banks. The changes in market value of such contracts have a high correlation to price changes in the currency of the related hedged transactions. Intercompany transactions with foreign subsidiaries and equity investments are typically not hedged. The potential loss in fair value for such net currency position resulting from a 10% adverse change in quoted foreign currency exchange rates as of November 30, 2000 is not material.

The Company is subject to risk from changes in foreign exchange rates for its subsidiaries and equity investments that use a foreign currency as their functional currency and are translated into U.S. dollars. These changes result in cumulative translation adjustments which are included in accumulated other comprehensive income. On November 30, 2000, the Company had translation exposure to various foreign currencies with the most significant being the Malaysian ringgit, Thailand baht and Canadian dollar. The Company also has a Venezuelan subsidiary in which translation adjustments are included in net income. The potential loss resulting from a hypothetical 10% adverse change in quoted foreign currency exchange rates, as of November 30, 2000, amounts to $687. Actual results may differ.

Certain of the Company's investments in marketable securities and notes payable are subject to risk from changes in the Japanese yen rate. As of November 30, 2000, the amount of loss in fair value resulting from a hypothetical 10% adverse change in the Japanese yen rate, for the investments that are not hedged, approximates $787. Actual results may differ.

(In thousands, except share data)	1999	**2000**
ASSETS		
Current assets:		
Cash	$ 5,527	**$ 6,431**
Accounts receivable, net	237,272	**279,402**
Inventory, net	136,554	**140,065**
Receivable from vendor	9,327	**5,566**
Prepaid expenses and other current assets	7,940	**6,830**
Deferred income taxes, net	7,675	**12,244**
Total current assets	404,295	**450,538**
Investment securities	30,401	**5,484**
Equity investments	13,517	**11,418**
Property, plant and equipment, net	19,629	**27,996**
Excess cost over fair value of assets acquired and other intangible assets, net	5,661	**5,098**
Other assets	1,580	**2,325**
	$475,083	**$502,859**
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 76,382	**$ 61,060**
Accrued expenses and other current liabilities	29,068	**62,569**
Income taxes payable	8,777	**6,274**
Bank obligations	15,993	**8,104**
Notes payable	—	**5,868**
Current installment of long-term debt	—	**486**
Documentary acceptances	1,994	**—**
Total current liabilities	132,214	**144,361**
Bank obligations	102,007	**15,000**
Deferred income taxes, net	8,580	**972**
Long-term debt	5,932	**—**
Capital lease obligation	6,279	**6,260**
Deferred compensation	—	**2,208**
Total liabilities	255,012	**168,801**
Minority interest	3,327	**3,555**
Stockholders' equity:		
Preferred stock, liquidation preference of $2,500	2,500	**2,500**
Common stock:		
Class A; 30,000,000 and 60,000,000 authorized 1999 and 2000, respectively; 17,827,946 and 20,291,046 issued 1999 and 2000, respectively; 17,206,909 and 19,478,554 outstanding 1999 and 2000, respectively	179	**204**
Class B convertible; 10,000,000 authorized; 2,260,954 issued and outstanding	22	**22**
Paid-in capital	149,278	**248,468**
Retained earnings	63,142	**90,371**
Accumulated other comprehensive income (loss)	5,165	**(5,058)**
Gain on hedge of available-for-sale securities, net	929	**—**
Treasury stock, at cost, 621,037 and 762,492 Class A common stock 1999 and 2000, respectively	(4,471)	**(6,004)**
Total stockholders' equity	216,744	**330,503**
Commitments and contingencies		
Total liabilities and stockholders' equity	$475,083	**$502,859**

See accompanying notes to consolidated financial statements.

Years Ended November 30, 1998, 1999 and 2000

(In thousands, except per share data)	1998	1999	**2000**
Net sales	$616,695	$1,159,537	**$1,702,296**
Cost of sales (including inventory write-downs to market in 1998 of $6,600 and an analog inventory cost reduction of $8,152 in 2000)	528,154	1,024,909	**1,549,928**
Gross profit	88,541	134,628	**152,368**
Operating expenses:			
Selling	35,196	36,606	**45,942**
General and administrative	35,890	44,748	**49,800**
Warehousing, assembly and repair	12,584	15,037	**18,102**
Total operating expenses	83,670	96,391	**113,844**
Operating income	4,871	38,237	**38,524**
Other income (expense):			
Interest and bank charges	(4,769)	(4,712)	**(6,310)**
Equity in income of equity investments, net	1,107	4,257	**2,572**
Gain on sale of investments	787	3,501	**2,387**
Gain on hedge of available-for-sale securities	—	—	**1,499**
Gain on issuance of subsidiary shares	—	3,800	**—**
Other, net	1,805	(2,360)	**1,293**
Total other income (expense), net	(1,070)	4,486	**1,441**
Income before provision for income taxes and extraordinary item	3,801	42,723	**39,965**
Provision for income taxes	829	15,477	**14,925**
Income before extraordinary item	2,972	27,246	**25,040**
Extraordinary item-gain on extinguishment of debt	—	—	**2,189**
Net income	$ 2,972	$ 27,246	**$ 27,229**
Net income per common share before extraordinary item:			
Basic	$ 0.16	$ 1.43	**$ 1.17**
Diluted	$ 0.16	$ 1.39	**$ 1.11**
Net income per common share:			
Basic	$ 0.16	$ 1.43	**$ 1.27**
Diluted	$ 0.16	$ 1.39	**$ 1.21**

See accompanying notes to consolidated financial statements.

(*In thousands, except share data)*	Preferred Stock	Common Stock	Paid-In Capital	Unearned Compen-sation	Retained Earnings	Accumulated Other Compre-hensive Income (Loss)	Unrealized Gain on Equity Collar	Gain on Hedge of Available-for-Sale Securities	Treasury Stock	Total Stockholders' Equity
Balances at November 30, 1997	$2,500	195	145,240	(85)	32,924	8,766	773	—	(2,421)	187,892
Comprehensive loss:										
Net income	—	—	—	—	2,972	—	—	—	—	2,972
Other comprehensive income (loss), net of tax:										
Foreign currency translation adjustment	—	—	—	—	—	(2,276)	—	—	—	(2,276)
Unrealized loss on marketable securities, net of tax effect of $4,928	—	—	—	—	—	(8,040)	—	—	—	(8,040)
Other comprehensive loss										(10,316)
Comprehensive loss										(7,344)
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)
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	(1,550)	—	929	(3,589)	177,720
Comprehensive income:										
Net income	—	—	—	—	27,246	—	—	—	—	27,246
Other comprehensive income, net of tax:										
Foreign currency translation adjustment	—	—	—	—	—	940	—	—	—	940
Unrealized gain on marketable securities, net of tax effect of $3,540	—	—	—	—	—	5,775	—	—	—	5,775
Other comprehensive income										6,715
Comprehensive income										33,961
Compensation expense (income)	—	—	158	—	—	—	—	—	—	158
Exercise of stock options into 364,550 shares of common stock and issuance of 39,305 shares under the Restricted Stock Plan	—	4	2,775	—	—	—	—	—	—	2,779
Tax benefit of stock options exercised	—	—	1,101	—	—	—	—	—	—	1,101
Conversion of debentures into 70,565 shares	—	1	1,248	—	—	—	—	—	—	1,249
Issuance of warrants	—	1	662	—	—	—	—	—	—	663
Purchase of warrants	—	—	(5)	—	—	—	—	—	—	(5)
Acquisition of 122,982 common shares	—	—	—	—	—	—	—	—	(882)	(882)
Balances at November 30, 1999	2,500	201	149,278	—	63,142	5,165	—	929	(4,471)	216,744
Comprehensive income:										
Net income	—	—	—	—	**27,229**	—	—	—	—	**27,229**
Other comprehensive loss, net of tax:	—	—	—	—	—	—	—	—	—	
Foreign currency translation adjustment	—	—	—	—	—	**(104)**	—	—	—	**(104)**
Unrealized loss on marketable securities, net of tax effect of $(6,202)	—	—	—	—	—	**(10,119)**	—	—	—	**(10,119)**
Other comprehensive loss	—	—	—	—	—	—	—	—	—	**(10,223)**
Comprehensive income	—	—	—	—	—	—	—	—	—	**17,006**
Exercise of stock options into 121,300 shares of common stock and issuance of 11,671 shares under the Restricted Stock Plan	—	**1**	**836**	—	—	—	—	—	—	**837**
Tax benefit of stock options exercised	—	—	**1,270**	—	—	—	—	—	—	**1,270**
Conversion of debentures into 30,170 shares	—	**1**	**534**	—	—	—	—	—	—	**535**
Issuance of 2,300,000 shares in connection with stock offering	—	**23**	**96,550**	—	—	—	—	—	—	**96,573**
Acquisition of 141,455 common shares	—	—	—	—	—	—	—	—	**(1,533)**	**(1,533)**
Recognition of gain on hedge of available-for-sale securities	—	—	—	—	—	—	—	**(929)**	—	**(929)**
Balances at November 30, 2000	**$2,500**	**226**	**248,468**	—	**90,371**	**(5,058)**	—	—	**(6,004)**	**330,503**

See accompanying notes to consolidated financial statements.

(In thousands)	1998	1999	**2000**
Cash flows from operating activities:			
Net income	$ 2,972	$ 27,246	**$ 27,229**
Adjustment to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation and amortization	2,471	3,288	**4,128**
Provision for bad debt expense	581	3,255	**2,519**
Equity in income of equity investments, net	(1,107)	(4,257)	**(2,572)**
Minority interest	(320)	(220)	**1,087**
Gain on sale of investments	(787)	(3,501)	**(427)**
Gain from the sale of shares of equity investment	—	—	**(2,387)**
Gain on hedge of available-for-sale securities	—	—	**(1,499)**
Gain on issuance of subsidiary shares	—	(3,800)	**—**
Other-than-temporary decline in market value of investment security	—	1,953	**—**
Deferred income tax benefit, net	(902)	(565)	**(6,034)**
Provision for unearned compensation	53	—	**—**
Extraordinary item	—	—	**(2,189)**
(Gain) loss on disposal of property, plant and equipment, net	(151)	36	**(1)**
Income tax benefit on exercise of stock options	—	(1,163)	**(1,270)**
Changes in:			
Accounts receivable	(27,940)	(109,889)	**(45,531)**
Receivable from vendor	4,266	(8,371)	**3,761**
Inventory	31,705	(64,533)	**(3,945)**
Accounts payable, accrued expenses and other current liabilities	9,385	56,615	**18,974**
Income taxes payable	(4,034)	5,185	**(659)**
Investment securities-trading	—	—	**(2,211)**
Prepaid expenses and other, net	1,186	3,105	**4,399**
Net cash provided by (used in) operating activities	17,378	(95,616)	**(6,628)**
Cash flows from investing activities:			
Purchases of investment securities	(12,719)	(14,151)	**—**
Purchases of property, plant and equipment, net	(4,932)	(4,822)	**(12,047)**
Net proceeds from sale of investment securities	5,830	11,201	**13,227**
Proceeds from sale of equity collar	1,499	—	**—**
Proceeds from distribution from equity investment	1,125	1,648	**1,286**
Proceeds from issuance of subsidiary shares	—	5,000	**—**
Proceeds from the sale of shares of equity investment	—	—	**922**
Net cash provided by (used in) investing activities	(9,197)	(1,124)	**3,388**
Cash flows from financing activities:			
Net borrowings (repayments) of bank obligations	(5,047)	93,428	**(94,674)**
Issuance of notes payable	—	—	**5,868**
Payment of dividend to minority shareholder of subsidiary	—	—	**(859)**
Net repayments under documentary acceptances	(3)	(1,910)	**(1,994)**
Debt issuance costs	—	(1,175)	**—**
Principal payments on capital lease obligation	(26)	(19)	**(19)**
Proceeds from exercise of stock options and warrants	—	3,442	**837**
Repurchase of Class A common stock	(1,168)	(882)	**(1,534)**
Purchase of warrants	(1,869)	—	**—**
Net proceeds from sale of common stock	—	—	**96,573**
Net cash provided by (used in) financing activities	(8,113)	92,884	**4,198**
Effect of exchange rate changes on cash	(115)	(15)	**(54)**
Net increase (decrease) in cash	(47)	(3,871)	**904**
Cash at beginning of period	9,445	9,398	**5,527**
Cash at end of period	$ 9,398	$ 5,527	**$ 6,431**

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 a diverse line of products and provide related services throughout the world. These products and services include handsets and accessories for wireless communications, fulfillment services for wireless carriers, automotive entertainment and security products, automotive electronic accessories and consumer electronics.

The Company operates in two primary markets:

(1) Wireless communications. Wireless markets wireless handsets and accessories through domestic and international wireless carriers and their agents, independent distributors and retailers.

(2) Mobile and consumer electronics. The Electronics Group sells autosound, mobile electronics and consumer electronics primarily to mass merchants, power retailers, specialty retailers, new car dealers, original equipment manufactures (OEMs), independent installers of automotive accessories and the U.S. military.

(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

Investments with original maturities of three months or less are considered cash equivalents. There were no cash equivalents at November 30, 1999 or 2000.

(d) Cash Discounts, Co-operative Advertising Allowances, Market Development Funds and Volume Incentive Rebates

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

In September 2000, the Emerging Issues Task Force (EITF) issued EITF 00-22, "Accounting for Points and Certain Other Time-Based or Volume-Based Sales Incentive Offers, and Offers for Free Products or Services to Be Delivered in the Future". EITF 00-22 addresses, among other issues, how a vendor should account for an offer to a customer to rebate or refund a specified amount of cash that is redeemable only if a customer completes a specified cumulative level of revenue transactions or remains a customer for a specified time period. At the January 2001 meeting, the Task Force affirmed its conclusions reached at the November 2000 meeting, at which time they concluded that a vendor should recognize a cash rebate or refund obligation as a reduction of revenue based upon a systematic and rational allocation of the cost of honoring rebates or refunds earned and claimed to each of the underlying revenue transactions. The consensus is effective for interim or annual periods ending after February 15, 2001. A portion of the Company's sales programs are in the form of volume incentive rebates which, as of November 30, 2000, have been recorded in selling expenses on the accompanying consolidated statements of income. Implementation of EITF 00-22 for the Company will be in the first fiscal quarter of 2001. Management of the Company is in the process of assessing the impact that implementation will have on the consolidated financial statements.

Cash discounts, co-operative advertising allowances, market development funds and volume incentive rebate expenses approximated $15,789, $15,390 and $21,923 for the years ended November 30, 1998, 1999 and 2000, respectively.

(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. During the fourth quarter of 2000, the Company decided to substantially exit the analog phone line of business to reflect the rapid shift in the wireless industry from analog to digital technology. The Company recorded a charge of approximately $8,152 to reduce its carrying value of its analog inventory to estimated market value. No estimate can be made of losses that are reasonably possible should additional write-downs to market be required in the future.

(f) Investment Securities

The Company classifies its equity securities in one of two categories: trading or available-for-sale. Debt securities are classified as held-to-maturity. Trading securities are bought and held principally for the purpose of selling them in the near term. Held-to-maturity debt 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 component of accumulated other comprehensive income 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.

(G) 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 21(a)(1)).

(2) EQUITY COLLAR

As of November 30, 1999, the Company had an equity collar for 200,000 of its shares in CellStar Corporation (CellStar) (Note 8). 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. The equity collar acted as a hedging item for the CellStar shares. During 2000, the Company sold 200,000 shares of CellStar common stock and in connection with the sale of the shares, recognized $1,499 ($929 net of taxes) representing the net gain on the hedge of the available-for-sale securities (Note 21(a)(2)).

In June 1999 and June 2000, respectively, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 137, "Accounting for Derivative Instruments and Hedging Activities-Deferral of the "Effective Date of FASB Statement No. 33" and SFAS No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities". SFAS 137 and 138 amend SFAS 133, "Accounting for Derivative Instruments and Hedging Activities," which was issued in June 1998. SFAS 137 deferred the effective date of SFAS 133 to all fiscal quarters of fiscal years beginning after June 15, 2000. SFAS 133 establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts and for hedging activities. It requires that an entity recognize all derivatives as either assets or liabilities in the statement of financial position and measures those instruments at fair value. Implementation of SFAS 133 will be as of December 1, 2000. Management of the Company does not believe that the implementation of SFAS 133 will have a material impact on its financial position, results of operations or liquidity.

(H) DEBT ISSUANCE COSTS

Costs incurred in connection with the restructuring of bank obligations (Note 12(a)) have been capitalized. During 1999 and 2000, the Company capitalized $1,220 and $148, respectively, in fees associated with the restructuring and various amendments to the Company's credit agreement. These charges are amortized over the lives of the respective agreements. Amortization expense of these costs amounted to $169, $160 and $434 for the years ended November 30, 1998, 1999 and 2000, respectively.

(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	3-5 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 and the excess cost over fair value of assets acquired for subsidiary companies and equity investments. Excess cost over fair value of assets acquired is being amortized, on a straight-line basis, 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 $2,583 and $3,145 at November 30, 1999 and 2000, respectively. Amortization of the excess cost over fair value of assets acquired and other intangible assets amounted to $382, $429 and $547 for the years ended November 30, 1998, 1999 and 2000, respectively.

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 10).

(L) CELLULAR TELEPHONE COMMISSIONS

Under various agency agreements, the Company receives an initial activation commission for obtaining subscribers for cellular telephone services. The agreements may contain provisions for additional 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, $29,547 and $32,475 for the years ended November 30, 1998, 1999 and 2000, respectively. Related commissions paid to outside selling representatives for cellular activations are included in cost of sales in the accompanying consolidated statements of income and amounted to $13,877, $19,884 and $23,186 for the years ended November 30, 1998, 1999 and 2000, respectively.

(M) ADVERTISING

The Company expenses the costs of advertising as incurred. During the years ended November 30, 1998, 1999 and 2000, 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, 1999 and 2000, the liability for future warranty expense amounted to $5,152 and $8,263, respectively.

(O) FOREIGN CURRENCY

With the exception of a subsidiary operation in Venezuela, which has been deemed a hyper inflationary economy, 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 or historical exchange rates, as appropriate. 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 accumulated other comprehensive income. 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.

Exchange gains and losses on hedges of foreign net investments and on intercompany balances of a long-term nature are also recorded in the cumulative foreign currency translation adjustment account in accumulated other comprehensive income. Exchange gains and losses on available-for-sale investment securities are recorded in the unrealized gain (loss) on marketable securities in accumulated other comprehensive income. Other foreign currency transaction gains (losses) of $871, $(1,046) and $193 for the years ended November 30, 1998, 1999 and 2000, respectively, were included in other income.

(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 PER COMMON SHARE

Basic earnings per share 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.

(R) SUPPLEMENTARY FINANCIAL STATEMENT INFORMATION

Interest income of approximately $896, $943 and $1,616 for the years ended November 30, 1998, 1999 and 2000, respectively, is included in other, net, in the accompanying consolidated statements of income.

(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

The Company accounts for its long-lived assets in accordance with the provisions of Statement of Financial Accounting Standards 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.

(U) Accounting for Stock-Based Compensation

The Company applies the intrinsic value-based method of accounting prescribed by Accounting Principles Board (APB) Opinion No. 25, "Accounting for Stock Issued to Employees", and related interpretations, in accounting for its stock-based compensation plans.

(V) Reporting Comprehensive Income

Effective December 1, 1998, the Company adopted Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income" (Statement 130). Statement 130 requires that all items recognized under accounting standards as components of comprehensive income be reported in an annual financial statement that is displayed with the same prominence as other annual financial statements. Other comprehensive income may include foreign currency translation adjustments, minimum pension liability adjustments and unrealized gains and losses on investment securities classified as available-for-sale.

(W) Reclassifications

Certain reclassifications have been made to the 1998 and 1999 consolidated financial statements in order to conform to the 2000 presentation.

(2) Business Acquisitions

During 2000, the Company formed Audiovox Japan (AX Japan), a wholly-owned subsidiary, for the purpose of purchasing land and a building and entering into a sale/leaseback transaction (Note 5(b)).

During 2000, the Company contributed the net assets of its electronics division into a newly-formed, wholly-owned subsidiary, Audiovox Electronics Corporation (AEC).

(3) Issuance of Subsidiary Shares

On March 31, 1999, Toshiba Corporation, a major supplier, purchased 5% of the Company's subsidiary, Audiovox Communications Corp. (ACC), a supplier of wireless products for $5,000 in cash. The Company currently owns 95% of ACC; prior to the transaction ACC was a wholly-owned subsidiary. As a result of the issuance of ACC's shares, the Company recognized a gain of $3,800 in 1999 ($2,204 after provision for deferred taxes). The gain on the issuance of the subsidiary's shares have been recognized in the statements of income in accordance with the Company's policy on the recognition of such transactions.

In February 2000, the Board of Directors of Audiovox Communications Corp. (ACC), declared a dividend payable to its shareholders, Audiovox Corporation, a 95% shareholder, and Toshiba Corporation (Toshiba), a 5% shareholder. During 2000, ACC paid Toshiba its share of the dividend, which approximated $859.

(4) Supplemental Cash Flow Information

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

	For the Years Ended November 30,		
	1998	1999	**2000**
Cash paid during the years for:			
Interest, excluding bank charges, net of $801 capitalized in 1998	$1,587	$ 2,994	**$ 4,870**
Income taxes	$4,496	$12,039	**$21,069**

Non-cash Transactions:

During 1998, a capital lease obligation of $6,340 was incurred when the Company entered into a building lease (Note 20).

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 21(a)(2)).

During 1998, 1999 and 2000, the Company exercised its option to convert 1,137,212, 2,882,788 and 800,000 Japanese yen (approximately $8,176, $24,026 and $7,595) of Shintom Co. Ltd. (Shintom) convertible debentures (Shintom debentures) into approximately 7,500,000, 48,100,000 and 33,900,000 shares of Shintom common stock, respectively (Note 14).

During the years ended November 30, 1998, 1999 and 2000, the Company recorded an unrealized holding gain relating to available-for-sale marketable equity securities, net of deferred income taxes, of $(8,040), $5,775 and $(10,119), respectively, as a separate component of accumulated other comprehensive income (Note 18).

During 1999 and 2000, $1,249 and $535 of its $65,000 6 1/4% subordinated debentures were converted into 70,565 and 30,170 shares, respectively, of Class A common stock (Note 14).

(5) Transactions With Major Suppliers

(A) INVENTORY PURCHASES

The Company engages in transactions with Shintom and TALK Corporation (TALK). 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. Shintom is a stockholder who owns all of the outstanding Preferred Stock of the Company at November 30, 1998, 1999 and 2000. Through October 2000, the Company held a 30.8% interest in TALK (Note 14).

Transactions with Shintom and TALK include financing arrangements and inventory purchases which approximated 19%, 11% and 7% for the years ended November 30, 1998, 1999 and 2000, respectively, of total inventory purchases. At November 30, 1998, 1999 and 2000, the Company had recorded $15, $20 and $1, respectively, of liability due to TALK for inventory purchases included in accounts payable. The Company also had documentary acceptance obligations payable to TALK as of November 30, 1998 and 1999 (Note 12(b)). There were no documentary acceptance obligations payable to TALK as of November 30, 2000. At November 30, 1998, 1999 and 2000, the Company had recorded a receivable from TALK in the amount of $734, $3,741 and $3,823, respectively, a portion of which is payable with interest (Note 7), which is reflected in receivable from vendors on the accompanying consolidated financial statements.

Inventory purchases from two major suppliers approximated 47%, 56% and 72% of total inventory purchases for the years ended November 30, 1998, 1999 and 2000, 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.

(B) SALE/LEASEBACK TRANSACTION

In March 2000, the Company incorporated AX Japan, Inc. (AX Japan), a wholly-owned subsidiary, with 60,000,000 yen (approximately $564). In April 2000, AX Japan purchased land and a building (the Property) from Shintom Co., Ltd. (Shintom) for 770,000,000 yen (approximately $7,300) and entered into a leaseback agreement whereby Shintom has leased the Property from AX Japan for a one-year period. This lease is being accounted for as an operating lease by AX Japan. Shintom is a stockholder who owns all of the outstanding preferred stock of the Company and is a manufacturer of products purchased by the Company through its previously-owned equity investment, TALK Corporation (TALK). The Company currently holds stock in Shintom and has previously invested in Shintom convertible debentures.

The purchase of the Property by AX Japan was financed with a 500,000,000 yen ($4,671) subordinated loan obtained from Vitec Co., Ltd. (Vitec), a 150,000,000 yen loan ($1,397) from Pearl First (Pearl) and a 140,000,000 yen loan ($1,291) from the Company. The land and building have been included in property, plant and equipment, and the loans have been recorded as notes payable on the accompanying consolidated balance sheet as of November 30, 2000. Vitec is a major supplier to Shintom, and Pearl is an affiliate of Vitec. The loans bear interest at 5% per annum, and principle is payable in equal monthly installments over a six-month period beginning six months subsequent to the date of the loans. The loans from Vitec and Pearl are subordinated completely to the loan from the Company, and, in liquidation, the Company receives payment first.

Upon the expiration of six months after the transfer of the title to the Property to AX Japan, Shintom has the option to repurchase the Property or purchase all of the shares of stock of AX Japan. These options can be extended for one additional six month period. The option to repurchase the building is at a price of 770,000,000 yen plus the equity capital of AX Japan (which in no event can be less than 60,000,000 yen) and can only be made if Shintom settles any rent due AX Japan pursuant to the lease agreement. The option to purchase the shares of stock of AX Japan is at a price not less than the aggregate par value of the shares and, subsequent to the purchase of the shares, AX Japan must repay the outstanding loan due to the Company. If Shintom does not exercise its option to repurchase the Property or the shares of AX Japan, or upon occurrence of certain events, AX Japan can dispose of the Property as it deems appropriate. The events which result in the ability of AX Japan to be able to dispose of the Property include Shintom petitioning for bankruptcy, failing to honor a check, failing to pay rent, etc. If Shintom fails, or at any time becomes financially or otherwise unable to exercise its option to repurchase the Property, Vitec has the option to repurchase the Property or purchase all of the shares of stock of AX Japan under similar terms as the Shintom options.

AX Japan has the option to delay the repayment of the loans for an additional six months if Shintom extends its options to repurchase the Property or stock of AX Japan. In September 2000, Shintom extended its option to repurchase the Property and AX Japan delayed its repayment of the loans for an additional six months.

In connection with this transaction, the Company received 100,000,000 yen ($922) from Shintom for its 2,000 shares of TALK stock. The Company had the option to repurchase the shares of TALK at a purchase price of 50,000 yen per share, with no expiration date. Given the option to repurchase the shares of TALK, the Company did not surrender control over the shares of TALK and, accordingly, had not accounted for this transaction as a sale. In August 2000, the Company surrendered its option to repurchase the shares of TALK. As such, the Company recorded a gain on the sale of shares in the amount of $427 in August 2000.

(6) Accounts Receivable

Accounts receivable is comprised of the following:

	November 30, 1999	November 30, **2000**
Trade accounts receivable	$254,477	**$303,003**
Receivables from equity investments (Note 10)	1,057	**861**
	255,534	**303,864**
Less:		
Allowance for doubtful accounts	5,645	**6,921**
Allowance for cellular deactivations	1,261	**1,254**
Allowance for co-operative advertising, cash discounts and market development funds	11,356	**16,287**
	$237,272	**$279,402**

(7) Receivable from Vendors

The Company recorded receivable from vendors in the amount of $9,327 and $5,566 as of November 30, 1999 and 2000, respectively. Receivable from vendor represents prepayments on product shipments, defective product reimbursements and interest receivable at a rate of 6.5% and 7.87% at November 30, 1999 and 2000, respectively, on amounts due from TALK (Note 10).

(8) Investment Securities

As of November 30, 2000, the Company's investment securities consists of $3,273 of available-for-sale marketable securities which consist primarily of 1,530,000 shares of CellStar Common Stock and 1,904,000 shares of Shintom common stock and trading securities of $2,211 which consists of mutual funds that are held in connection with the Deferred Compensation Plan (Note 17(f)). As of November 30, 1999, 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 1,125,024 Japanese yen of Shintom debentures, which were classified as available-for-sale marketable securities. The cost, gross unrealized gains and losses and aggregate fair value of the investment securities available-for-sale as of November 30, 1999 and 2000 were as follows:

	1999			2000		
	Cost	Gross Unrealized Holding Gain	Aggregate Fair Value	Cost	Gross Unrealized Holding Gain	Aggregate Fair Value
CellStar Common Stock	$ 2,715	$13,936	$16,651	**$2,401**	**$ 133**	**$2,534**
Shintom Common Stock	1,179	—	1,179	**1,179**	**(440)**	**739**
Shintom Debentures	10,526	2,045	12,571	**—**	**—**	**—**
	$14,420	$15,981	$30,401	**$3,580**	**$(307)**	**$3,273**

A related deferred tax liability of $6,053 and deferred tax asset of $116 was recorded at November 30, 1999 and 2000, respectively, as a reduction to the unrealized holding gain (loss) included in accumulated other comprehensive income.

During 1998, the Company purchased 400,000 Japanese yen (approximately $3,132) of Shintom debentures and 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 the fourth quarter of 1999, the Company recorded an other-than-temporary decline in market value of its Shintom common stock in the amount of $1,953 and a related deferred tax benefit of $761. The write-down has been recorded as a component of other expense in the consolidated statement of income.

During 1998, the Company purchased an additional 1,400,000 Japanese yen (approximately $9,586) of Shintom debentures and exercised its option to convert 737,212 Japanese yen of Shintom debentures into shares of Shintom common stock. The Company sold the Shintom common stock yielding net proceeds of $5,830 and a gain of $787.

During 1999, the Company purchased an additional 3,100,000 Japanese yen (approximately $27,467) of Shintom debentures and exercised its option to convert 2,882,788 Japanese yen of Shintom debentures into shares of Shintom common stock. The Company sold the Shintom common stock yielding net proceeds of $27,916 and a gain of $3,501.

During 2000, the Company exercised its option to convert 800,000 Japanese yen of Shintom debentures into shares of Shintom common stock. The Company sold the Shintom common stock, yielding net proceeds of $12,376 and a gain of $1,850.

During 2000, the Company sold 200,000 shares of its CellStar common stock yielding net proceeds of $851 and a gain of $537.

During 2000, the net unrealized holding loss on trading securities that has been included in earnings is $370.

(9) Property, Plant and Equipment

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

	November 30,	
	1999	**2000**
Land	$ 363	**$ 4,959**
Buildings	1,605	**4,564**
Property under capital lease	7,141	**7,141**
Furniture, fixtures and displays	1,878	**1,909**
Machinery and equipment	5,363	**5,866**
Computer hardware and software	9,655	**12,023**
Automobiles	580	**588**
Leasehold improvements	2,968	**3,793**
	29,553	**40,843**
Less accumulated depreciation and amortization	(9,924)	**$(12,847)**
	$19,629	**$ 27,996**

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

Computer software includes approximately $2,927 and $3,133 of unamortized costs as of November 30, 1999 and 2000, 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, $2,875 and $3,426 for the years ended November 30, 1998, 1999 and 2000, respectively. Included in accumulated depreciation and amortization is amortization of computer software costs of $350, $1,051 and $702 for the years ended November 30, 1998, 1999 and 2000, respectively. Included in accumulated depreciation and amortization is amortization of property under capital lease of $160, $240 and $240 for the years ended November 30, 1998, 1999 and 2000, respectively.

The Company acts as a lessor in an operating lease for land and a building with a cost of $7,450 and accumulated depreciation of $63 (Note 20).

(10) Equity Investments

As of November 30, 2000, the Company's 72% owned subsidiary, Audiovox Communications Sdn. Bhd., 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, 2000, 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 three 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; and 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.

During 2000, the Company entered into an agreement to cease the operations of its 50% owned investment in Audiovox Pacific Pty., Limited, which was a former distributor of cellular telephones and automotive sound and security products in Australia and New Zealand. At November 30, 1999, prepaid and other current assets included a receivable of $459 due from Audiovox Pacific Pty. Ltd. which was fully repaid in 2000. Also during fiscal 2000, the Company entered into an agreement to transfer to the other equity partner its 50% ownership equity in Quintex West, which is in the cellular telephone and related communication products business, as well as the automotive after-market products business. No consideration was given or no gain or loss was recorded in connection with either of the above transactions as both equity investments had been previously written down.

The Company previously held a 30.8% investment in TALK which was disposed of during fiscal 2000 as discussed in Notes 5(d) and 14).

The Company's net sales to the equity investments amounted to $4,528, $4,605 and $3,233 for the years ended November 30, 1998, 1999 and 2000, respectively. The Company's purchases from the equity investments amounted to $91,095, $146,803 and $119,444 for the years ended November 30, 1998, 1999 and 2000, respectively. The Company recorded $1,752, $1,735 and $1,432 of outside representative commission expenses for activations and residuals generated by G.L.M. on the Company's behalf during fiscal year 1998, 1999 and 2000, respectively.

Included in accounts receivable at November 30, 1999 and 2000 are trade receivables due from its equity investments aggregating $1,057 and $861, respectively. Receivable from vendor includes $3,741 and $3,823 due from TALK as of November 30, 1999 and 2000, respectively, which represents prepayments on product shipments and interest payable in monthly installments. At November 30, 1999 and 2000, included in accounts payable and other accrued expenses were obligations to equity investments aggregating $1,015 and $30, respectively. Documentary acceptance obligations of $1,994 were outstanding to TALK at November 30, 1999 (Note 12(b)). There were no documentary acceptance obligations outstanding to TALK at November 30, 2000.

For the years ended November 30, 1998, 1999 and 2000, interest income earned on equity investment notes and other receivables approximated $480, $482 and $602, respectively. Interest expense on documentary acceptances payable to TALK approximated $256, $228 and $11 in 1998, 1999 and 2000, respectively.

(11) Unearned Revenue

As of November 30, 2000, included in accrued expenses and other current liabilities on the accompanying consolidated balance sheet, is $27,150 which represents prepayments for future product shipments. The Company will recognize the revenue as product shipments are made.

(12) Financing Arrangements

(A) BANK OBLIGATIONS

The Company maintains a revolving credit agreement with various financial institutions. During the year ended November 30, 1999, the credit agreement was amended and restated in its entirety, extending the expiration date to July 27, 2004. As a result, bank obligations under the credit agreement have been classified as long-term at November 30, 2000. The amended and restated credit agreement provides for $200,000 of available credit, including $15,000 for foreign currency borrowings. In December 1999, the credit agreement was further amended, resulting in an increase in available credit to $250,000.

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, 2000, availability of credit under the credit agreement is a maximum aggregate amount of $250,000, subject to certain conditions, based upon a formula taking into account the amount and quality of its accounts receivable and inventory. At November 30, 2000, the amount of unused available credit is $145,433. The credit agreement also allows for commitment up to $50,000 in forward exchange contracts (Note 21(a)(1)).

Outstanding obligations under the credit agreement at November 30, 1999 and 2000 were as follows:

	November 30,	
	1999	**2000**
Revolving Credit Notes	$ 47,007	—
Eurodollar Notes	55,000	**$15,000**
	$102,007	**$15,000**

Interest rates are as follows: revolving credit notes at .50% above the prime rate, which was approximately 7.75%, 8.5% and 9.5% at November 30, 1998, 1999 and 2000, respectively, and Eurodollar Notes at 1.50% above the LIBOR rate which was approximately 5.62%, 6.48% and 6.8% at November 30, 1998, 1999 and 2000, respectively. The Company pays a commitment fee on the unused portion of the line of credit.

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.

The Company also has revolving credit facilities in Malaysia (Malaysian Credit Agreement) to finance additional working capital needs. As of November 30, 2000, the available line of credit for direct borrowing, letters of credit, bankers' acceptances and other forms of credit approximated $6,089. The credit facilities are partially secured by one standby letter of credit totaling $1,300 and two standby letters of credit totaling $4,800, by the Company and payable upon demand or upon expiration of the standby letters of credit on January 15, 2001 and August 31, 2001, respectively. The obligations of the Company under the Malaysian Credit Agreement are secured by the property and building owned by Audiovox Communications Sdn. Bhd. Outstanding obligations under the Malaysian Credit Agreement at November 30, 1999 and 2000 were approximately $5,843 and $4,693, respectively. At November 30, 1998, interest on the credit facility ranged from 9.5% to 12.0%. At November 30, 1999, interest on the credit facility ranged from 7.4% to 9.6%. At November 30, 2000 interest on the credit facility ranged from 7.25% to 7.50%.

As of November 30, 1999 and 2000, Audiovox Venezuela had notes payable of approximately 1,275,500 and 2,354,600 Venezuelan Bolivars ($2,000 and $3,411 at November 30, 1999 and 2000) outstanding to a bank. Interest on the notes payable is 10.7%. 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 $3,500 by the Company and is payable upon demand or upon expiration of the standby letter of credit on May 31, 2001.

The maximum month-end amounts outstanding under the credit agreement and Malaysian Credit Agreement borrowing facilities during the years ended November 30, 1998, 1999 and 2000 were $42,975, $110,595 and $156,854, respectively. Average borrowings during the years ended November 30, 1998, 1999 and 2000 were $26,333, $29,835 and $52,010, respectively, and the weighted average interest rates were 8.7%, 9.6% and 8.9%, respectively.

During 1999, the Company entered into a wholesale financing agreement with a financial institution to finance up to $15,000 of inventory purchases of a particular supplier. Amounts outstanding under this agreement were $8,150 at November 30, 1999. Borrowings under the agreement were secured by the inventory purchased. Payments on the borrowings are due within 30 days. Interest was payable after stipulated due dates at a rate of prime plus 1$^1/_2$%, which was 10% at November 30, 1999. The agreement contained several covenants. During 2000, the Company canceled the wholesale financing agreement with the financial institution.

(B) DOCUMENTARY ACCEPTANCES

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, 1999, $1,994 of documentary acceptances were outstanding of which all was due to TALK. There were no documentary acceptances outstanding at November 30, 2000.

The maximum month-end documentary acceptances outstanding during the years ended November 30, 1998, 1999 and 2000 were $4,809, $5,033 and $997, respectively. Average borrowings during the years ended November 30, 1998, 1999 and 2000 were $3,885, $3,755 and $164, respectively, and the weighted average interest rates, including fees, were 6.6%, 6.1% and 6.6%, respectively.

(13) Notes Payable

A summary of notes payable follows:

	November 30, 1999	November 30, **2000**
Note payable due to Vitec (Note 5(b))	—	**$4,514**
Note payable due to Pearl (Note 5(b))	—	**1,354**
	—	**$5,868**

The notes bear interest at 5% and are payable in equal monthly installments over a six-month period beginning in October 2000. The Company exercised its option to delay repayment of the notes for an additional six months, therefore, payment commences April 2001.

(14) Long-Term Debt

A summary of long-term debt follows:

	November 30, 1999	November 30, **2000**
Convertible subordinated debentures:		
6¹/₄%, due 2001, convertible at $17.70 per share	$1,020	**$486**
Subordinated note payable	4,912	**—**
	5,932	**486**
Less current installments	—	**486**
	$5,932	**$ —**

On March 15, 1994, the Company completed the sale of $65,000, 6¹/₄% 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 17(d)).

During fiscal 1999 and 2000, holders of the Company's $65,000 subordinated convertible debentures exercised their option to convert $1,249 and $534 debentures for 70,565 and 30,170 shares, respectively, of the Company's Class A common stock. As a result of these conversions and the conversions that took place prior to 1999, the remaining subordinated debentures are $1,020 and $486 as of November 30, 1999 and 2000, respectively.

On October 20, 1994, the Company issued a note payable for 500,000 Japanese yen (approximately $4,912 on November 30, 1999) to finance its investment in TALK (Note 10). The note was scheduled to be repaid on October 20, 2004 and bore interest at 4.1%. The note could be repaid by cash payment or by giving 10,000 shares of its TALK investment to the lender. The lender had 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. In October 2000, the Company exercised its option to repay the note by returning the 10,000 shares of its TALK investment to the lender. In connection with the transaction, the Company recognized an extraordinary gain in the amount of $2,189 representing the difference between the loan, which approximated $4,578, and the Company's recorded investment in TALK, which approximated $2,389, at the time of the transaction.

(15) Income Taxes

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

	November 30, 1998	1999	**2000**
Domestic Operations	$ 5,380	$42,668	**$37,119**
Foreign Operations	(1,579)	55	**2,846**
	$ 3,801	$42,723	**$39,965**

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

	November 30, 1998	1999	**2000**
Statement of income	$ 829	$15,477	**$14,925**
Stockholders' equity:			
Unrealized holding gain (loss) on investment securities recognized for financial reporting purposes	(4,928)	3,540	**(6,202)**
Unrealized holding gain (loss) on equity collar recognized for financial reporting purposes	(1,043)	—	**570**
Income tax benefit of employee stock option exercises	—	(1,101)	**(1,270)**
Total income tax expense (benefit)	$(5,142)	$17,916	**$ 8,023**

The provision for (benefit of) income taxes is comprised of:

	Federal	Foreign	State	Total
1998:				
Current	$ 1,499	$(119)	$ 351	$ 1,731
Deferred	(819)	—	(83)	(902)
	$ 680	$(119)	$ 268	$ 829
1999:				
Current	$14,565	$(116)	$1,593	$16,042
Deferred	(118)	(431)	(16)	(565)
	$14,447	$(547)	$1,577	$15,477
2000:				
Current	**$18,471**	**$ 656**	**$1,832**	**$20,959**
Deferred	**(4,481)**	**(704)**	**(849)**	**(6,034)**
	$13,990	**$ (48)**	**$ 983**	**$14,925**

A reconciliation of the provision for income taxes computed at the Federal statutory rate to the reported provision for income taxes is as follows:

	November 30,					
	1998		1999		**2000**	
Tax provision at Federal statutory rates	$1,292	34.0%	$14,953	35.0%	**$13,988**	**35.0%**
Undistributed income (losses) from equity investments	287	7.6	(373)	(0.9)	**—**	**—**
State income taxes, net of Federal benefit	260	6.8	1,025	2.4	**639**	**1.6**
Decrease in beginning-of-the-year balance of the valuation allowance for deferred tax assets	(340)	(8.9)	(989)	(2.3)	**(1,041)**	**(2.6)**
Foreign tax rate differential	(82)	(2.2)	38	0.1	**(59)**	**(0.1)**
Benefit of concluded examination	(350)	(9.2)	—	—	**—**	**—**
Other, net	(238)	(6.3)	823	1.9	**1,398**	**3.4**
	$ 829	21.8%	$15,477	36.2%	**$14,925**	**37.3%**

The significant components of deferred income tax recovery for the years ended November 30, 1999 and 2000 are as follows:

	November 30,	
	1999	**2000**
Deferred tax (recovery) expense (exclusive of the effect of other components listed below)	$ 424	**$(4,993)**
Decrease in beginning-of-the-year balance of the valuation allowance for deferred tax assets	(989)	**(1,041)**
	$(565)	**$(6,034)**

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,	
	1999	**2000**
Deferred tax assets:		
Accounts receivable, principally due to allowance for doubtful accounts and cellular deactivations	$ 1,977	**$ 2,290**
Inventory, principally due to additional costs capitalized for tax purposes pursuant to the Tax Reform Act of 1986	617	**687**
Inventory, principally due to valuation reserve	1,702	**4,276**
Accrual for future warranty costs	615	**2,684**
Plant, equipment and certain intangibles, principally due to depreciation and amortization	957	**1,146**
Net operating loss carryforwards, state and foreign	1,327	**755**
Equity collar	570	**—**
Accrued liabilities not currently deductible and other	469	**382**
Deferred compensation plans	—	**862**
Total gross deferred tax assets	8,234	**13,082**
Less: valuation allowance	(1,384)	**(343)**
Net deferred tax assets	6,850	**12,739**
Deferred tax liabilities:		
Investment securities	(6,323)	**(35)**
Issuance of subsidiary shares	(1,432)	**(1,432)**
Total gross deferred tax liabilities	(7,755)	**(1,467)**
Net deferred tax (liability) asset	$ (905)	**$11,272**

The net change in the total valuation allowance for the year ended November 30, 2000 was a decrease of $1,041. 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 more likely than not that the Company will realize the benefit of the net deferred tax assets existing at November 30, 2000. 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, 2000, the Company had net operating loss carryforwards for state income tax purposes of approximately $4,819, which are available to offset future state taxable income, if any, which will expire through the year ended November 30, 2018.

(16) Capital Structure

The Company's capital structure is as follows:

Security	Par Value	Shares Authorized November 30, 1999	Shares Authorized November 30, 2000	Shares Outstanding November 30, 1999	Shares Outstanding November 30, 2000	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	**60,000,000**	17,206,909	**19,478,554**	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.

The Company's Board of Directors approved the repurchase of 1,563,000 shares of the Company's Class A common stock in the open market under a share repurchase program (the Program). As of November 30, 1999 and 2000, 621,037 and 762,492 shares, respectively, were repurchased under the Program at an average price of $7.20 and $10.80 per share, respectively, for an aggregate amount of $4,471 and $6,004, respectively.

As of November 30, 1999 and 2000, 3,047,953 and 2,926,653 shares of the Company's Class A common stock are reserved for issuance under the Company's Stock Option and Restricted Stock Plans and 402,427 and 372,258 for all convertible securities and warrants outstanding at November 30, 1999 and 2000 (Notes 14 and 17).

In February 2000, the Company sold, pursuant to an underwritten public offering, 2,300,000 shares of its Class A common stock at a price of $45.00 per share. The Company received $96,573 in net proceeds after deducting underwriting commission and offering expenses. The net proceeds from the offering were used to repay a portion of amounts outstanding under the revolving credit facility.

On April 6, 2000, the stockholders approved a proposal to amend the Company's Certificate of Incorporation to increase the number of authorized shares of Class A common stock, par value $.01, from 30,000,000 to 60,000,000.

Undistributed earnings from equity investments included in retained earnings amounted to $4,219 and $4,869 at November 30, 1999 and 2000, respectively.

(17) 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 greater than 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. The Company recorded $31 in compensation expense for the year ended November 30, 1999. No compensation expense was recorded for the years ended November 30, 1998 and 2000.

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

	Number of Shares	Weighted Average Exercise Price
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
Granted	1,542,500	14.98
Exercised	(364,550)	7.64
Canceled	(500)	13.00
Outstanding at November 30, 1999	2,871,200	11.41
Granted	—	—
Exercised	(121,300)	6.84
Canceled	—	—
Outstanding at November 30, 2000	**2,749,900**	**11.61**
Options exercisable, November 30, 2000	**1,632,400**	**9.29**

At November 30, 1999 and 2000, 204,775 and 206,753 shares, respectively, were available for future grants under the terms of these plans.

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 1999 was $9.83 on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions: risk free interest rate of 5.9%, expected dividend yield of 0.0%, expected stock volatility of 60% and an expected option life of 10 years. There were no options granted during 2000.

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 pro-forma amounts indicated below:

	1998	1999	**2000**
Net income:			
As reported	$2,972	$27,246	**$27,229**
Pro-forma	1,336	25,494	**22,795**
Net income per common share (basic):			
As reported	$ 0.16	$ 1.43	**$ 1.27**
Pro-forma	0.07	1.33	**1.07**
Net income per common share (diluted):			
As reported	$ 0.16	$ 1.39	**$ 1.21**
Pro-forma	0.07	1.30	**1.01**

Pro-forma net income 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 income 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 income may not be representative of the effects on reported net income for future years.

Summarized information about stock options outstanding as of November 30, 2000 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	1,150,700	7.22	6.22	1,150,700	7.22
$ 8.01–$13.00	109,200	11.63	4.33	109,200	11.63
$13.01–$15.00	1,490,000	15.00	8.78	372,500	15.00

(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, 1999 was 13,750. There were no restricted stock outstanding at November 30, 2000. 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. During fiscal 1999, 32,222 performance-accelerated shares and 12,103 performance-restricted shares were granted. During fiscal 2000, 6,825 performance-accelerated shares and 4,846 performance-restricted shares were granted. During fiscal 1999 and 2000, 19,796 and 1,979 performance-restricted shares lapsed, respectively. No performance-restricted shares lapsed in fiscal year 1998.

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, 1999 and 2000 were $(23), $127 and $40, respectively.

(c) Employee Stock Purchase Plan

In April 2000, the stockholders approved the 2000 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 at a minimum of 2% and a maximum of 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 quarterly purchase date (December 31, March 31, June 30 or September 30). 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

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. During fiscal 1999, the warrants were surrendered for cancellation, and the holder agreed to waive registration rights in exchange for $5.

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 in 1995 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 $7 1/8, 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. In connection with this purchase, the option to purchase 1,324,075 shares from John J. Shalam's personal holdings was canceled. As of November 30, 2000, 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. During the year ended November 30, 1999, all of the warrants were exercised.

(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, $800 and $1,000 was made by the Company to the United States plan in fiscal 1998, 1999 and 2000, respectively. Contributions required by law to be made for eligible employees in Canada were not material.

(f) Deferred Compensation Plan

Effective December 1, 1999, the Company adopted a Deferred Compensation Plan (the Plan) for a select group of management. The Plan is intended to provide certain executives with supplemental retirement benefits as well as to permit the deferral of more of their compensation than they are permitted to defer under the Profit Sharing and 401(k) Plan. The Plan provides for a matching contribution equal to 25% of the employee deferrals up to $20. The Plan is not intended to be a qualified plan under the provisions of the Internal Revenue Code. All compensation deferred under the Plan is held by the Company in an investment trust which is considered an asset of the Company. The investments, which amounted to $2,211 at November 30, 2000, have been classified as trading securities and are included in investment securities on the accompanying consolidated balance sheet as of November 30, 2000. The return on these underlying investments will determine the amount of earnings credited to the employees. The Company has the option of amending or terminating the Plan at any time. The deferred compensation liability is reflected as long-term liability on the accompanying consolidated balance sheet as of November 30, 2000.

(18) Accumulated Other Comprehensive Income (Loss)

The change in net unrealized gain (loss) on marketable securities of $(8,040), $5,775 and $(10,119) for the years ended November 30, 1998, 1999 and 2000 is net of tax of $(4,928), $3,540 and $(6,202), respectively. Reclassification adjustments of $488, $2,171 and $1,480 are included in the net unrealized gain (loss) on marketable securities for the years ended November 30, 1998, 1999 and 2000, respectively.

The currency translation adjustments are not adjusted for income taxes as they relate to indefinite investments in non-U.S. subsidiaries and equity investments.

(19) Net Income 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	1999	**2000**
Net income (numerator for net income per common share, basic)	$ 2,972	$ 27,246	**$ 27,229**
Interest on 6 1/4% convertible subordinated debentures, net of tax	—	84	**28**
Adjusted net income (numerator for net income per common share, diluted)	$ 2,972	$ 27,330	**$ 27,257**
Weighted average common shares (denominator for net income per common share, basic)	19,134,529	19,100,047	**21,393,566**
Effect of dilutive securities:			
Employee stock options and stock warrants	—	430,560	**1,129,896**
Employee stock grants	—	62,175	**—**
Convertible debentures	—	110,551	**42,344**
Weighted average common and potential common shares outstanding (denominator for net income per common share, diluted)	19,134,529	19,703,333	**22,565,806**
Net income per common share before extraordinary item:			
Basic	$ 0.16	$ 1.43	**$ 1.17**
Diluted	$ 0.16	$ 1.39	**$ 1.11**
Net income per common share:			
Basic	$ 0.16	$ 1.43	**$ 1.27**
Diluted	$ 0.16	$ 1.39	**$ 1.21**

Employee stock options and stock warrants totaling 2,779,363 and 1,565,000 for the years ended November 30, 1998 and 2000, respectively, were not included in the net income per share calculation because their effect would have been anti-dilutive. There were no anti-dilutive stock options and stock warrants for the years ended November 30, 1999.

(20) 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 9). The effective interest rate on the capital lease obligation is 8.0%

In connection with the capital lease, the Company paid certain construction costs on behalf of its principal stockholder and chief executive officer in the amount of $1,301 which, at November 30, 1999, was included in prepaid and other current assets on the accompanying consolidated financial statements. During 2000, $740 was repaid to the Company. At November 30, 2000, $80 has been included in prepaid and other current assets and $481 has been included in non-current other assets on the accompanying consolidated financial statements.

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, 2000, 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
2001	$ 530	$1,774
2002	553	1,557
2003	554	1,048
2004	553	278
2005	552	197
Thereafter	12,547	6
Total minimum lease payments	15,289	$4,860
Less: amount representing interest	9,010	
Present value of net minimum lease payments	6,279	
Less: current installments included in accrued expenses and other current liabilities	19	
Long-term obligation	$ 6,260	

Rental expense for the above-mentioned operating lease agreements and other leases on a month-to-month basis approximated $2,563, $2,552 and $2,642 for the years ended November 30, 1998, 1999 and 2000, respectively.

Minimum future rentals on a one-year operating lease in which the Company acts as a lessor is approximately 21,245,000 yen ($197) for fiscal 2001 (Note 5(b)).

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, 2000, 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:

2001	$941
2002	941
2003	667

(21) Financial Instruments

(A) DERIVATIVE FINANCIAL INSTRUMENTS

(1) FORWARD EXCHANGE CONTRACTS

At November 30, 1998 and 2000, the Company had contracts to exchange foreign currencies in the form of forward exchange contracts in the amount of $5,352 and $4,230, respectively. These contracts have varying maturities with none exceeding one year as of November 30, 1998 or 2000. At November 30, 1999, the Company had no contracts to exchange foreign currencies in the form of forward exchange contracts. For the years ended November 30, 1998, 1999 and 2000, gains and losses on foreign currency transactions which were not hedged were not material. For the years ended November 30, 1998, 1999 and 2000, 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 hedge some of the unrealized gains associated with its investment in CellStar (Note 8). The equity collar provided 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 was 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 was reflected as a separate component of stockholders' equity. Also during 1998, the CellStar stock split two-for-one, resulting in the equity collar hedging 200,000 shares of CellStar stock. During 2000, the Company sold 200,000 shares of CellStar common stock and in connection with the sale of the shares, recognized $1,499 ($929 net of taxes) representing the net gain on the hedge of the available-for-sale securities (Note 1(g)(2)).

The Company is exposed to credit losses in the event of nonperformance by the counter parties to its forward exchange contracts. 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 Sdn. Bhd. and Audiovox Venezuela (Note 12(a)). The Company had open commercial letters of credit of approximately $41,173 and $65,820, of which $28,727 and $45,569 were accrued for purchases incurred as of November 30, 1999 and 2000, respectively. The terms of these letters of credit are all less than one year. No material loss is anticipated due to nonperformance 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 joint and several guarantees on behalf of G.L.M. which aggregate $300. There is no market for these guarantees and they were 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, wireless carriers and service providers, distributors, agents, mass merchandisers, warehouse clubs and independent retailers.

At November 30, 1999, three customers, which were wireless carrier and service providers, accounted for approximately 15.8%, 15.5% and 11.1%, respectively, of accounts receivable. At November 30, 2000, one customer, a wireless carrier and service provider, accounted for approximately 47% of accounts receivable.

During the year ended November 30, 1998, two customers accounted for approximately 18.3% and 14.9%, respectively, of the Company's 1998 sales. During the year ended November 30, 1999, three customers accounted for approximately 19.6%, 14.9% and 12.7%, respectively, of the Company's 1999 sales. During the year ended November 30, 2000, one customer accounted for approximately 50.5% of the Company's 2000 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.

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 because of the short maturity of these instruments. The estimated fair value of the Company's financial instruments are as follows:

	November 30, 1999		**November 30, 2000**	
	Carrying Amount	Fair Value	**Carrying Amount**	**Fair Value**
Investment securities	$ 30,401	$ 30,401	**$ 5,484**	**$ 5,484**
Long-term obligations	$107,939	$109,261	**$15,000**	**$15,000**

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 and conversion features at the reporting date (Note 8).

LONG-TERM OBLIGATIONS

The carrying amount of bank debt under the Company's revolving credit agreement approximates fair value because the interest rate on the bank debt is reset every quarter to reflect current market rates. With respect to the subordinated debentures, fair values are based on quoted market price.

FORWARD EXCHANGE CONTRACTS (DERIVATIVE)

The fair value of the forward exchange contracts are based upon exchange rates at November 30, 2000 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.

(22) Segment Information

The Company has two reportable segments which are organized by products: Wireless and Electronics. The Wireless segment markets wireless handsets and accessories through domestic and international wireless carriers and their agents, independent distributors and retailers. The Electronics segment sells autosound, mobile electronics and consumer electronics, primarily to mass merchants, power retailers, specialty retailers, new car dealers, original equipment manufacturers (OEM), independent installers of automotive accessories and the U.S. military.

The Company evaluates performance of the segments based upon income before provision for income taxes. The accounting policies of the segments are the same as those described in the summary of significant accounting policies (Note 1). The Company allocates interest and certain shared expenses, including treasury, legal and human resources, to the segments based upon estimated usage. Intersegment sales are reflected at cost and have been eliminated in consolidation. A royalty fee on the intersegment sales, which is eliminated in consolidation, is recorded by the segments and included in other income (expense). Certain items are maintained at the Company's corporate headquarters (Corporate) and are not allocated to the segments. They primarily include costs associated with accounting and certain executive officer salaries and bonuses and certain items including investment securities, equity investments, deferred income taxes, certain portions of excess cost over fair value of assets acquired, jointly-used fixed assets and debt. The jointly-used fixed assets are the Company's management information systems, which is jointly used by the Wireless and Electronics segments and Corporate. A portion of the management information systems costs, including depreciation and amortization expense, are allocated to the segments based upon estimates made by management. Segment identifiable assets are those which are directly used in or identified to segment operations.

During the year ended November 30, 1998, two customers of the Wireless segment accounted for approximately 18.3% and 14.9% of the Company's 1998 sales. During the year ended November 30, 1999, three customers of the Wireless segment accounted for approximately 19.6%, 14.9% and 12.7% of the Company's 1999 sales. During the year ended November 30, 2000, one customer of the Wireless segment accounted for approximately 50.5% of the Company's 2000 sales. No customers in the Electronics segment exceeded 10% of the consolidated sales in fiscal 1998, 1999 or 2000.

Effective December 1, 1999, a non-Quintex retail operation, previously reported in the Wireless segment, has been included in the Electronics segment.

	Wireless	Electronics	Corporate	Consolidated Totals
1998				
Net sales	$ 431,740	$184,955	$ —	$ 616,695
Intersegment sales (purchases), net	(1,125)	1,125	—	—
Interest income	215	165	517	897
Interest expense	5,466	4,138	(5,173)	4,431
Depreciation and amortization	615	832	1,024	2,471
Income (loss) before provision for income tax	(1,851)	6,002	(350)	3,801
Total assets	138,136	79,597	61,946	279,679
Non-cash items:				
Provision for bad debt expense	288	561	(268)	581
Deferred income tax benefit	—	—	902	902
Minority interest	—	—	(320)	(320)
Capital expenditures	1,003	475	3,454	4,932
1999				
Net sales	$ 917,085	$242,452	$ —	$1,159,537
Intersegment sales (purchases), net	(1,149)	1,149	—	—
Interest income	64	80	794	938
Interest expense	6,034	3,332	(5,307)	4,059
Depreciation and amortization	712	1,023	1,553	3,288
Income (loss) before provision for income tax	31,255	11,358	110	42,723
Total assets	267,435	125,117	82,794	475,346
Non-cash items:				
Provision for bad debt expense	1,892	727	636	3,255
Deferred income tax benefit	—	—	565	565
Minority interest	—	—	3,327	3,327
Capital expenditures	1,747	1,211	1,864	4,822
2000				
Net sales	**$1,424,480**	**$277,816**	**$ —**	**$1,702,296**
Intersegment sales (purchases), net	**302**	**(302)**	**—**	**—**
Interest income	**198**	**104**	**1,314**	**1,616**
Interest expense	**7,752**	**2,551**	**(4,729)**	**5,574**
Depreciation and amortization	**789**	**1,285**	**2,054**	**4,128**
Income (loss) before provision for income tax and extraordinary item	**30,997**	**14,769**	**(5,801)**	**39,965**
Extraordinary item	**—**	**—**	**2,189**	**2,189**
Total assets	**301,671**	**134,051**	**67,137**	**502,859**
Non-cash items:				
Provision for bad debt expense	**1,946**	**758**	**(185)**	**2,519**
Deferred income tax benefit	**—**	**—**	**6,034**	**6,034**
Minority interest	**—**	**—**	**3,555**	**3,555**
Capital expenditures	**1,241**	**1,091**	**9,715**	**12,047**

Net sales and long-lived assets by location for the years ended November 30, 1998, 1999 and 2000 were as follows.

	Net Sales			Long-Lived Assets		
	1998	1999	**2000**	1998	1999	**2000**
United States	$531,307	$1,059,536	**$1,456,082**	$50,469	$68,126	**$50,828**
Canada	15,789	23,146	**68,004**	—	—	**—**
Argentina	27,354	22,831	**17,888**	—	—	**—**
Peru	10,514	9,913	**—**	—	—	**—**
Portugal	2,024	—	**7,679**	—	—	**—**
Malaysia	7,592	7,780	**15,294**	1,348	1,275	**849**
Venezuela	14,358	22,853	**15,264**	1,366	1,387	**644**
Mexico, Central America and Caribbean	7,289	10,568	**100,599**	—	—	**—**
Chile	—	—	**15,794**	—	—	**—**
Other foreign countries	468	2,910	**5,692**	—	—	**—**
Total	$616,695	$1,159,537	**$1,702,296**	$53,183	$70,788	**$52,321**

(23) Related Party Transactions

During 1998, the Company entered into a 30-year lease for a building with its principle stockholder and chief executive officer (Note 20). Also during 1998, the Company entered into a sale/leaseback transaction for certain equipment with its principle stockholder and chief executive office (Note 20).

During 2000, the Company advanced $620 to an officer/director of the Company which has been included in prepaid expenses and other current assets on the accompanying consolidated balance sheet. On December 1, 2000, the Company obtained a note in the amount of $620 for the advance. The note, which bears interest at the LIBOR rate, to be adjusted quarterly, plus 1.25% per annum, is due, principle and interest, on November 30, 2001.

The Company also leases certain facilities and equipment from its principle stockholder and several officers (Note 20).

(24) 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.

During 2000, the Company, along with other suppliers, manufacturers and distributors of hand-held wireless telephones, was named as a defendant in a class action lawsuit alleging damages relating to exposure to radio frequency radiation from hand-held wireless telephones. An order dismissing the Company as a defendant was granted on the grounds that the plaintiff failed to make proper legal service. However, the plaintiff has the right to effect proper legal service of the original complaint or file a new lawsuit. The Company has not been re-served to date, nor has a new lawsuit been filed. In the event that the Company is re-served or a new lawsuit is filed, the Company would vigorously defend any claims against the Company.

The Company has guaranteed a $300 line of credit with a financial institution on behalf of one of its equity investments and has established standby letters of credit to guarantee the bank obligations of Audiovox Communications Sdn. Bhd. and Audiovox Venezuela (Note 21(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, 1999 and 2000, and the related consolidated statements of income, stockholders' equity and cash flows for each of the years in the three-year period ended November 30, 2000. 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 auditing standards generally accepted in the United States of America. 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, 1999 and 2000, and the results of their operations and their cash flows for each of the years in the three-year period ended November 30, 2000, in conformity with accounting principles generally accepted in the United States of America.

KPMG LLP

Melville, New York
January 16, 2001

Market for the Registrant's Common Equity and Related Stockholder Matters

Summary of Stock Prices and Dividend Data

The Class A Common Stock of Audiovox are traded on The Nasdaq Stock Market® under the symbol VOXX. 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 424 holders of record of our Class A Common Stock and 4 holders of Class B Convertible Common Stock.

Class A Common Stock

Fiscal Period	High	Low	Average Daily Trading Volume
1999			
First Quarter	7.38	5.50	43,260
Second Quarter	8.94	5.94	48,416
Third Quarter	16.00	8.44	151,232
Fourth Quarter	30.00	14.50	222,102
2000			
First Quarter	**65.50**	**25.00**	**443,904**
Second Quarter	**72.50**	**16.63**	**713,149**
Third Quarter	**30.94**	**13.69**	**740,123**
Fourth Quarter	**18.88**	**9.00**	**355,056**

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, Audiovox Corporation
President and Chief Executive Officer,
Audiovox Communications Corp.

Charles M. Stoehr
Senior Vice President, Chief Financial Officer

Patrick Lavelle
Sr. Vice President, Audiovox Corporation
President and Chief Executive Officer,
Audiovox Electronics Corp.

Ann Boutcher
Vice President, Marketing

Richard Maddia
Vice President, MIS

Dennis McManus
Telecommunications Consultant

Paul C. Kreuch, Jr.
Principal, Riotto-Jazylo & Company, Inc.

OFFICERS

John J. Shalam
President and Chief Executive Officer

Philip Christopher
Executive Vice President, Audiovox Corporation
President and Chief Executive Officer,
Audiovox Communications Corp.

Charles M. Stoehr
Senior Vice President, Chief Financial Officer

Patrick Lavelle
Sr. Vice President, Audiovox Corporation
President and Chief Executive Officer
Audiovox Electronics Corp.

Chris L. Johnson
Vice President and 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

SHAREHOLDER INFORMATION

Corporate Office
Audiovox Corporation
150 Marcus Blvd.
Hauppauge, New York 11788
(631) 231-7750

Stock Exchange Listing
Nasdaq®
Ticker Symbol: "VOXX"

Annual Meeting
The Annual Meeting of Shareholders will be held on Thursday, May 3, 2001 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
PR 21, Inc.
79 Fifth Avenue
New York, New York 10003
(212) 299-3956

Analyst Coverage
The Company is being followed by the brokerage firms S.G. Cowen, Morgan Keegan & Company, Inc., Prudential Securities and Ladenburg, Thalmann & Co. Inc. For more information contact PR 21, Inc.

Form 10-K
Copies of the corporation's annual report on Form 10K are available from:
Audiovox Corporation
Stockholders' Relations at
PR 21, Inc.
79 Fifth Avenue
New York, New York 10003

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 our ability to keep pace with technological advances, significant competition in the wireless, mobile and consumer electronics businesses, quality and consumer acceptance of newly introduced products, our relationships with key suppliers and customers, market volatility, non-availability of product, price and product competition and new product introductions. These factors, among others, 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, 2000.

150 Marcus Boulevard
Hauppauge, New York 11788
(631) 231-7750