AUDIOVOX

1999 ANNUAL REPORT

On the Cutting Edge OF TECHNOLOGY

Highlights OF THE YEAR

- Wireless sales increase 110% as company exceeds $1 Billion in sales for first time in corporate history.
- Wireless handset sales increase 83.2% over fiscal 1998 to 6,067,000.
- Sales of digital handsets reach 56% of total ACC handset sales.
- ACC ranked number 3 overall and number 2 in CDMA in North American Markets.
- Electronics Division grows by 31%.
- Company moves to The Nasdaq Stock Market®. Completes Secondary offering that increases public float by 2.3 million shares.

Company PROFILE

We generally market our products under the well-recognized Audiovox brand name, which we have used for over 35 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 third quarter of 1999, we became the third largest seller of wireless products and the second largest 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, a 95% owned subsidiary, accounts for approximately 80% of our revenue. Audiovox Communications Corp. 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, which accounts for approximately 20% 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, 1995, 1996, 1997, 1998 and 1999

(Dollars in thousands)	1995	1996	1997	1998	**1999**
Net sales	$500,740	$597,915	$639,082	$161,695	**$1,159,537**
Net income (loss)	(11,883)	(26,469)	21,022	2,972	**27,246**
Net income (loss) per common share, basic	(1.31)	(2.82)	1.11	0.16	**1.43**
Net income (loss) per common share, diluted	(1.31)	(2.82)	1.09	0.16	**1.39**
Total assets	308,428	265,545	289,827	279,679	**475,083**
Long-term obligations, less current installments	142,802	70,413	38,996	33,724	**122,798**
Stockholders' equity	114,595	131,499	187,892	177,720	**216,744**

This selected financial data includes:

for 1995:
- *A pre-tax charge of $2.9 million associated with the issuance of warrants;*
- *A pre-tax charge of $11.8 million of inventory write-downs and the downsizing of the Company's retail operations;*
- *A pre-tax gain on the sale of an equity investment of $8.4 million; and*
- *A $31.7 million increase in stockholders' equity, net of tax, as a result of an unrealized gain on marketable securities which is not reflected in net income compared to what stockholders' equity would have been without the unrealized gain.*

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 $10.3 million increase in stockholders' equity, net of tax, as a result of an unrealized gain on marketable securities which is not reflected in net income compared to what stockholders' equity would have been without the unrealized gain; and*
- *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;*
- *A $12.2 million increase in stockholders' equity, net of tax, as a result of an unrealized gain on marketable securities which is not reflected in net income compared to what stockholders' equity would have been without the unrealized gain;*
- *A $773,000 increase in stockholders' equity, net of tax, as a result of an unrealized gain on equity collar which is not reflected in net income; 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;*
- *A $4.2 million increase in stockholders' equity, net of tax, as a result of an unrealized gain on marketable securities which is not reflected in net income compared to what stockholders' equity would have been without the unrealized gain; 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;*
- *A pre-tax gain of $3.8 million on the issuance of subsidiary shares to Toshiba Corporation; and*
- *A $9.9 million increase in stockholders' equity, net of tax, as a result of an unrealized gain on marketable securities which is not reflected in net income compared to what stockholders' equity would have been without the unrealized gain.*

Quarterly FINANCIAL DATA

(Unaudited)

	Quarter Ended			
(In thousands, except share and per share amounts)	Feb. 28	May 31	Aug. 31	Nov. 30
1998				
Net sales	$120,974	$132,411	$154,501	$208,809
Gross profit	22,259	14,044	24,878	27,360
Operating expenses	19,724	22,001	20,950	20,995
Income (loss) before provision for (recovery of) income taxes	2,236	(8,720)	4,201	6,084
Provision for (recovery of) income taxes	597	(4,025)	1,620	2,637
Net income (loss)	1,639	(4,695)	2,581	3,447
Net income (loss) per common share (basic)	0.09	(0.24)	0.14	0.18
Net income (loss) per share (diluted)	0.09	(0.24)	0.14	0.18
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**
Net income per share (diluted)	**0.16**	**0.34**	**0.32**	**0.56**

Fiscal 1999 was by far, the most exciting year in our Company's history. For the first time our sales exceeded 1 billion dollars increasing by 88% over fiscal 1998. Our share price increased 362%, closing at $29.75 on November 30, 1999 and subsequently has reached as high as $58.38 per share. Our market valuation, which was $125.7 million at the beginning of fiscal 1999, rose to $597.6 million at year-end and is over $1.2 billion today. In February we completed a follow on offering that has increased our public float by 2.3 million shares. And, after the close of our fiscal year, we moved from the American Stock Exchange to the Nasdaq®. As a rapidly expanding leader in the telecommunications and consumer electronics industries, we now find ourselves trading alongside other high tech companies.

The growth experienced throughout our fiscal year can be attributed to the success of both our operating groups and the increasing demand for our products. Audiovox Communications Corp. (ACC), our majority-owned wireless subsidiary grew 110% and reached record sales of 6.1 million phones. Our digital handset sales rose from 18% in fiscal 1998 to 56% in fiscal 1999. Dataquest currently ranks ACC number three in overall North American wireless handset market share and the number two supplier of CDMA handsets in North America. CDMA is the wireless industry's fastest growing platform.

We achieved our stated goal to begin supply of TDMA and GSM phones during 1999, and we expect to ramp up shipments of these technologies during 2000. We have introduced a full line of GSM dual band phones scheduled for shipment in fiscal 2000 and expect that these new products will increase our market share in Europe and Southeast Asia where GSM is the strongest technology.

The outlook for our wireless group is good. We estimate wireless industry worldwide growth between 48% for year 2000 and 36% for 2001. Our intent is to build on our role as a major branded supplier both here and abroad, while gaining increased market share. In addition, we will continue to introduce new products, such as smart phones for data/web applications, as new technologies that support them develop.

Our electronics division also had a very good year, posting a strong 31% growth over fiscal 1998. Our FRS two-way radios first introduced in 1998 gained substantial acceptance and captured a 20% market share during the year. Our Mobile Video sales grew an outstanding 420% to approximately $52 million. We recently announced a contract with Nissan to supply an OE version of our EZFIT center console as standard equipment on the Nissan Quest 2000. We continued our commitment to

Long-term SHAREHOLDER VALUE remains our number one concern and we believe we are taking the necessary steps to foster increased value.

John J. Shalam, Chairman, President & CEO

new products and technology with the introduction of the electronics division's first web based product, an MP-3 Internet Music Player/Recorder. Initial response to this product has been good and we look forward to developing additional new products that use or complement the Internet.

Additionally, we have begun a consumer public relations and advertising campaign, designed to further enhance our brand name. Centered on the theme "Audiovox…I Want One" the campaign showcases our new high tech products. Our goal is to leverage the Audiovox brand to enhance brand identity of our product lines as we continue to introduce products in new and existing markets.

We begin 2000 with the confidence that a record year brings—committed to our stated goals and intent on achieving them. However, we are ever mindful of the constantly changing technologies, product availability and eroding prices that characterize the highly competitive marketplace in which we operate. Long-term shareholder value remains our number one concern and we believe the steps we have taken are resulting in the improved performance of our stock. We will continue to focus on increased shareholder value. Finally, I would like to thank our employees and you, our shareholders for your support during this past year.

John J. Shalam
Chairman, President & CEO

February 25, 2000

Philip Christopher's
LETTER TO SHAREHOLDERS

Audiovox Communications Corp. has entered the 21st century on the heels of the best year in our history. A sales increase of 110% has propelled our Company to the forefront of an increasingly competitive group of handset suppliers. Unit sales reached a record 6.1 million handsets; nearly doubling the volume sold in 1998. In October, we recorded our first $100+ million month and hit an all time high of $120 million for the month of December.

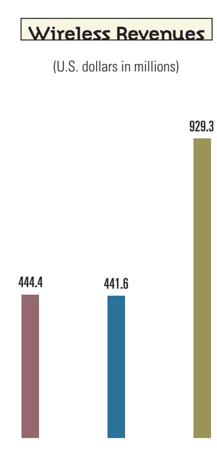
During 1999, ACC moved from the number five to the number three position among handset suppliers in North America according to Dataquest. In addition, Dataquest ranked us number two in CDMA handset supply. CDMA is the fastest growing segment in the industry.

I firmly believe that the successes of the past year have given us the momentum needed to prosper in this constantly evolving telecommunications industry. With the support of our manufacturing partners, well known companies such as Toshiba and Hyundai, we are confident that our product lineup will continue to evolve at the cutting-edge pace of technology. Early this year, we introduced our first web-browsing phone, the CDM-4500, the first of several new phones planned for introduction during 2000.

Our commitment to the needs of our customer base is well documented and we remain on track to those stated goals. In a few weeks we will be introducing the CDM-9000, our first tri-mode, web-browsing handset. The CDM-9000 supports the nationwide marketing efforts of the carriers and we believe that it will become the cornerstone of our product lineup. Recently, Dataquest made the following comment, "…Audiovox is well positioned to expand its relationships with carriers and continue to grow its market share during 2000."

As president and CEO of Audiovox Communications Corp. I would like to thank you for your continued support. We are all committed to bringing continued success into the 21st century.

Philip Christopher
President & CEO,
Audiovox Communications Corp.



The CDM-9000 supports THE NATIONWIDE marketing efforts of the carriers and we believe it will become the cornerstone of our product lineup.

Philip Christopher, President & CEO, Audiovox Communications Corp.

The most intriguing MARKET SHARE development...

is the emergence of Audiovox as a legitimate challenger to the elite group of U.S. market handset suppliers.

Dataquest

Audiovox Communications Corp., is a 95% owned subsidiary of Audiovox Corporation. The Communications group's 1999 revenues of $929,303 represented a 110% increase over 1998 revenues. ACC sales represent 80% of the total for Audiovox Corporation. Handset sales increased 83.2% over fiscal 1998 to 6,067,000.

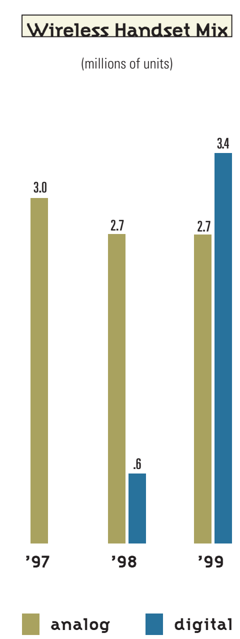
Dataquest has named ACC the number three overall wireless supplier in North America and the number two supplier of CDMA, the industry's fastest growing platform. In 1998 we began providing our customer base with digital technology and by the end of fiscal 1999, digital handset sales had grown to represent 56% of our total.

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 1999 included Bell Atlantic, Vodafone Airtouch, PrimeCo, CenturyTel, Movicom, MCI WorldCom, U.S. Cellular, Frontier Cellular and Radio Shack.

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 AMPS and N-AMPS as well as a variety of digital technologies including CDMA, CDMA/PCS, TDMA/PCS, and GSM.

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

- **Enhance and 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 the last 35 years in promoting our brand name and we expect to continue that trend.
- **Expand wireless technology offerings to increase market opportunities.** We intend to continue to offer a wide breadth of wireless products in advanced wireless technologies. Some of our year 2000 product initiatives will include handsets with Internet access and other interactive technologies. We will also continue to design products specifically to meet the unique requirements of our carrier customers.
- **Expand global presence.** During fiscal 2000, we intend to seek to expand our international wireless business as we begin to market products compatible with international wireless technologies, such as GSM, TDMA and CDMA. 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.



The Division's 1999 revenues were $230 million an increase of 31.5% over fiscal 1998. Since its inception, the Electronic Division has consistently met its sales and profit targets. Most notable of the Division's 1999 highlights was the continued growth in the mobile video and consumer electronics products.

The electronic division divides its sales into sound, mobile electronics and consumer electronics. The sound, mobile electronics groups focus on the 12-Volt specialist and car dealer with auto sound, vehicle security, mobile video and accessories. The consumer group targets the mass merchandiser with a wide variety of electronics products that include, home and portable stereo; two-way (FRS) radios and Internet related products. The Electronics division also supports a considerable OE and private label effort for vehicle manufacturers. The QS/ISO 9001 Registration awarded in 1999 greatly enhances the OE sales effort.

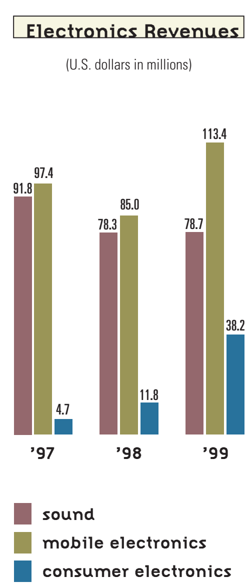
Patrick Lavelle
Sr. Vice President

The Division's mobile video sales were driven by increases both in the aftermarket and on the OE level and increased over 400% in fiscal 1999. In late 1998 we were awarded a contract to supply an Audiovox branded mobile video system to Nissan. For model year 2000 an OE version is installed on all Nissan Quest 2000 models sold in the U.S. market. Aftermarket product lines now include nearly 30 vehicle specific overheads for the most popular SUV's in the market. During 2000 we expect to introduce new larger screen overhead systems, in dash DVD for mobile video and a new lower cost portable video system for our mass merchandiser Rampage brand.

Our mobile electronics group has signed agreements with XM Satellite Radio and Sirius Radio to produce products for the newest technology in car audio. Satellite radio will offer the consumer a choice of 200 programs, beamed by satellite directly to your car with crystal clear reception, no matter where you are in the U.S. First satellite radios are expected in 2001.

1999 also saw the Division's consumer electronics sales grow by over 200% led by FRS two-way radios. By the end of the year we had one of the broadest FRS lines available with an approximate 20% market share. In addition, during the year we introduced the Company's first Internet related product the MPDJ. This palm-sized player/recorder allows you to record music from the Internet in MP 3 format and take it anywhere. In 2000 we expect to introduce additional consumer electronics products throughout the line. FRS two-way radios will have expanded features including FM radio, Weather band and GPS. New Internet products will include e-mail communication devices and mobile MP 3 player/recorders with expanded capabilities.

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



We believe THAT FOCUSING ON high-demand, high growth niche products results in better profit margins and growth potential for our electronics business.

Patrick Lavelle, Senior Vice President

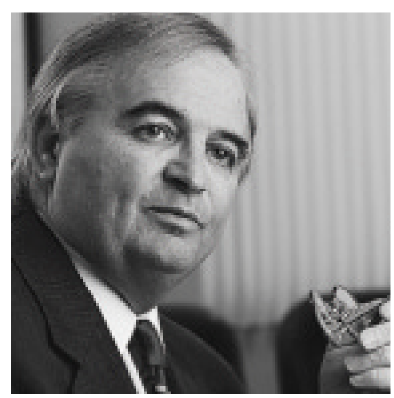
Information Technology Over the past several years, we have made substantial investments in information technology to improve our operations, prepare us for an increase in international business and position us for future growth. In 1999, our sales grew by 88% without placing a strain on our systems and operations. We believe that we are prepared for the anticipated growth over the next several years. In addition, we have invested in our Intranet and Internet capabilities and this spring expect to turn on a new and vastly improved web site for the Company.

Follow On Offering 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 and 1,265,000 were offered by selling shareholders. Audiovox received approximately $97.5 million after deducting expenses. We will use these net proceeds to repay a portion of amounts outstanding under our revolving credit facility, any portion of which can be reborrowed at any time, and for general purposes. The Company did not receive any of the net proceeds from the sale of shares by the selling shareholders.

Credit Facility During 1999 the Company increased its bank credit facility to $250.0 million, up from $112.5 million with an expiration date of July 2004. Chase Manhattan bank is the agent for this new revolving line of credit. This latest increase to our bank lines provides us with additional resources to fund our future business plans.

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

Michael Stoehr
Senior Vice President &
Chief Financial Officer



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

Forward-looking Statements

This Annual Report 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. The Wireless Group 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 1999, sales through Quintex were $53.2 million or 5.7% of the Wireless Group 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 Audiovox Electronics (AE), a division of Audiovox, and Audiovox Communications (Malaysia) Sdn. Bhd., Audiovox Holdings (M) Sdn. Bhd. and Audiovox Venezuela, C.A., which are wholly-owned subsidiaries. The Electronics Group markets automotive sound and security systems, electronic car accessories, home and portable sound products, FRS radios and in-vehicle video 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 1999, several major events and trends have affected the Company's results and financial conditions.

The Wireless Group increased its handset sales from 2.1 million units in fiscal 1996 to 3.3 million units in fiscal 1998 to 6.1 million units in fiscal 1999. This increase in 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

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 $175.1 million, primarily due to a financial crisis in Asia, particularly Malaysia. Sales for fiscal 1999 have increased 31% to $230.2 million over fiscal 1998. 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 $38.2 million in fiscal 1999
- the introduction of mobile video entertainment systems and other new technologies
- the Asian financial crisis in 1998

Gross margins in the Company's electronics business increased from 18.9% in 1996 to 20.3% for fiscal 1999 due, in part, to higher margins in mobile video products and other new technologies and products.

The Company's total operating expenses have not increased materially since 1996, despite its increase in sales. Total operating expenses were $83.3 million in 1996 and $96.4 million in 1999. The Company has invested in management systems and improved its operating facilities to increase its efficiency.

During the period 1996 to 1999, the Company's balance sheet was strengthened by the conversion of $63 million of its $65 million 6¼% subordinated convertible debentures due 2001 into approximately 9.7 million shares of Class A common stock and the net gain of $23.2 million from the sale of CellStar stock held by the Company.

All financial information, except 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,		
	1997	1998	**1999**
Net sales:			
Wireless			
Wireless products	62.1%	65.3%	**76.5%**
Activation commissions	4.9	3.7	**2.2**
Residual fees	0.7	0.7	**0.3**
Other	1.9	1.9	**1.1**
Total Wireless	69.6	71.6	**80.1**
Electronics			
Sound	14.4	12.7	**6.8**
Mobile electronics	15.2	13.8	**9.8**
Consumer electronics	0.7	1.9	**3.3**
Total Electronics	30.3	28.4	**19.9**
Other	0.1	—	**—**
Total net sales	100.0	100.0	**100.0**
Cost of sales	(83.3)	(85.6)	**(88.4)**
Gross profit	16.7	14.4	**11.6**
Selling	(6.0)	(5.7)	**(3.2)**
General and administrative	(5.8)	(5.9)	**(3.8)**
Warehousing, assembly and repair	(1.9)	(2.0)	**(1.3)**
Total operating expenses	(13.7)	(13.6)	**(8.3)**
Operating income	3.0	0.8	**3.3**
Interest and bank charges	(0.4)	(0.8)	**(0.4)**
Income in equity investments, management fees and related income, net	0.2	0.2	**0.3**
Gain on sale of investments	5.9	0.1	**0.3**
Gain on issuance of subsidiary shares	—	—	**0.3**
Debt conversion expense	(2.0)	—	**—**
Other income (expense)	—	0.3	**(0.2)**
Provision for income taxes	(3.5)	(0.1)	**(1.3)**
Net income	3.3%	0.5%	**2.3%**

The net sales and percentage of net sales by product line and marketing group for the fiscal years ended November 30, 1997, 1998 and 1999 are reflected in the following table. Certain reclassifications and recaptionings have been made to the data for periods prior to fiscal 1999 in order to conform to fiscal 1999 presentation.

	Fiscal Year Ended November 30,					
	1997		1998		**1999**	
	(Dollars in thousands)					
Net sales:						
Wireless						
Wireless products	$396,510	62.1%	$402,606	65.3%	**$ 886,509**	**76.5%**
Activation commissions	31,061	4.9	22,785	3.7	**25,873**	**2.2**
Residual fees	4,688	0.7	4,452	0.7	**3,674**	**0.3**
Other	12,141	1.9	11,747	1.9	**13,247**	**1.1**
Total Wireless	444,400	69.6	441,590	71.6	**929,303**	**80.1**
Electronics						
Sound	91,763	14.4	78,338	12.7	**78,713**	**6.8**
Mobile electronics	97,446	15.2	84,973	13.8	**113,371**	**9.8**
Consumer electronics	4,701	0.7	11,794	1.9	**38,150**	**3.3**
Total Electronics	193,910	30.3	175,105	28.4	**230,234**	**19.9**
Other	772	0.1	—	—	**—**	**—**
Total	$639,082	100.0%	$616,695	100.0%	**$1,159,537**	**100.0%**

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 $929,303 in fiscal year 1999, a 110% increase from sales of $441,590 in fiscal 1998. Unit sales of wireless handsets increased 83.2% to approximately 6,067,000 units in fiscal 1999 from 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 $230,234 in fiscal 1999, a 31% increase from sales of $175,105 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 the Wireless Group 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 the Wireless Group expressed as a percentage of net sales:

	1998		**1999**	
Net sales:				
Wireless products	$402,606	91.1%	**$886,509**	**95.4%**
Activation commissions	22,785	5.2	**25,873**	**2.8**
Residual fees	4,452	1.0	**3,674**	**0.4**
Other	11,747	2.7	**13,247**	**1.4**
Total net sales	441,590	100.0	**929,303**	**100.0**
Gross profit	52,270	11.8	**87,807**	**9.5**
Total operating expenses	48,257	10.9	**49,888**	**5.4**
Operating income	4,013	0.9	**37,919**	**4.1**
Other expense	(5,799)	(1.3)	**(6,664)**	**(0.7)**
Pre-tax income (loss)	$ (1,786)	(0.4)%	**$ 31,255**	**3.4%**

The Wireless Group is composed of ACC and Quintex, both subsidiaries of the Company. Since principally all of the net sales of Quintex are wireless in nature, all operating results of Quintex are being included in the discussion of the Wireless Group's product line.

Net sales were $929,303 in fiscal 1999, an increase of $487,713, or 110%, 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 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 21.7% in fiscal 1999, with a corresponding increase in activation commissions of approximately $3,088 in fiscal 1999. The average commission received by Quintex per activation decreased by approximately 6.7% 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, 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. While the analog handset market is still quite large, the Wireless Group may experience lower gross profits in the future due to the price sensitivity of this market.

Operating expenses increased to $49,888 in fiscal 1999 from $48,257 in fiscal 1998. As a percentage of net sales, however, operating expenses decreased to 5.4% during fiscal 1999 compared to 10.9% in fiscal 1998. Selling expenses decreased to $22,784 in fiscal 1999 from $24,201 in fiscal 1998, primarily in divisional marketing and advertising, partially offset by increases in travel expenses. General and administrative expenses increased to $18,059 in fiscal 1999 from $15,904 in fiscal 1998, primarily due to temporary personnel, insurance expense and provisions for doubtful accounts. Warehousing, assembly and repair expenses increased to $9,045 in fiscal 1999 from $8,150 in fiscal 1998, primarily due to direct labor expenses. Pre-tax income for fiscal 1999 was $31,255, an increase of $33,041 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:				
Sound	$ 78,338	44.8%	**$ 78,713**	**34.2%**
Mobile electronics	84,973	48.5	**113,371**	**49.2**
Consumer electronics	11,794	6.7	**38,150**	**16.6**
Total net sales	175,105	100.0	**230,234**	**100.0**
Gross profit	36,433	20.8	**46,819**	**20.3**
Total operating expenses	27,126	15.5	**32,977**	**14.3**
Operating income	9,307	5.3	**13,842**	**6.0**
Other expense	(3,370)	(1.9)	**(2,546)**	**(1.1)**
Pre-tax income	$ 5,937	3.4%	**$ 11,296**	**4.9%**

Net sales were $230,234 in fiscal 1999, a 31.5% increase from net sales of $175,105 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 over 200% to $38,150 in fiscal 1999 from $11,794 in fiscal 1998. These increases were partially offset by decreases in Prestige audio and SPS sound lines.

Operating expenses were $32,977 in fiscal 1999, a 21.6% increase from operating expenses of $27,126 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 to $5,991 in fiscal 1999 from $4,434 in fiscal 1998, primarily due to tooling expenses, warehousing and direct labor. Pre-tax income for fiscal 1999 was $11,296, an increase of $5,359 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.

Management fees and equity in income from joint venture investments increased by approximately $3,150 for fiscal 1999 compared to fiscal 1998 as detailed in the following table:

	1998			1999		
	(Dollars in thousands)					
	Management Fees	Equity Income (Loss)	Total	Management Fees	Equity Income (Loss)	Total
Bliss-tel	—	$ (13)	$ (13)	**—**	**$ (55)**	**$ (55)**
ASA	—	1,860	1,860	**—**	**3,506**	**3,506**
TALK	—	(509)	(509)	**—**	**1,121**	**1,121**
G.L.M.	$ 7	—	7	**—**	**—**	**—**
Pacific	—	(337)	(337)	**—**	**—**	**—**
Posse	29	70	99	**$30**	**30**	**60**
Quintex West	—	—	—	**—**	**(375)**	**(375)**
	$36	$1,071	$1,107	**$30**	**$4,227**	**$4,257**

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 November 30, 1999, the remaining debentures of 1,125,024 Japanese yen are included in the Company's available-for-sale marketable securities.

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

Provision for Income Taxes

Income taxes are provided for at a blended federal and state rate of 40% for profits from normal business operations. During fiscal 1999, the Company implemented various tax strategies which have resulted in lowering the effective tax rate.

Fiscal 1997 Compared to Fiscal 1998

Consolidated Results

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

Wireless Group Results

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

The net sales and percentage of net sales of the Wireless Group are reflected in the following table:

	1997		1998	
	(Dollars in thousands)			
Net sales:				
Wireless product	$396,510	89.2%	$402,606	91.1%
Activation commissions	31,061	7.0	22,785	5.1
Residual fees	4,688	1.1	4,452	1.0
Other	12,141	2.7	11,747	2.7
Total net sales	444,400	100.0	441,590	100.0
Gross profit	66,117	14.9	52,270	11.8
Total operating expenses	49,582	11.2	48,257	10.9
Operating income	16,535	3.7	4,013	0.9
Other expense	(4,953)	(1.1)	(5,799)	(1.3)
Pre-tax income (loss)	$ 11,582	2.6%	$ (1,786)	(0.4)%

Electronics Group Results

Net sales in 1998 were $175,105, a decrease of approximately $18,805, or 9.7%, from 1997. This decrease was primarily from a $21.3 million decrease in net sales in our foreign subsidiaries, primarily Malaysia, composed chiefly of security and accessory products. Domestic operation sales of autosound, mobile and consumer electronics products increased approximately $4.7 million, or 3.7%, from 1997. The main components of this increase were our mobile video and consumer products categories. The domestic operations sales grew by $7.3 million, or 5.9%, before the Heavy Duty Sound division was transferred to one of our equity investments during 1997.

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

The net sales and percentage of net sales of the Electronics Group are reflected in the following table:

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

Other Income and Expense

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

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

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

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

During 1998, the Company purchased 400,000 Japanese yen (approximately $3,132) of Shintom Debentures. The Company exercised its option to convert the Shintom Debentures into shares of Shintom common stock. These shares are included in the Company's available-for-sale marketable securities at November 30, 1998. During 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. The write-down has been recorded as a component of other expense in the consolidated statements of income. In connection with the write-down, the Company also recorded a deferred tax recovery in the amount of $761 in the accompanying consolidated statements of income.

During 1998, the Company purchased an additional 1,400,000 Japanese yen (approximately $9,586) of Shintom Debentures. The Company 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 January 1997, the Company completed an exchange of $21,479 of its subordinated debentures for 2,860,925 shares of Class A common stock. As a result of this exchange, the Company recorded a charge of $12,686. The charge to earnings represents (1) the difference in the fair market value of the shares issued in the exchange and the fair market value of the shares that would have been issued under the terms of the original conversion feature plus (2) a write-off of the debt issuance costs associated with the subordinated debentures plus (3) expenses associated with the exchange offer. The exchange resulted in taxable income due to the difference in the face value of the bonds converted and the fair market value of the shares issued and, as such, a current tax expense of $158 was recorded. An increase in paid-in capital was reflected for the face value of the bonds converted, plus the difference in the fair market value of the shares issued in the exchange and the fair market value of the shares that would have been issued under the terms of the original conversion feature for a total of $33,592.

Provision for Income Taxes

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

Liquidity and Capital Resources

The Company's cash position at November 30, 1999 was approximately $3,871 below the November 30, 1998 level. Operating activities used approximately $95,616, primarily from increases in accounts receivable and inventory partially offset by an increase in accounts payable. Even though accounts receivable and inventory have increased, days on hand have decreased approximately 4% for both accounts receivable and inventory. Investing activities used approximately $1,124, primarily from the purchase of investment securities and the purchase of property, plant and equipment, partially offset by the proceeds from the sale of investment securities. Financing activities provided approximately $92,884, primarily from net borrowings under line of credit agreements.

On July 28, 1999, the Company amended and restated its credit agreement with a group of lenders led by The Chase Manhattan Bank, as administrative agent. The amended and restated credit agreement increased the Company's maximum borrowings available from $112,500 to $200,000. Effective December 20, 1999, the Company amended the credit agreement to increase its maximum borrowings to $250,000. The amended and restated credit agreement contains covenants requiring, among other things, minimum quarterly and annual levels of pre-tax income and net worth. Under the amended and restated credit agreement:

- the Company may not incur a pre-tax loss in excess of $1,000 for any fiscal quarter and may not incur a consolidated pre-tax loss in any two consecutive fiscal quarters;
- the Company may not permit consolidated pre-tax income for the period of two consecutive fiscal quarters ending on May 31, 2000, May 31, 2001, May 31, 2002, May 31, 2003 or May 31, 2004 to be less than $1,500; or ending on November 30, 1999, November 30, 2000, November 30, 2001, November 30, 2002 or November 30, 2003 to be less than $2,500;
- the Company may not permit a consolidated pre-tax income for any fiscal year ending on or after November 30, 1999 to be less than $4,000;
- the Company must maintain a net worth base amount of $175,000, plus 50% of consolidated net income for each fiscal year ending on or after November 30, 1999; and
- the Company must, at all times, maintain a debt to net worth ratio of not more than 1.75 to 1.

The amended and restated credit agreement also contains restrictions and limitations on, among other items, the Company's ability to pay dividends, repurchase stock and make capital expenditures or acquisitions.

Borrowings under the credit facility bear interest, payable monthly, based on the annual interest rate publicly announced by The Chase Manhattan Bank as its prime rate in effect at its principal office in New York plus the applicable margin, which is based on the consolidated pre-tax income for four consecutive quarters. The applicable margin presently in effect is 0%. This margin will increase to .25% if consolidated pre-tax income for four consecutive quarters falls below $4,000. The Company may also borrow on a LIBOR basis plus the applicable margin. At present, the margin above LIBOR is 1.50%, which will be reduced to 1.25% on February 28, 2000. This margin will increase to 1.50% if the Company's consolidated pre-tax income for four consecutive quarters is equal to or greater than $10,000 but less than $15,000, and to 1.75% if its consolidated pre-tax income for four consecutive quarters is less than $10,000. The margin will be 1.25% if consolidated pre-tax income for four consecutive quarters is equal to or greater than $15,000.

The Company's ability to borrow under its credit facility is conditioned on a formula that takes into account the amount and quality of its accounts receivable and inventory. The Company's obligations under the credit agreement are guaranteed by its subsidiaries and are secured by its accounts receivable. The amended and restated credit agreement expires on July 28, 2004.

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

The Company also has revolving credit facilities in Malaysia to finance additional working capital needs. As of November 30, 1999, the available line of credit for direct borrowing, letters of credit, bankers' acceptances and other forms of credit approximated $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 $5,320 and are payable upon demand or upon expiration of the standby letters of credit on January 15, 2000 and August 31, 2000, 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.

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.

Year 2000 Date Compliance

The Company is not aware of any year 2000 issues that have affected its business. In preparation for the year 2000, the Company incurred internal staff costs as well as consulting and other expenses. Year 2000 expenses totaled less than $1 million. These expenses were not significant because, during 1996, the Company replaced or updated a significant portion of its computer systems, both hardware and software, with year 2000 compliant systems.

It is possible that the Company's computerized systems could be affected in the future by the year 2000 issue. The Company has numerous computerized interfaces with third parties that are possibly vulnerable to failure if those third parties have not adequately addressed their year 2000 issues. System failures resulting from these issues could cause significant disruption to the Company's operations.

Recent Accounting Pronouncements

The Financial Accounting Standards Board (FASB) issued Statement 137, "Accounting for Derivative Instruments and Hedging Activities—Deferral of the Effective Date of FASB Statement No. 133." Statement 137 amends Statement 133, "Accounting for Derivative Instruments and Hedging Activities," which was issued in June 1998 and was to be effective for all fiscal quarters of fiscal years beginning after June 15, 1999. Statement 137 defers the effective date of Statement 133 to all fiscal quarters of fiscal years beginning after June 15, 2000. Earlier application is permitted. Statement 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 has not yet determined the impact, if any, that the implementation of Statement 133 will have on its financial position, results of operations or liquidity.

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, 1999, which are recorded at fair value of $30,401 and include net unrealized gains of $15,981, 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 $3,040 as of November 30, 1999. 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, 1999 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, 1999 is not material.

In addition, the Company holds debt denominated in Japanese yen and recognizes foreign currency translation adjustments in net income to the extent the adjustment is greater than the adjustment from the translation of the Company's investment in its TALK joint venture. The potential loss resulting from a hypothetical 10% adverse change in the quoted Japanese yen rate as of November 30, 1999 is approximately $431. Actual results may differ.

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, 1999, 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, 1999, amounts to $816. Actual results may differ.

Certain of the Company's investments in marketable securities are subject to risk from changes in the Japanese yen rate. A portion of these investments are hedged with a yen denominated loan. As of November 30, 1999, 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 $118. Actual results may differ.

November 30, 1998 and 1999

(In thousands, except share data)	1998	**1999**
Assets		
Current assets:		
Cash	$ 9,398	**$ 5,527**
Accounts receivable, net	131,120	**237,272**
Inventory, net	72,432	**136,554**
Receivable from vendor	956	**9,327**
Prepaid expenses and other current assets	6,502	**7,940**
Deferred income taxes, net	6,088	**7,675**
Total current assets	226,496	**404,295**
Investment securities	17,089	**30,401**
Equity investments	10,387	**13,517**
Property, plant and equipment, net	17,828	**19,629**
Excess cost over fair value of assets acquired and other intangible assets, net	6,052	**5,661**
Other assets	1,827	**1,580**
Total assets	$279,679	**$475,083**
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 34,063	**$ 76,382**
Accrued expenses and other current liabilities	15,376	**29,068**
Income taxes payable	5,210	**8,777**
Bank obligations	7,327	**15,993**
Documentary acceptances	3,911	**1,994**
Total current liabilities	65,887	**132,214**
Bank obligations	17,500	**102,007**
Deferred income taxes, net	3,595	**8,580**
Long-term debt	6,331	**5,932**
Capital lease obligation	6,298	**6,279**
Total liabilities	99,611	**255,012**
Minority interest	2,348	**3,327**
Stockholders' equity:		
Preferred stock, liquidation preference of $2,500	2,500	**2,500**
Common stock:		
Class A; 30,000,000 authorized; 17,258,573 and 17,827,946 issued 1998 and 1999, respectively; 16,760,518 and 17,206,909 outstanding 1998 and 1999, respectively	173	**179**
Class B convertible; 10,000,000 authorized; 2,260,954 issued and outstanding	22	**22**
Paid-in capital	143,339	**149,278**
Retained earnings	35,896	**63,142**
Accumulated other comprehensive income (loss)	(1,550)	**5,165**
Gain on hedge of available-for-sale securities, net	929	**929**
Treasury stock, at cost, 498,055 and 621,037 Class A common stock 1998 and 1999, respectively	(3,589)	**(4,471)**
Total stockholders' equity	177,720	**216,744**
Commitments and contingencies		
Total liabilities and stockholders' equity	$279,679	**$475,083**

See accompanying notes to consolidated financial statements.

Consolidated Statements of Income

Years Ended November 30, 1997, 1998 and 1999

(In thousands, except share data)	1997	1998	**1999**
Net sales	$639,082	$616,695	**$1,159,537**
Cost of sales (including an inventory write-down to market in 1998 of $6,600)	532,320	528,154	**1,024,909**
Gross profit	106,762	88,541	**134,628**
Operating expenses:			
Selling	38,044	35,196	**36,606**
General and administrative	37,000	35,890	**44,748**
Warehousing, assembly and repair	12,023	12,584	**15,037**
Total operating expenses	87,067	83,670	**96,391**
Operating income	19,695	4,871	**38,237**
Other income (expense):			
Debt conversion expense	(12,686)	—	**—**
Interest and bank charges	(2,542)	(4,769)	**(4,712)**
Equity in income of equity investments, management fees and related income, net	1,468	1,107	**4,257**
Gain on sale of investments	37,471	787	**3,501**
Gain on issuance of subsidiary shares	—	—	**3,800**
Other, net	36	1,805	**(2,360)**
Total other income (expense)	23,747	(1,070)	**4,486**
Income before provision for income taxes	43,442	3,801	**42,723**
Provision for income taxes	22,420	829	**15,477**
Net income	$ 21,022	$ 2,972	**$ 27,246**
Net income per common share (basic)	$ 1.11	$ 0.16	**$ 1.43**
Net income per common share (diluted)	$ 1.09	$ 0.16	**$ 1.39**

See accompanying notes to consolidated financial statements.

Years Ended November 30, 1997, 1998 and 1999

(In thousands, except share data)	Preferred Stock	Common Stock	Paid-In Capital	Unearned Compen-sation	Retained Earnings	Accumulated Other Compre-hensive Income (Loss)	Unreal-ized Gain on Equity Collar	Gain on Hedge of Available-for-Sale Securities	Treasury Stock	Total Stock-holders' Equity
Balances at November 30, 1996	2,500	163	107,958	(125)	11,902	9,101	—	—	—	131,499
Comprehensive income:										
Net income	—	—	—	—	21,022	—	—	—	—	21,022
Other comprehensive income (loss), net of tax:										
Foreign currency translation adjustment	—	—	—	—	—	(2,252)	—	—	—	(2,252)
Unrealized gain on marketable securities, net of tax effect of $1,174	—	—	—	—	—	1,917	—	—	—	1,917
Other comprehensive income (loss)										(335)
Comprehensive income										20,687
Compensation expense	—	—	118	17	—	—	—	—	—	135
Options and non-performance restricted stock forfeitures due to employee terminations	—	—	(23)	23	—	—	—	—	—	—
Issuance of 352,194 shares of common stock	—	3	3,489	—	—	—	—	—	—	3,492
Conversion of debentures into 2,860,925 shares	—	29	33,592	—	—	—	—	—	—	33,621
Issuance of warrants	—	—	106	—	—	—	—	—	—	106
Acquisition of 290,000 common shares	—	—	—	—	—	—	—	—	(2,421)	(2,421)
Unrealized gain on equity collar, net of tax effect of $473	—	—	—	—	—	—	773	—	—	773
Balances at November 30, 1997	2,500	195	145,240	(85)	32,924	8,766	773	—	(2,421)	187,892
Comprehensive income:										
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 income (loss)										(10,316)
Comprehensive income (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**

See accompanying notes to consolidated financial statements.

Years Ended November 30, 1997, 1998 and 1999

(In thousands)	1997	1998	**1999**
Cash flows from operating activities:			
Net income	$ 21,022	$ 2,972	**$ 27,246**
Adjustment to reconcile net income to net cash provided by (used in) operating activities:			
Debt conversion expense	12,386	—	**—**
Depreciation and amortization	1,903	2,471	**3,288**
Provision for bad debt expense	1,300	581	**3,255**
Equity in income of equity investments	(1,468)	(1,107)	**(4,257)**
Minority interest	1,623	(320)	**(220)**
Gain on sale of investments	(37,471)	(787)	**(3,501)**
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	(3,123)	(902)	**(565)**
Provision for unearned compensation	135	53	**—**
Expense relating to issuance of warrants	106	—	**—**
Gain on disposal of property, plant and equipment, net	(9)	(151)	**36**
Changes in:			
Accounts receivable	6,853	(27,940)	**(109,889)**
Receivable from vendor	—	4,266	**(8,371)**
Inventory	(36,823)	31,705	**(64,533)**
Accounts payable, accrued expenses and other current liabilities	(2,855)	9,385	**56,615**
Income taxes payable	2,181	(4,034)	**4,022**
Prepaid expenses and other, net	(2,659)	1,186	**3,105**
Net cash provided by (used in) operating activities	(36,899)	17,378	**(95,616)**
Cash flows from investing activities:			
Purchases of investment securities	(4,706)	(12,719)	**(14,151)**
Purchases of property, plant and equipment, net	(3,986)	(4,932)	**(4,822)**
Net proceeds from sale of investment securities	45,937	5,830	**11,201**
Proceeds from sale of equity collar	—	1,499	**—**
Proceeds from distribution from equity investment	450	1,125	**1,648**
Proceeds from issuance of subsidiary shares	—	—	**5,000**
Net cash provided by (used in) investing activities	37,695	(9,197)	**(1,124)**
Cash flows from financing activities:			
Net borrowings (repayments) under line of credit agreements	(3,765)	(5,047)	**93,428**
Net borrowings (repayments) under documentary acceptances	413	(3)	**(1,917)**
Debt issuance costs	(13)	—	**(1,175)**
Principal payments on capital lease obligation	—	(26)	**(19)**
Proceeds from issuance of Class A common stock	2,328	—	**—**
Proceeds from exercise of stock options and warrants	—	—	**3,449**
Repurchase of Class A common stock	(2,421)	(1,168)	**(882)**
Purchase of warrants	—	(1,869)	**—**
Net cash provided by (used in) financing activities	(3,458)	(8,113)	**92,884**
Effect of exchange rate changes on cash	(243)	(115)	**(15)**
Net decrease in cash	(2,905)	(47)	**(3,871)**
Cash at beginning of period	12,350	9,445	**9,398**
Cash at end of period	$ 9,445	$ 9,398	**$ 5,527**

See accompanying notes to consolidated financial statements.

Years Ended November 30, 1997, 1998 and 1999
(Dollars in thousands, except share and per share data)

(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. The Wireless Group 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, 1998 or 1999.

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

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

(e) Inventory

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

(f) Investment Securities

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

Trading and available-for-sale securities are recorded at fair value. Held-to-maturity securities are recorded at amortized cost, adjusted for the amortization or accretion of premiums or discounts. Unrealized holding gains and losses on trading securities are included in earnings. Unrealized holding gains and losses, net of the related tax effect, on available-for-sale securities are excluded from earnings and are reported as a 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 19(a)(1)).

(2) Equity Collar

As of November 30, 1997, the Company had an equity collar for 100,000 of its shares in CellStar Corporation (CellStar) (Note 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 (Note 19(a)(2)). The equity collar acted as a hedging item for the CellStar shares. The investment in the CellStar shares is an available-for-sale security carried at fair market value with unrealized gains and losses recorded as a separate component of accumulated other comprehensive income (loss).

The Financial Accounting Standards Board (FASB) issued Statement No. 137, "Accounting for Derivative Instruments and Hedging Activities—Deferral of the Effective Date of FASB Statement No. 133" (Statement 137). Statement 137 amends Statement 133, "Accounting for Derivative Instruments and Hedging Activities", which was to be effective for all fiscal quarters of fiscal years beginning after June 15, 1999. Statement 137 defers the effective date of Statement 133 to all fiscal quarters of fiscal years beginning after June 15, 2000. Statement 133 established accounting and reporting standards for derivative instruments, including certain derivative instruments, embedded in other contracts and for hedging activities. Management of the Company has not yet determined the impact, if any, that the implementation of Statement 133 will have on its financial position, results of operations or liquidity.

(h) Debt Issuance Costs

Costs incurred in connection with the restructuring of bank obligations (Note 11(a)) have been capitalized. During 1999, the Company capitalized $1,220 in fees associated with the amendment to the Company's credit agreement. These charges are amortized over the lives of the respective agreements. Amortization expense of these costs amounted to $37 and $160 for the years ended November 30, 1997 and 1999, respectively. During 1997, the Company wrote-off $245 of debt issuance costs (Note 12). There was no amortization of debt issuance costs for the year ended November 30, 1998.

(i) Property, Plant and Equipment

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

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

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

(j) Intangible Assets

Intangible assets consist of patents, trademarks, non-competition agreements and the excess cost over fair value of assets acquired for 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 $2,148 and $2,583 at November 30, 1998 and 1999, respectively. Amortization of the excess cost over fair value of assets acquired and other intangible assets amounted to $363, $382 and $429 for the years ended November 30, 1997, 1998 and 1999, 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 $35,749, $27,237 and $29,547 for the years ended November 30, 1997, 1998 and 1999, 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 $19,924, $13,877 and $19,884 for the years ended November 30, 1997, 1998 and 1999, respectively.

(m) Advertising

The Company expenses the costs of advertising as incurred. During the years ended November 30, 1997, 1998 and 1999, the Company had no direct response advertising.

(n) Warranty Expenses

Warranty expenses are accrued at the time of sale based on the Company's estimated cost to repair expected returns for products. At November 30, 1998 and 1999, the liability for future warranty expense amounted to $1,915 and $5,104, 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 and the related hedge of such investment securities is recorded in the unrealized gain (loss) on marketable securities in accumulated other comprehensive income. Other foreign currency transaction gains (losses) of $871 and $(1,046) for the years ended November 30, 1998 and 1999, respectively, were included in other income. Other foreign currency gains and losses were not material for the year ended November 30, 1997.

(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

In February 1997, the FASB issued Statement No. 128, "Earnings per Share" (Statement 128). Statement 128 replaces the calculation of primary and fully diluted earnings per share with basic and diluted earnings per share. Basic earnings per share excludes any dilution. It is based upon the weighted average number of common shares outstanding during the period. Diluted earnings per share reflects the potential dilution that would occur if securities or other contracts to issue common stock were exercised or converted into common stock. The Company adopted Statement 128 in fiscal 1998. Earnings per share amounts for all periods presented have been restated to conform to the new presentation.

(r) Supplementary Financial Statement Information

Advertising expenses approximated $16,981, $15,789 and $15,390 for the years ended November 30, 1997, 1998 and 1999, respectively.

Interest income of approximately $1,525, $896 and $943 for the years ended November 30, 1997, 1998 and 1999, 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. The Company adopted this accounting standard effective December 1, 1998, as required. Prior year financial statements have been reclassified to conform to the presentation required by Statement 130.

(w) Reclassifications

Certain reclassifications have been made to the 1997 and 1998 consolidated financial statements in order to conform to the 1999 presentation.

(2) Business Acquisitions

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

(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 ($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.

(4) Supplemental Cash Flow Information

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

	For the Years Ended November 30,		
	1997	1998	**1999**
Cash paid during the years for:			
Interest, excluding bank charges, net of $801 capitalized in 1998	$ 1,560	$1,587	**$ 2,994**
Income taxes	$23,530	$4,496	**$12,039**

Non-cash Transactions:

During January 1997, the Company completed an exchange of $21,479 of its $65,000 6¼% convertible subordinated debentures (Subordinated Debentures) into 2,860,925 shares of Class A common stock (Note 12).

During 1997, the Company issued a credit of $1,250 on open accounts receivable and issued 250,000 shares of its Class A common stock, valued at five dollars per share, in exchange for a 20% interest in Bliss-tel Company, Limited (Bliss-tel) (Note 10).

During 1997, the Company contributed $6,475 in net assets in exchange for a 50% ownership interest in Audiovox Specialized Applications, LLC (ASA) which resulted in $5,595 of excess cost over fair value of net assets (Note 10).

As of November 30, 1997, the Company recorded an unrealized holding gain relating to the equity collar, net of deferred income taxes, of $773 as a separate component of stockholders' equity (Note 19).

During 1998, a capital lease obligation of $6,340 was incurred when the Company entered into a building lease (Note 18).

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 19).

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

During the years ended November 30, 1997, 1998 and 1999, the Company recorded an unrealized holding gain relating to available-for-sale marketable equity securities, net of deferred income taxes, of $1,917, $(8,040) and $5,775, respectively, as a separate component of accumulated other comprehensive income (Note 16).

During 1999, $1,249 of its $65,000 6¼% subordinated debentures were converted into 70,565 shares of Class A common stock (Note 12).

(5) Transactions With Major Suppliers

The Company engages in transactions with Shintom and TALK Corporation (TALK). Shintom is a stockholder who owns all of the outstanding Preferred Stock of the Company at November 30, 1998 and 1999. The Company has a 30.8% interest in TALK (Note 10).

Transactions with Shintom and TALK include financing arrangements and inventory purchases which approximated 29%, 19% and 11% for the years ended November 30, 1997, 1998 and 1999, respectively, of total inventory purchases. At November 30, 1998 and 1999, the Company had recorded $15 and $20, respectively, of liability due to TALK for inventory purchases included in accounts payable. The Company also has documentary acceptance obligations payable to TALK as of November 30, 1998 and 1999 (Note 11(b)). At November 30, 1998 and 1999, the Company had recorded a receivable from TALK in the amount of $734 and $3,741, respectively, a portion of which is payable with interest (Note 10), which is reflected as receivable from vendor on the accompanying consolidated financial statements.

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.

Inventory purchases from another major supplier approximated 32%, 42% and 39% of total inventory purchases for the years ended November 30, 1997, 1998 and 1999, 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.

(6) Accounts Receivable

Accounts receivable is comprised of the following:

	November 30,	
	1998	**1999**
Trade accounts receivable	$142,211	**$254,477**
Receivables from equity investments (Note 10)	1,035	**1,057**
	143,246	**255,534**
Less:		
Allowance for doubtful accounts	2,944	**5,645**
Allowance for cellular deactivations	875	**1,261**
Allowance for co-operative advertising, cash discounts and market development funds	8,307	**11,356**
	$131,120	**$237,272**

(7) Receivable from Vendor

The Company recorded receivable from vendor in the amount of $956 and $9,327 as of November 30, 1998 and 1999, respectively. Receivable from vendor represents prepayments on product shipments, defective product reimbursements and interest receivable at a rate of 6.5% on amounts due from TALK (Note 10).

(8) Investment Securities

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. As of November 30, 1998, the Company's investment securities consist primarily of 1,730,000 shares of CellStar Common Stock, 1,904,000 shares of Shintom common stock and 662,788 Japanese yen of Shintom debentures, 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 were as follows:

	1998				1999		
	Cost	Gross Unrealized Holding Gain	Gross Unrealized Holding Loss	Aggregate Fair Value	Cost	Gross Unrealized Holding Gain	Aggregate Fair Value
CellStar Common Stock	$ 2,715	$8,422	—	$11,137	**$ 2,715**	**$13,936**	**$16,651**
Shintom Common Stock	3,132	—	$1,723	1,409	**1,179**	**—**	**1,179**
Shintom Debentures	4,543	—	—	4,543	**10,526**	**2,045**	**12,571**
	$10,390	$8,422	$1,723	$17,089	**$14,420**	**$15,981**	**$30,401**

The Shintom debentures mature on September 30, 2002.

A related deferred tax liability of $2,546 and $6,053 was recorded at November 30, 1998 and 1999, respectively, as a reduction to the unrealized holding gain included in accumulated other comprehensive income.

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

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.

(9) Property, Plant and Equipment

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

	November 30, 1998	**1999**
Land	$ 363	**$ 363**
Buildings	1,605	**1,605**
Property under capital lease	7,141	**7,141**
Furniture, fixtures and displays	3,184	**1,878**
Machinery and equipment	5,023	**5,363**
Computer hardware and software	9,767	**9,655**
Automobiles	633	**580**
Leasehold improvements	3,943	**2,968**
	31,659	**29,553**
Less accumulated depreciation and amortization	(13,831)	**(9,924)**
	$ 17,828	**$19,629**

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

Computer software includes approximately $3,149 and $2,927 of unamortized costs as of November 30, 1998 and 1999, respectively, related to the acquisition and installation of management information systems for internal use.

Depreciation and amortization of plant and equipment amounted to $1,503, $2,089 and $2,875 for the years ended November 30, 1997, 1998 and 1999, respectively. Included in accumulated depreciation and amortization is amortization of computer software costs of $19, $350 and $1,051 for the years ended November 30, 1997, 1998 and 1999, respectively. Included in accumulated depreciation and amortization is amortization of property under capital lease of $160 and $240 for the year ended November 30, 1998 and 1999, respectively.

(10) Equity Investments

As of November 30, 1999, the Company had a 30.8% ownership interest in TALK, a major supplier of the Company. As of November 30, 1999, 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, 1999, the Company had a 20% ownership interest in Bliss-tel which distributes cellular telephones and accessories in Thailand. Additionally, the Company had 50% non-controlling ownership interests in five other entities: Protector Corporation (Protector) which acts as a distributor of chemical protection treatments; ASA which acts as a distributor to specialized markets for RV's and van conversions, of televisions and other automotive sound, security and accessory products; Audiovox Pacific Pty., Limited (Audiovox Pacific) which was a former distributor of cellular telephones and automotive sound and security products in Australia and New Zealand; G.L.M. Wireless Communications, Inc. (G.L.M.) which is in the cellular telephone, pager and communications business in the New York metropolitan area; and Quintex West, which is in the cellular telephone and related communication products business, as well as the automotive aftermarket products business on the west coast of the United States.

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

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

The Company's net sales to the equity investments amounted to $6,132, $4,528 and $4,605 for the years ended November 30, 1997, 1998 and 1999, respectively. The Company's purchases from the equity investments amounted to $7,484, $91,095 and $146,803 for the years ended November 30, 1997, 1998 and 1999, respectively. The Company recorded $2,027, $1,752 and $1,735 of outside representative commission expenses for activations and residuals generated by G.L.M. on the Company's behalf during fiscal year 1997, 1998 and 1999, respectively. During the fourth quarter of 1999, the Company recorded $1,121 of equity income from TALK.

Included in accounts receivable at November 30, 1998 and 1999 are trade receivables due from its equity investments aggregating $1,035 and $1,057, respectively. Receivable from vendor includes $833 and $3,741 due from TALK as of November 30, 1998 and 1999, respectively, which represents prepayments on product shipments and interest. Interest is payable in monthly installments at 6.5% on amounts due from TALK. Amounts representing prepayments of $3,500 were repaid via receipt of product shipments in December 1999. At November 30, 1998 and 1999, other long-term assets include management fee receivables of $1,271 and $459, respectively. At November 30, 1998 and 1999, included in accounts payable and other accrued expenses were obligations to equity investments aggregating $1,049 and $1,015, respectively. Documentary acceptance obligations were outstanding from TALK at November 30, 1999 (Note 11(b)).

For the years ended November 30, 1997, 1998 and 1999, interest income earned on equity investment notes and other receivables approximated $653, $480 and $482, respectively. Interest expense on documentary acceptances payable to TALK approximated $203, $256 and $228 in 1997, 1998 and 1999, respectively.

(11) 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, 1999. 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, 1999, availability of credit under the credit agreement is a maximum aggregate amount of $200,000, subject to certain conditions, based upon a formula taking into account the amount and quality of its accounts receivable and inventory. At November 30, 1999, the amount of unused available credit is $46,930. The credit agreement also allows for commitment up to $50,000 in forward exchange contracts (Note 19(a)(1)).

Outstanding obligations under the credit agreement at November 30, 1998 and 1999 were as follows:

	November 30, 1998	November 30, 1999
Revolving Credit Notes	$ 2,500	**$ 47,007**
Eurodollar Notes	15,000	**55,000**
	$17,500	**$102,007**

Interest rates are as follows: revolving credit notes at .50% above the prime rate, which was approximately 8.5%, 7.75% and 8.5% at November 30, 1997, 1998 and 1999, respectively, and Eurodollar Notes at 1.50% above the Libor rate which was approximately 5.97%, 5.62% and 6.48% at November 30, 1997, 1998 and 1999, respectively. The maximum commitment fee on the unused portion of the line of credit is .50% as of November 30, 1999.

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

The Company also has revolving credit facilities in Malaysia (Malaysian Credit Agreement) to finance additional working capital needs. As of November 30, 1998 and 1999, the available line of credit for direct borrowing, letters of credit, bankers' acceptances and other forms of credit approximated $8,195 and $8,158, respectively. The credit facilities are partially secured by one standby letter of credit totaling $1,300 and two standby letters of credit totaling $5,320, by the Company and payable upon demand or upon expiration of the standby letters of credit on January 15, 2000 and August 31, 2000, 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, 1998 and 1999 were approximately $4,711 and $5,843, respectively. At November 30, 1999 interest on the credit facility ranged from 7.4% to 9.6%. At November 30, 1998, interest on the credit facility ranged from 9.5% to 12.0%. At November 30, 1997, interest on the credit facility ranged from 8.25% to 11.10%.

As of November 30, 1998 and 1999, Audiovox Venezuela had notes payable of 1,500,000 and 1,275,500 Venezuelan Bolivars (approximately $2,617 and $2,000 at November 30, 1998 and 1999) 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 $3,000, by the Company and is payable upon demand or upon expiration of the standby letter of credit on June 30, 2000.

The maximum month-end amounts outstanding under the credit agreement and Malaysian Credit Agreement borrowing facilities during the years ended November 30, 1997, 1998 and 1999 were $28,420, $42,975 and $110,595, respectively. Average borrowings during the years ended November 30, 1997, 1998 and 1999 were $18,723, $26,333 and $29,835, respectively, and the weighted average interest rates were 7.7%, 8.7% and 9.6%, 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 are secured by the inventory purchased. Payments on the borrowings are due within 30 days. Interest is payable after stipulated due dates at a rate of prime plus 1 1/2%, which was 10% at November 30, 1999. The agreement contains several covenants.

(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, 1998 and 1999, $3,911 and $1,994, respectively, of documentary acceptances were outstanding of which all was due to TALK.

The maximum month-end documentary acceptances outstanding during the years ended November 30, 1997, 1998 and 1999 were $4,162, $4,809 and $5,033, respectively. Average borrowings during the years ended November 30, 1997, 1998 and 1999 were $3,199, $3,885 and $3,755, respectively, and the weighted average interest rates, including fees, were 6.3%, 6.6% and 6.1%, respectively.

(12) Long-Term Debt

A summary of long-term debt follows:

	November 30, 1998	November 30, 1999
Convertible subordinated debentures:		
6¼%, due 2001, convertible at $17.70 per share	$2,269	**$1,020**
Subordinated note payable	4,062	**4,912**
	6,331	**5,932**
Less current installments	—	**—**
	$6,331	**$5,932**

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

On November 25, 1996, the Company completed an exchange of $41,252 of its $65,000 Subordinated Debentures for 6,806,580 shares of Class A Common Stock (Exchange). As a result of the Exchange, a charge of $26,318 was recorded. The charge to earnings represents (i) the difference in the fair market value of the shares issued in the Exchange and the fair market value of the shares that would have been issued under the terms of the original conversion feature plus (ii) a write-off of the debt issuance costs associated with the Subordinated Debentures (Note 1(h)) plus (iii) expenses associated with the Exchange offer. The Exchange resulted in taxable income due to the difference in the face value of the bonds converted and the fair market value of the shares issued and, as such, a current tax expense of $2,888 was recorded. An increase to paid-in capital was reflected for the face value of the bonds converted, plus the difference in the fair market value of the shares issued in the Exchange and the fair market value of the shares that would have been issued under the terms of the original conversion feature for a total of $63,564.

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

During fiscal 1999, holders of the Company's 65,000 subordinated debentures exercised their option to convert $1,249 debentures for 70,565 shares of the Company's Class A common stock. As a result, the remaining subordinated debentures are $1,020 as of November 30, 1999.

On October 20, 1994, the Company issued a note payable for 500,000 Japanese yen (approximately $4,062 and $4,912 on November 30, 1998 and 1999, respectively) to finance its investment in TALK (Note 10). The note is scheduled to be repaid on October 20, 2004 and bears interest at 4.1%. The note can be repaid by cash payment or by giving 10,000 shares of its TALK investment to the lender. The lender has an option to acquire 2,000 shares of TALK held by the Company in exchange for releasing the Company from 20% of the face value of the note at any time after October 20, 1995. This note and the investment in TALK are both denominated in Japanese yen, and, as such, the foreign currency translation adjustments are recorded in accumulated other comprehensive income. Any foreign currency translation adjustment resulting from the note will be recorded in other comprehensive income to the extent that the adjustment is less than or equal to the adjustment from the translation of the investment in TALK. Any portion of the adjustment from the translation of the note that exceeds the adjustment from the translation of the investment in TALK is a transaction gain or loss that will be included in earnings.

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

2000	—
2001	$1,020
2002	—
2003	—
2004	$4,912

(13) Income Taxes

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

	November 30,		
	1997	1998	**1999**
Domestic Operations	$42,613	$ 5,380	**$42,668**
Foreign Operations	829	(1,579)	**55**
	$43,442	$ 3,801	**$42,723**

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

	November 30,		
	1997	1998	**1999**
Statement of income	$22,420	$ 829	**$15,477**
Stockholders' equity:			
Unrealized holding gain (loss) on investment securities recognized for financial reporting purposes	1,174	(4,928)	**3,540**
Unrealized holding gain on equity collar recognized for financial reporting purposes	473	(1,043)	**—**
Income tax benefit of employee stock option exercises	—	—	**(1,101)**
Total income tax expense (benefit)	$24,067	$(5,142)	**$17,916**

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

	Federal	Foreign	State	Total
1997:				
Current	$23,316	$1,159	$1,068	$25,543
Deferred	(2,845)	—	(278)	(3,123)
	$20,471	$1,159	$790	$22,420
1998:				
Current	$1,499	$(119)	$351	$1,731
Deferred	(819)	—	(83)	(902)
	$680	$(119)	$268	$829
1999:				
Current	**$14,565**	**$(116)**	**$1,593**	**$16,042**
Deferred	**(118)**	**(431)**	**(16)**	**(565)**
	$14,447	**$(547)**	**$1,577**	**$15,477**

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,					
	1997		1998		**1999**	
Tax provision at Federal statutory rates	$15,205	35.0%	$1,292	34.0%	**$14,953**	**35.0%**
Expense relating to exchange of subordinated debentures	4,578	10.5	—	—	**—**	**—**
Undistributed income (losses) from equity investments	123	0.3	287	7.6	**(373)**	**(0.9)**
State income taxes, net of Federal benefit	1,637	3.8	260	6.8	**1,025**	**2.4**
Decrease in beginning-of-the-year balance of the valuation allowance for deferred tax assets	(180)	(0.4)	(340)	(8.9)	**(989)**	**(2.3)**
Foreign tax rate differential	323	0.7	(82)	(2.2)	**38**	**0.1**
Benefit of concluded examination	—	—	(350)	(9.2)	**—**	**—**
Other, net	734	1.7	(238)	(6.3)	**823**	**1.9**
	$22,420	51.6%	$ 829	21.8%	**$15,477**	**36.2%**

The significant components of deferred income tax recovery for the years ended November 30, 1998 and 1999 are as follows:

	November 30, 1998	November 30, 1999
Deferred tax (recovery) expense (exclusive of the effect of other components listed below)	$ (562)	**$ 424**
Decrease in beginning-of-the-year balance of the valuation allowance for deferred tax assets	(340)	**(989)**
	$ (902)	**$ (565)**

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

	November 30, 1998	November 30, 1999
Deferred tax assets:		
Accounts receivable, principally due to allowance for doubtful accounts and cellular deactivations	$ 1,210	**$ 1,977**
Inventory, principally due to additional costs capitalized for tax purposes pursuant to the Tax Reform Act of 1986	325	**617**
Inventory, principally due to valuation reserve	1,882	**1,702**
Accrual for future warranty costs	563	**615**
Plant, equipment and certain intangibles, principally due to depreciation and amortization	804	**957**
Net operating loss carryforwards,state and foreign	2,338	**1,327**
Equity collar	570	**570**
Accrued liabilities not currently deductible	346	**348**
Other	405	**121**
Total gross deferred tax assets	8,443	**8,234**
Less: valuation allowance	(2,373)	**(1,384)**
Net deferred tax assets	6,070	**6,850**
Deferred tax liabilities:		
Investment securities	(3,577)	**(6,323)**
Issuance of subsidiary shares	—	**(1,432)**
Total gross deferred tax liabilities	(3,577)	**(7,755)**
Net deferred tax asset (liability)	$ 2,493	**$ (905)**

The net change in the total valuation allowance for the year ended November 30, 1999 was a decrease of $989. 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, 1999. 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, 1999, the Company had net operating loss carryforwards for state and foreign income tax purposes of approximately $7,250, which are available to offset future state and foreign taxable income, if any, which will expire through the year ended November 30, 2018.

(14) Capital Structure

The Company's capital structure is as follows:

Security	Par Value	Shares Authorized November 30, 1998	Shares Authorized November 30, 1999	Shares Outstanding November 30, 1998	Shares Outstanding November 30, 1999	Voting Rights Per Share	Liquidation Rights
Preferred Stock	$50.00	50,000	**50,000**	50,000	**50,000**	—	$50 per share
Series Preferred Stock	0.01	1,500,000	**1,500,000**	—	**—**	—	—
Class A Common Stock	0.01	30,000,000	**30,000,000**	16,760,518	**17,206,909**	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, 1998 and 1999, 498,055 and 621,037 shares, respectively, were repurchased under the Program at an average price of $7.21 and $7.20 per share, respectively, for an aggregate amount of $3,589 and $4,471, respectively.

As of November 30, 1998 and 1999, 1,963,480 and 1,598,930 shares of the Company's Class A common stock are reserved for issuance under the Company's Stock Option and Restricted Stock Plans and 4,167,117 and 3,946,522 for all convertible securities and warrants outstanding at November 30, 1998 and 1999 (Notes 12 and 15).

Undistributed earnings from equity investments included in retained earnings amounted to $2,324 and $4,219 at November 30, 1998 and 1999, respectively.

(15) Stock-Based Compensation and Stock Warrants

(a) Stock Options

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

Compensation expense is recorded with respect to the options based upon the quoted market value of the shares and the exercise provisions at the date of grant. 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, 1997 and 1998.

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

	Number of Shares	Weighted Average Exercise Price
Outstanding at November 30, 1996	548,750	8.78
Granted	1,260,000	7.09
Exercised	—	—
Canceled	(109,000)	10.95
Outstanding at November 30, 1997	1,699,750	7.38
Granted	10,000	4.63
Exercised	—	—
Canceled	(16,000)	8.79
Outstanding at November 30, 1998	1,693,750	7.33
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**
Options exercisable, November 30, 1999	**1,181,200**	**7.51**

At November 30, 1998 and 1999, 207,302 and 184,775 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 1997 was $5.73 on the date of the grant using the Black-Scholes option-pricing model with the following weighted average assumptions: risk free interest rate of 6.49%, expected dividend yield of 0.0%, expected stock volatility of 70% and an expected option life of 10 years.

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.

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:

	1997	1998	**1999**
Net income:			
As reported	$21,022	$2,972	**$27,246**
Pro-forma	18,786	1,336	**25,494**
Net income per common share (basic):			
As reported	$ 1.11	$ 0.16	**$ 1.43**
Pro-forma	0.99	0.07	**1.33**
Net income per common share (diluted):			
As reported	$ 1.09	$ 0.16	**$ 1.39**
Pro-forma	0.97	0.07	**1.30**

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, 1999 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	1,259,700	7.12	7.22	1,059,700	7.02
$ 8.01–$13.00	121,500	11.77	5.20	121,500	11.77
$13.01–$15.00	1,490,000	15.00	9.78	—	—

(b) Restricted Stock Plan

The Company has restricted stock plans under which key employees and directors may be awarded restricted stock. Total restricted stock outstanding, granted under these plans, at November 30, 1998 and 1999 was

77,871 and 13,750, respectively. Awards under the restricted stock plan may be performance accelerated shares or performance-restricted shares. During fiscal 1999, 32,222 performance-accelerated shares and 12,103 performance restricted shares were granted. No performance accelerated shares or performance restricted shares were granted in 1997 or 1998. During fiscal 1999, 19,796 performance restricted shares lapsed. No performance accelerated shares or performance restricted shares lapsed in fiscal years 1997 or 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, 1997, 1998 and 1999 were $135, $(23) and $127, respectively.

(c) Employee Stock Purchase Plan

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

(d) Stock Warrants

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 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, 1999, 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 $500, $150 and $800 was made by the Company to the United States plan in fiscal 1997, 1998 and 1999, respectively. Contributions required by law to be made for eligible employees in Canada were not material.

(16) Accumulated Other Comprehensive Income

The change in net unrealized gain (loss) on marketable securities of $1,917, $(8,040) and $5,775 for the years ended November 30, 1997, 1998 and 1999 is net of tax of $1,174, $(4,928) and $3,540, respectively. Reclassification adjustments of $23,232, $488 and $2,171 are included in the net unrealized gain (loss) on marketable securities for the years ended November 30, 1997, 1998 and 1999, 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.

(17) 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,		
	1997	1998	**1999**
Net income (numerator for net income per common share, basic)	$ 21,022	$ 2,972	**$ 27,246**
Interest on 6¼% convertible subordinated debentures, net of tax	185	—	**84**
Adjusted net income (numerator for net income per common share, diluted)	$ 21,207	$ 2,972	**$ 27,330**
Weighted average common shares (denominator for net income per common share, basic)	18,948,356	19,134,529	**19,100,047**
Effect of dilutive securities:			
Employee stock options and stock warrants	237,360	—	**430,560**
Employee stock grants	70,845	—	**62,175**
Convertible debentures	251,571	—	**110,551**
Weighted average common and potential common shares outstanding (denominator for net income per common share, diluted)	19,508,132	19,134,529	**19,703,333**
Net income per common share, basic	$ 1.11	$ 0.16	**$ 1.43**
Net income per common share, diluted	$ 1.09	$ 0.16	**$ 1.39**

Employee stock options and stock warrants totaling 1,908,438 and 2,779,363 for the years ended November 30, 1997 and 1998, 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 year ended November 30, 1999.

(18) 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). 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. The amount is payable to the Company with 8% interest.

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

At November 30, 1999, 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
2000	$ 522	$1,955
2001	530	1,473
2002	553	1,225
2003	554	820
2004	553	81
Thereafter	13,099	658
Total minimum lease payments	15,811	$6,212
Less: amount representing interest	9,513	
Present value of net minimum lease payments	6,298	
Less: current installments	19	
Long-term obligation	$ 6,279	

Rental expense for the above-mentioned operating lease agreements and other leases on a month-to-month basis approximated $2,516, $2,563 and $2,552 for the years ended November 30, 1997, 1998 and 1999, respectively.

The Company leases certain facilities and equipment from its principal stockholder and several officers. Rentals for such leases are considered by management of the Company to approximate prevailing market rates. At November 30, 1999, 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:

2000	$960
2001	941
2002	941
2003	667

(19) Financial Instruments

(a) Derivative Financial Instruments

(1) Forward Exchange Contracts

At November 30, 1998, the Company had contracts to exchange foreign currencies in the form of forward exchange contracts in the amount of $5,352. These contracts have varying maturities with none exceeding one year as of November 30, 1998. 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, 1997, 1998 and 1999, gains and losses on foreign currency transactions which were not hedged were not material. For the years ended November 30, 1997, 1998 and 1999, 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 is recorded on the balance sheet at fair value with gains and losses on the equity collar reflected as a separate component of equity. During 1998, the Company sold its equity collar for $1,499. The transaction resulted in a net gain on hedge of available-for-sale securities of $929 which is reflected as a separate component of stockholders' equity. The net gain on the equity collar will be reflected in the consolidated statements of income upon sale of the CellStar shares.

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 11(a)). The Company had open commercial letters of credit of approximately $24,914 and $41,173, of which $20,576 and $28,727 were accrued for purchases incurred as of November 30, 1998 and 1999, 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. and Quintex West which aggregate $475. 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, cellular carriers and service providers, distributors, agents, mass merchandisers, warehouse clubs and independent retailers.

At November 30, 1998, three customers, which included two cellular carrier and service providers and a Bell Operating Company accounted for approximately 18.0%, 13.8% and 13.5%, respectively, of accounts receivable. At November 30, 1999, three customers, which included two cellular carrier and service providers and a Bell Operating Company accounted for approximately 15.8%, 15.5% and 11.1%, respectively, of accounts receivable.

During the year ended November 30, 1997, two customers accounted for approximately 11.3% and 9.0%, respectively, of the Company's 1997 sales. 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.

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, 1998		**November 30, 1999**	
	Carrying Amount	Fair Value	**Carrying Amount**	**Fair Value**
Investment securities	$17,089	$17,089	**$ 30,401**	**$ 30,401**
Long-term obligations	$23,831	$24,202	**$107,939**	**$109,261**
Forward exchange contract obligation (derivative)	—	$ 5,352	—	—

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, 1999 and 1998 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.

(20) 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, 1997, one customer of the Wireless segment accounted for approximately 11.3% of the Company's 1997 sales. During the year ended November 30, 1998, two customers of the Wireless segment accounting 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. No customers in the Electronics segment exceeded 10% of the consolidated sales in fiscal 1997, 1998 or 1999.

	Wireless	Electronics	Corporate	Consolidated Totals
1997				
Net sales	$444,400	$193,910	$ 772	$ 639,082
Intersegment sales (purchases), net	6	(6)	—	—
Interest income	46	31	1,448	1,525
Interest expense	4,551	3,169	(5,546)	2,174
Depreciation and amortization	775	630	498	1,903
Debt conversion expense	—	—	12,686	12,686
Income (loss) before provision for income tax	11,582	8,002	23,858	43,442
Total assets	138,136	86,632	65,059	289,827
Non-cash items:				
Provision for bad debt expense	354	934	12	1,300
Deferred income tax benefit	—	—	3,123	3,123
Minority interest	—	—	1,623	1,623
Capital expenditures	1,340	744	1,902	3,986
1998				
Net sales	$441,590	$175,105	$ —	$ 616,695
Intersegment sales (purchases), net	(1,125)	1,125	—	—
Interest income	215	165	517	897
Interest expense	5,536	4,068	(5,173)	4,431
Depreciation and amortization	877	570	1,024	2,471
Income (loss) before provision for income tax	(1,786)	5,937	(350)	3,801
Total assets	138,136	79,597	61,946	279,679
Non-cash items:				
Provision for bad debt expense	316	533	(268)	581
Deferred income tax benefit	—	—	902	902
Minority interest	—	—	(320)	(320)
Capital expenditures	1,003	475	3,454	4,932
1999				
Net sales	**$929,303**	**$230,234**	**$ —**	**$1,159,537**
Intersegment sales (purchases), net	**(1,149)**	**1,449**	**—**	**—**
Interest income	**65**	**80**	**793**	**938**
Interest expense	**6,098**	**3,268**	**(5,307)**	**4,059**
Depreciation and amortization	**987**	**748**	**1,553**	**3,288**
Income (loss) before provision for income tax	**31,255**	**11,296**	**172**	**42,723**
Total assets	**256,954**	**122,163**	**96,229**	**475,346**
Non-cash items:				
Provision for bad debt expense	**1,914**	**705**	**636**	**3,255**
Deferred income tax benefit	**—**	**—**	**565**	**565**
Minority interest	**—**	**—**	**(220)**	**(220)**
Capital expenditures	**1,747**	**1,211**	**1,864**	**4,822**

Net sales and long-lived assets by location for the years ended November 30, 1997, 1998 and 1999 were as follows.

	Net Sales			Long-Lived Assets		
	1997	1998	**1999**	1997	1998	**1999**
United States	$499,417	$531,307	**$1,059,536**	$47,694	$50,469	**$68,126**
Canada	18,323	15,789	**23,146**	—	—	**—**
Argentina	39,832	27,354	**22,831**	—	—	**—**
Peru	7,426	10,514	**9,913**	—	—	**—**
Portugal	14,028	2,024	**—**	—	—	**—**
Malaysia	31,660	7,592	**7,780**	1,903	1,348	**1,275**
Venezuela	10,867	14,358	**22,853**	696	1,366	**1,387**
Mexico, Central America and Caribbean	10,493	7,289	**10,568**	—	—	**—**
Other foreign countries	7,036	468	**2,910**	—	—	**—**
Total	$639,082	$616,695	**$1,159,537**	$50,293	$53,183	**$70,788**

(21) Contingencies

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

The Company has guaranteed certain obligations of its equity investments and has established standby letters of credit to guarantee the bank obligations of Audiovox Communications Sdn. Bhd. and Audiovox Venezuela (Note 19(b)).

(22) Subsequent Event

The Company is anticipating selling 2,000,000 shares of its Class A Common Stock to the public during the first quarter of fiscal 2000. In connection with this offering, the Company has recorded $600 in deferred costs which have been included in prepaid expenses and other assets on the accompanying consolidated balance sheet at November 30, 1999.

Independent AUDITORS' REPORT

The Board of Directors and Stockholders
Audiovox Corporation:

We have audited the accompanying consolidated balance sheets of Audiovox Corporation and subsidiaries as of November 30, 1998 and 1999, 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, 1999. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Audiovox Corporation and subsidiaries as of November 30, 1998 and 1999, and the results of their operations and their cash flows for each of the years in the three-year period ended November 30, 1999, in conformity with generally accepted accounting principles.

KPMG LLP

Melville, New York
January 13, 2000

Market for the REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Audiovox Corporation and Subsidiaries

Summary of Stock Prices and Dividend Data

The Class A Common Stock of Audiovox is traded on the Nasdaq Stock Market® under the symbol VOXX. Prior to January 13, 2000, the Class A Common Stock was traded on the American Stock Exchange under the symbol VOX. No dividends have been paid on the Company's common stock. The Company is restricted by agreements with its financial institutions from the payment of common stock dividends while certain loans are outstanding (see Liquidity and Capital Resources of Management's Discussion and Analysis). There are approximately 345 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
1998			
First Quarter	$ 9.00	$ 5.75	103,038
Second Quarter	7.44	4.75	77,516
Third Quarter	7.44	3.63	82,948
Fourth Quarter	6.75	3.69	42,024
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**

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 Corp.
President, CEO,
Audiovox Communications Corp.

Charles M. Stoehr
Senior Vice President, Chief Financial Officer

Patrick Lavelle
Senior Vice President, Electronics Division

Ann Boutcher
Vice President, Marketing

Richard Maddia
Vice President, MIS

Dennis McManus
Telecommunications Consultant

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

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John J. Shalam
President and Chief Executive Officer

Philip Christopher
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Charles M. Stoehr
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Patrick Lavelle
Senior Vice President, Electronics Division

Chris L. Johnson
Vice President, Secretary

Ann Boutcher
Vice President, Marketing

Richard Maddia
Vice President, MIS

INDEPENDENT AUDITORS
KPMG LLP
Melville, New York

LEGAL COUNSEL
Levy & Stopol, LLP
New York, New York

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, April 6, 2000 at 10 AM at the Sheraton Smithtown, Hauppauge, New York.

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

Financial Public Relations
Edelman Public Relations Worldwide
1500 Broadway
New York, New York 10036-4015
(212) 704-8174

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 Edelman Public Relations Worldwide.

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

Audiovox Corporation is an Equal Opportunity Employer

Web Site: www.audiovox.com

Except for historical information contained herein, statements made in this release that would constitute forward-looking statements may involve certain risks such as 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, 1999.

Designed by Curran & Connors, Inc. / www.curran-connors.com

AUDIOVOX CORPORATION

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