**UNITED STATES**
**SECURITIES AND EXCHANGE COMMISSION**
**Washington, D.C. 20549**

# FORM 10-Q

**(Mark One)**

**x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended May 31, 2010

or

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

**Commission file number: 0-28839**

# Audiovox Corporation

(Exact name of registrant as specified in its charter)

| | |
|---|---|
| **Delaware** | **13-1964841** |
| (State or other jurisdiction of incorporation) | (I.R.S. Employer Identification No.) |
| **180 Marcus Blvd., Hauppauge, New York** | **11788** |
| (Address of principal executive officers) | (Zip Code) |

Registrant's telephone number, including area code: (631) 231-7750

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes __X__ No ____

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company, as defined in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer _____ Accelerated filer X Non-accelerated filer _____ Smaller reporting company _____

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes _____ No __X__

Number of shares of each class of the issuer's common stock outstanding as of the latest practicable date.

| Class | As of July 9, 2010 |
|---|---|
| Class A Common Stock | 20,630,305 Shares |
| Class B Common Stock | 2,260,954 Shares |

**Audiovox Corporation**

**Table of Contents**


| | | Page |
|---|---|---|
| **PART I** | **FINANCIAL INFORMATION** | |
| Item 1 | FINANCIAL STATEMENTS (unaudited) | |
| | Consolidated Balance Sheets at May 31, 2010 and February 28, 2010 | 3 |
| | Consolidated Statements of Operations for the Three Months Ended May 31, 2010 and 2009 | 4 |
| | Consolidated Statements of Cash Flows for the Three Months Ended May 31, 2010 and 2009 | 5 |
| | Notes to Consolidated Financial Statements | 6 |
| Item 2 | MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS | 16 |
| Item 3 | QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK | 23 |
| Item 4 | CONTROLS AND PROCEDURES | 23 |
| **PART II** | **OTHER INFORMATION** | |
| Item 1 | LEGAL PROCEEDINGS | 24 |
| Item 1A | RISK FACTORS | 24 |
| Item 2 | UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS | 24 |
| Item 6 | EXHIBITS | 25 |
| SIGNATURES | | 26 |

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

**Audiovox Corporation and Subsidiaries**
**Consolidated Balance Sheets**
***(In thousands, except share data)***

| | May 31, 2010 | February 28, 2010 |
|---|---|---|
| **Assets** | *(unaudited)* | |
| Current assets: | | |
| Cash and cash equivalents | $ 83,597 | $ 69,511 |
| Accounts receivable, net | 97,554 | 131,266 |
| Inventory | 111,064 | 102,717 |
| Receivables from vendors | 12,119 | 11,170 |
| Prepaid expenses and other current assets | 16,003 | 16,311 |
| Income tax receivable | 1,472 | 1,304 |
| Deferred income taxes | 47 | 47 |
| Total current assets | 321,856 | 332,326 |
| Investment securities | 15,974 | 15,892 |
| Equity investments | 11,941 | 11,272 |
| Property, plant and equipment, net | 21,408 | 22,145 |
| Goodwill | 7,303 | 7,389 |
| Intangible assets | 96,677 | 97,226 |
| Deferred income taxes | 518 | 515 |
| Other assets | 1,930 | 2,213 |
| Total assets | $ 477,607 | $ 488,978 |
| **Liabilities and Stockholders' Equity** | | |
| Current liabilities: | | |
| Accounts payable | $ 35,955 | $ 36,126 |
| Accrued expenses and other current liabilities | 30,305 | 35,790 |
| Accrued sales incentives | 10,710 | 10,606 |
| Deferred income taxes | 1,858 | 1,931 |
| Bank obligations | 1,582 | 1,703 |
| Current portion of long-term debt | 1,227 | 6,383 |
| Total current liabilities | 81,637 | 92,539 |
| Long-term debt | 5,691 | 6,613 |
| Capital lease obligation | 5,437 | 5,490 |
| Deferred compensation | 3,251 | 3,158 |
| Other tax liabilities | 1,219 | 1,219 |
| Deferred tax liabilities | 8,010 | 8,502 |
| Other long-term liabilities | 6,842 | 7,194 |
| Total liabilities | 112,087 | 124,715 |
| Commitments and contingencies | | |
| Stockholders' equity: | | |
| Series preferred stock, $.01 par value; 1,500,000 shares authorized, no shares issued or outstanding | - | - |
| Common stock: | | |
| Class A, $.01 par value; 60,000,000 shares authorized, 22,449,112 and 22,441,712 shares issued and 20,630,305 and 20,622,905 shares outstanding at May 31, 2010 and February 28, 2010 | 225 | 225 |
| Class B convertible, $.01 par value; 10,000,000 shares authorized, 2,260,954 shares issued and outstanding at May 31, 2010 and February 28, 2010 | 22 | 22 |
| Paid-in capital | 276,148 | 275,684 |
| Retained earnings | 115,114 | 113,996 |
| Accumulated other comprehensive (loss) | (7,603) | (7,278) |
| Treasury stock, at cost, 1,818,807 shares of Class A common stock at May 31, 2010 and February 28, 2010 | (18,386) | (18,386) |
| Total stockholders' equity | 365,520 | 364,263 |
| Total liabilities and stockholders' equity | $ 477,607 | $ 488,978 |

***See accompanying notes to consolidated financial statements.***

**Audiovox Corporation and Subsidiaries**
**Consolidated Statements of Operations**
**For the Three months ended May 31, 2010 and 2009**
***(In thousands, except share and per share data)***
***(unaudited)***

| | 2010 | 2009 |
|---|---|---|
| Net sales | $ 130,313 | $ 119,806 |
| Cost of sales | 103,252 | 96,882 |
| Gross profit | 27,061 | 22,924 |
| Operating expenses: | | |
| Selling | 8,829 | 6,959 |
| General and administrative | 17,330 | 13,661 |
| Engineering and technical support | 2,389 | 2,072 |
| Total operating expenses | 28,548 | 22,692 |
| Operating (loss) income | (1,487) | 232 |
| Other income (expense): | | |
| Interest and bank charges | (441) | (319) |
| Equity in income of equity investees | 908 | 395 |
| Other, net | 1,501 | 448 |
| Total other income | 1,968 | 524 |
| Income before income taxes | 481 | 756 |
| Income tax (benefit) expense | (638) | 283 |
| Net income | $ 1,119 | $ 473 |
| Net income per common share (basic) | $ 0.05 | $ 0.02 |
| Net income per common share (diluted) | $ 0.05 | $ 0.02 |
| Weighted-average common shares outstanding (basic) | 22,887,187 | 22,865,394 |
| Weighted-average common shares outstanding (diluted) | 22,951,605 | 22,865,394 |

***See accompanying notes to consolidated financial statements.***

**Audiovox Corporation and Subsidiaries**
**Consolidated Statements of Cash Flows**
**For the Three months ended May 31, 2010 and 2009**
***(In thousands)***
***(unaudited)***

| | 2010 | 2009 |
|---|---|---|
| Cash flows from operating activities: | | |
| Net income | $ 1,119 | $ 473 |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: | | |
| Depreciation and amortization | 2,157 | 1,872 |
| Bad debt expense (recovery) | 33 | (287) |
| Equity in income of equity investees | (908) | (395) |
| Distribution of income from equity investees | 239 | - |
| Non-cash stock based compensation expense | 428 | - |
| Non-cash compensation adjustment | 342 | 111 |
| Loss on sale of property, plant and equipment | (1) | (10) |
| Changes in operating assets and liabilities (net of assets and liabilities acquired): | | |
| Accounts receivable | 32,156 | (313) |
| Inventory | (9,718) | 8,401 |
| Receivables from vendors | (957) | (11,420) |
| Prepaid expenses and other | 764 | 1,743 |
| Investment securities-trading | (153) | (568) |
| Accounts payable, accrued expenses, accrued sales incentives and other current liabilities | (4,254) | (6,157) |
| Income taxes payable | (158) | 3 |
| Net cash provided by (used in) operating activities | 21,089 | (6,547) |
| | | |
| Cash flows from investing activities: | | |
| Purchases of property, plant and equipment | (1,029) | (1,579) |
| Reimbursement of patents | - | 237 |
| Issuance of short and long term note | 49 | 255 |
| Net cash used in investing activities | (980) | (1,087) |
| | | |
| Cash flows from financing activities: | | |
| Borrowings from bank obligations | - | 563 |
| Repayments on bank obligations | (5,637) | (671) |
| Proceeds from exercise of stock options | 35 | - |
| Principal payments on capital lease obligation | (68) | (18) |
| Net cash used in financing activities | (5,670) | (126) |
| Effect of exchange rate changes on cash | (353) | 583 |
| Net increase (decrease) in cash and cash equivalents | 14,086 | (7,177) |
| Cash and cash equivalents at beginning of period | 69,511 | 69,504 |
| Cash and cash equivalents at end of period | $ 83,597 | $ 62,327 |

***See accompanying notes to consolidated financial statements.***

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

(1) Basis of Presentation

The accompanying unaudited interim consolidated financial statements of Audiovox Corporation and subsidiaries ("Audiovox" or the "Company") have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission and in accordance with accounting principles generally accepted in the United States of America and include all adjustments (consisting of normal recurring adjustments), which, in the opinion of management, are necessary to present fairly the consolidated financial position, results of operations and cash flows for all periods presented. The results of operations are not necessarily indicative of the results to be expected for the full fiscal year or any interim period. These consolidated financial statements do not include all disclosures associated with consolidated financial statements prepared in accordance with accounting principles generally accepted in the United States of America. Accordingly, these statements should be read in conjunction with the Company's audited consolidated financial statements and notes thereto contained in the Company's Form 10-K for the fiscal year ended February 28, 2010.

We have determined that we operate in one reportable segment, the Electronics Group, based on review of ASC 280 "*Segment Reporting*".

(2) Accounting for Stock-Based Compensation

The Company has various stock-based compensation plans, which are more fully described in Note 1 of the Company's Form 10-K for the fiscal year ended February 28, 2010.

The Company granted 861,250 options during September of 2009, which vest one-half on November 30, 2009 and one-half on November 30, 2010, expire three years from date of vesting (November 30, 2012 and November 30, 2013, respectively), have an exercise price equal to $6.37, the sales price of the Company's stock on the day prior to the date of grant, have a contractual term between 3.2 and 4.2 years and a grant date fair value of $2.69 per share determined based upon a Black-Scholes valuation model.

In addition, the Company issued 17,500 warrants during September of 2009 to purchase the Company's common stock with the same terms as those of the options above as consideration for future legal services. Accordingly, the Company recorded additional legal expense in the amount of approximately $9 for the quarter ended May 31, 2010, representing the fair value of the warrants issued. These warrants are included in the outstanding options and warrant table below and considered exercisable at May 31, 2010.

The Company granted 20,000 options during the three months ended August 31, 2009, which vested one-half on August 31, 2009 and one-half on November 30, 2009, expire two years from date of vesting (August 31, 2011 and November 30, 2011, respectively), have an exercise price of $7.48 equal to the sales price of the Company's stock on the day prior to the date of grant, have a contractual life of 2.2 years and a grant date fair value of $2.94 per share.

As of May 31, 2010, the Company had unrecognized compensation costs of approximately $857 related to non-vested options. The unrecognized compensation costs related to these options will be completely recognized by November 30, 2010. At February 28, 2010, the Company had unrecognized compensation costs of $1,182.

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

| | Number of Shares | Weighted Average Exercise Price | Weighted Average Remaining Contractual Life |
|---|---|---|---|
| Outstanding and exercisable at February 28, 2010 | 1,315,584 | $ 6.91 | |
| Granted | - | - | |
| Exercised | (7,400) | 4.83 | |
| Forfeited/expired | - | - | |
| Outstanding and exercisable at May 31, 2010 | 1,308,184 | $ 6.92 | 2.21 |

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

(3) Net Income Per Common Share

Basic net income per common share is based upon the weighted-average common shares outstanding during the period. Diluted net income per common share reflects the potential dilution that would occur if common stock equivalent securities or other contracts to issue common stock were exercised or converted into common stock.

There are no reconciling items which impact the numerator of basic and diluted net income per common share. A reconciliation between the denominator of basic and diluted net income per common share is as follows:

| | Three Months Ended May 31, | |
|---|---|---|
| | **2010** | **2009** |
| Weighted-average common shares outstanding (basic) | 22,887,187 | 22,865,394 |
| Effect of dilutive securities: | | |
| Stock options and warrants | 64,418 | - |
| Weighted-average common shares and potential common shares outstanding (diluted) | 22,951,605 | 22,865,394 |

Stock options and warrants totaling 219,584 and 1,445,013 for the three months ended May 31, 2010 and 2009, respectively, were not included in the net income per diluted share calculation because the exercise price of these options and warrants was greater than the average market price of the Company's common stock during these periods or their inclusion would have been anti-dilutive.

(4) Fair Value Measurements

The Company adopted authoritative guidance on "Fair Value Measurements", as of March 1, 2008, which, among other things, requires enhanced disclosures about investments that are measured and reported at fair value. This guidance establishes a hierarchal disclosure framework that prioritizes and ranks the level of market price observability used in measuring investments at fair value. Market price observability is impacted by a number of factors, including the type of investment and the characteristics specific to the investment. Investments with readily available active quoted prices or for which fair value can be measured from actively quoted prices generally will have a higher degree of market price observability and a lesser degree of judgment used in measuring fair value.

Investments measured and reported at fair value are classified and disclosed in one of the following categories:

Level 1 - Quoted market prices in active markets for identical assets or liabilities.
Level 2 - Inputs other than Level 1 inputs that are either directly or indirectly observable.
Level 3 - Unobservable inputs developed using the Company's estimates and assumptions, which reflect those that market participants would use.

The following table presents assets measured at fair value on a recurring basis at May 31, 2010:

| | | Fair Value Measurements at Reporting Date Using | | |
|---|---|---|---|---|
| | | **Level 1** | **Level 2** | **Level 3** |
| Cash and cash equivalents: | | | | |
| Cash and money market funds | $ 83,597 | $ 83,597 | $ - | $ - |
| Short-term investments | | | | |
| Foreign currency contract (a) | $ 1,538 | $ 1,538 | $ - | $ - |
| Long-term investment securities: | | | | |
| Marketable securities | | | | |
| Trading securities | $ 3,311 | $ 3,311 | $ - | $ - |
| Available-for-sale securities | 3,746 | 95 | - | 3,651 |
| Held-to-maturity | 7,110 | 7,110 | - | - |
| Total marketable securities | 14,167 | 10,516 | - | 3,651 |
| Other investment at cost (b) | 1,807 | - | - | - |
| Total long-term investment securities | $ 15,974 | $ 10,516 | $ - | $ 3,651 |

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

(a) The foreign currency contract is recorded in prepaid expenses and other current assets on the Company's balance sheet.
(b) There were no events or changes in circumstances that occurred to indicate a significant adverse effect on the cost of this investment.

The carrying amount of the Company's accounts receivable, short-term debt, accounts payable, accrued expenses, bank obligations and long-term debt approximates fair value because of (i) the short-term nature of the financial instrument; (ii) the interest rate on the financial instrument being reset every quarter to reflect current market rates; (iii) the stated or implicit interest rate approximates the current market rates or are not materially different than market rates and (iv) are based on quoted prices in active markets.

Short-term investments include an investment in forward exchange contracts. In the fourth quarter of Fiscal 2010, our German subsidiary entered into certain forward contracts to hedge the currency exposure for its U.S. dollar denominated assets, liabilities and future commitments. The gains or losses associated with these foreign exchange contracts are evaluated and recorded, as applicable, on the measurement date as the contracts are not specifically connected to any assets, liabilities or future commitments. As of May 31, 2010, the notional amount of open foreign exchange contracts was $10,625. A gain of $1,077 was recorded during the first quarter of Fiscal 2011 and reflected in other income.

During its fourth quarter review in Fiscal 2010, the Company determined that its investment in Bliss-tel was other than temporarily impaired (see Note 1(f) of the Company's Form 10-K for the fiscal year ended February 28, 2010). The Company continues to monitor Bliss-tel management's business plan to improve its financial and commercial position including consideration of the progress of its bank negotiations and efforts to raise additional capital. There were no changes in circumstances during our first fiscal quarter to indicate further impairment of this investment. We will continue to evaluate the circumstances impacting this investment throughout the fiscal year ending February 28, 2011.

As of May 31, 2010, the Company had $4,550 (at par value) of an auction rate security included within its portfolio of long-term investment securities, which is collateralized by student loan portfolios, guaranteed by the United States government. This auction rate security is classified as an available-for-sale long-term investment. As of May 31, 2010, the Company recorded approximately $899 of unrealized losses on this auction rate note.

Due to current economic pressures in the U.S. credit markets, the Company considered various valuation techniques for its auction rate security. These analyses consider, among other items, the collateral underlying the security, the creditworthiness of the issuer, the timing of the expected future cash flows, including the final maturity, and an assumption of when the next time the security is expected to have a successful auction. These securities were also compared, when possible, to other observable and relevant market data, which is limited at this time. Accordingly, these securities continue to be classified as Level 3 within the fair value hierarchy.

(5) Other Comprehensive Income

The Company's total comprehensive income was as follows:

| | **Three Months Ended May 31,** | |
|---|---|---|
| | **2010** | **2009** |
| Net income | $ 1,119 | $ 473 |
| Other comprehensive income: | | |
| Foreign currency translation adjustments | (249) | 2,644 |
| Unrealized holding (loss) gain on available-for-sale investment securities arising during the period, net of tax | (76) | 43 |
| Other comprehensive (loss) income, net of tax | (325) | 2,687 |
| Total comprehensive income | $ 794 | $ 3,160 |

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

The Company did not record tax expenses during the three months ended May 31, 2010 and May 31, 2009 as a result of the loss position for related securities.

The Company's accumulated other comprehensive losses consist of the following:

| | May 31, 2010 | February 28, 2010 |
|---|---|---|
| Accumulated other comprehensive losses: | | |
| Foreign exchange losses | $ (3,950) | $ (3,701) |
| Unrealized losses on investments, net of tax | (3,653) | (3,577) |
| Total accumulated other comprehensive losses | $ (7,603) | $ (7,278) |

(6) Supplemental Cash Flow Information

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

| | Three Months Ended May 31, 2010 | Three Months Ended May 31, 2009 |
|---|---|---|
| Cash paid during the period: | | |
| Interest (excluding bank charges) | $ 360 | $ 293 |
| Income taxes (net of refunds) | $ 333 | $ 158 |

(7) Acquisitions

*Schwaiger*

On October 1, 2009, Audiovox German Holdings GmbH completed the acquisition of certain assets of Schwaiger GmbH, a German market leader in the consumer electronics, SAT and receiver technologies. The purpose of this acquisition was to expand our European operations and increase our presence in the European accessory market. As consideration, the Company made a cash payment of $4,348, with all acquisition costs expensed as incurred in accordance with ASC 805. The final valuation was completed during the fourth quarter of Fiscal 2010. The results of operations of this acquisition have been included in the consolidated financial statements from the date of acquisition.

*Invision*

On February 1, 2010, the Company's newly formed subsidiary, Invision Automotive Systems, Inc., purchased the assets of Invision Industries, Inc., a manufacturer of rear seat entertainment systems for OEM's, ports and car dealers. As consideration for Invision, the Company paid the following:

| | |
|---|---|
| Purchase price (including cash payments to principal and certain vendors) | $ 15,320 |

In conjunction with the acquisition, the Company refinanced and executed a new loan with Suntrust Bank to pay down the former obligation of Invision Industries, Inc. and assumed certain debt. The total debt at closing was $5,000, which is included in the purchase price.

The results of operations of this acquisition have been included in the consolidated financial statements from the date of acquisition. The purpose of this acquisition was to further strengthen our OEM presence and add manufacturing capabilities to our business model.

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

The following summarizes the preliminary allocation of the purchase price to the fair value of the assets acquired and liabilities assumed at the date of acquisition:

| | | |
|---|---|---|
| Assets acquired: | | |
| Accounts receivable, net | $ | 3,400 |
| Inventory | | 4,952 |
| Property, plant and equipment, net | | 2,973 |
| Other assets | | 53 |
| Trademarks and other intangible assets | | 4,802 |
| Goodwill | | 7,303 |
| Total assets acquired | $ | 23,483 |
| | | |
| Liabilities assumed: | | |
| Accounts payable, accrued expenses and other liabilities | $ | 7,495 |
| Future warranty | | 668 |
| Total liabilities assumed | | 8,163 |
| Net assets acquired | $ | 15,320 |

The Company expensed acquisition costs of $219 in accordance with ASC 805.

The following unaudited pro-forma financial information for the three months ended May 31, 2010 and 2009 represent the combined results of the Company's operations as if the Schwaiger and Invision acquisitions had occurred on March 1, 2009. The unaudited pro-forma financial information does not necessarily reflect the results of operations that would have occurred had the Company constituted a single entity during such period.

| | Three Months Ended May 31, | | | |
|---|---|---|---|---|
| | 2010 | | 2009 | |
| Net sales | $ | 130,313 | $ | 141,802 |
| Net income | | 1,119 | | 1,239 |
| Net income per share-basic and diluted | $ | 0.05 | $ | 0.05 |

(8) Goodwill and Intangible Assets

The change in goodwill is as follows:

| | | |
|---|---|---|
| Balance at February 28, 2010 | $ | 7,389 |
| Invision purchase adjustments (Note 7) | | (86) |
| Balance at May 31, 2010 | $ | 7,303 |

At May 31, 2010, intangible assets consisted of the following:

| | Gross Carrying Value | | Accumulated Amortization | | Total Net Book Value | |
|---|---|---|---|---|---|---|
| Trademarks/Tradenames not subject to amortization | $ | 80,471 | $ | - | $ | 80,471 |
| Customer relationships subject to amortization (5-20 years) | | 16,850 | | 2,969 | | 13,881 |
| Trademarks/Tradenames subject to amortization (3-12 years) | | 1,180 | | 521 | | 659 |
| Patents subject to amortization (5-10 years) | | 1,684 | | 695 | | 989 |
| License subject to amortization (5 years) | | 1,400 | | 723 | | 677 |
| Contract subject to amortization (5 years) | | 1,104 | | 1,104 | | - |
| Total | $ | 102,689 | $ | 6,012 | $ | 96,677 |

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

At February 28, 2010, intangible assets consisted of the following:

| | Gross Carrying Value | Accumulated Amortization | Total Net Book Value |
|---|---|---|---|
| Trademarks/Tradenames/Licenses not subject to amortization | $ 80,471 | $ - | $ 80,471 |
| Customer relationships subject to amortization (5-20 years) | 16,850 | 2,554 | 14,296 |
| Trademarks/Tradenames subject to amortization (3-12 years) | 1,180 | 470 | 710 |
| Patents subject to amortization (5-10 years) | 1,684 | 682 | 1,002 |
| License subject to amortization (5 years) | 1,400 | 653 | 747 |
| Contract subject to amortization (5 years) | 1,104 | 1,104 | - |
| Total | $ 102,689 | $ 5,463 | $ 97,226 |

The Company recorded amortization expense of $550 and $378 for the three months ended May 31, 2010 and 2009, respectively. The estimated aggregate amortization expense for the cumulative five years ending May 31, 2015 amounts to $7,488.

We evaluate the carrying value of long-lived assets, including intangible assets subject to amortization, when events and circumstances warrant such a review. The carrying value of long-lived assets is considered impaired when the estimated undiscounted cash flows from such assets are less than their carrying value. In that event, a loss is recognized equal to the amount by which the carrying value exceeds the fair value of the long-lived assets. Fair value is determined by primarily using a discounted cash flow methodology that requires considerable management judgment and long-term assumptions. There were no impairment triggering events during the three months ended May 31, 2010, therefore, management believes the current carrying value of its intangible assets is not impaired. Our estimate of net future cash flows is based on histo rical experience and assumptions of future trends, which may be different from actual results. We periodically review the appropriateness of the estimated useful lives of our long-lived assets.

(9) Equity Investments

As of May 31, 2010 and February 28, 2010, the Company had a 50% non-controlling ownership interest in Audiovox Specialized Applications, Inc. (“ASA”) which acts as a distributor of televisions and other automotive sound, security and accessory products for specialized vehicles, such as RV’s and van conversions.

The following presents summary financial information for ASA. Such summary financial information has been provided herein based upon the individual significance of ASA to the consolidated financial information of the Company.

| | May 31, 2010 | February 28, 2010 |
|---|---|---|
| Current assets | $ 23,415 | $ 21,793 |
| Non-current assets | 5,088 | 5,316 |
| Current liabilities | 4,621 | 4,565 |
| Members' equity | 23,882 | 22,544 |

| | Three Months Ended May 31, | |
|---|---|---|
| | 2010 | 2009 |
| Net sales | $ 20,276 | $ 11,246 |
| Gross profit | 5,182 | 2,783 |
| Operating income | 1,810 | 782 |
| Net income | 1,816 | 790 |

The Company's share of income from ASA for the three months ended May 31, 2010 and 2009 was $908 and $395, respectively.

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

(10) Income Taxes

The Company's provision for income taxes consists of U.S. and foreign taxes in amounts necessary to align the Company's year-to-date provision for income taxes with the effective tax rate that the Company expects to achieve for the full year. The Company's annual effective tax rate for Fiscal 2011 excluding discrete items is estimated to be 22.3% (which includes U.S., state and local and foreign taxes) based upon the Company's anticipated earnings both in the U.S. and in its foreign subsidiaries.

For the three months ended May 31, 2010 the Company had an effective tax rate of (132.6)% and recorded an income tax benefit of $638. The income tax benefit includes a discrete item related to the recognition of a tax receivable as a result of a favorable resolution of an income tax audit offset by a tax provision related to federal, state, local and foreign taxes.

For the three months ended May 31, 2009, the Company recorded a provision for income taxes of $283 related to U.S., state and local and foreign taxes.

(11) Inventory

Inventories by major category are as follows:

| | May 31, 2010 | February 28, 2010 |
|---|---|---|
| Raw materials | $ 8,436 | $ 4,428 |
| Work in process | 301 | 300 |
| Finished goods | 102,327 | 97,989 |
| Inventory, net | $ 111,064 | $ 102,717 |

(12) Accrued Sales Incentives

A summary of the activity with respect to sales incentives is provided below:

| | Three Months Ended May 31, 2010 | Three Months Ended May 31, 2009 |
|---|---|---|
| Opening balance | $ 10,606 | $ 7,917 |
| Accruals | 5,986 | 6,611 |
| Payments and credits | (5,600) | (2,180) |
| Reversals for unearned sales incentive | (151) | (574) |
| Reversals for unclaimed sales incentives | (131) | (162) |
| Ending balance | $ 10,710 | $ 11,612 |

(13) Product Warranties and Product Repair Costs

The following table provides a summary of the activity with respect to product warranties and product repair costs:

| | Three Months Ended May 31, 2010 | Three Months Ended May 31, 2009 |
|---|---|---|
| Opening balance | $ 13,058 | $ 14,410 |
| Liabilities accrued for warranties issued during the period | 2,582 | 2,183 |
| Warranty claims paid during the period (includes the acquired warranty liabilities) | (4,174) | (3,683) |
| Ending balance | $ 11,466 | $ 12,910 |

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

(14) Financing Arrangements

The Company has the following financing arrangements:

| | May 31, 2010 | February 28, 2010 |
|---|---|---|
| *Bank Obligations* | | |
| Domestic bank obligations (a) | $ - | $ - |
| Euro asset-based lending obligation (b) | 1,582 | 1,703 |
| Total bank obligations | $ 1,582 | $ 1,703 |
| *Debt* | | |
| Euro term loan agreement (c) | $ 3,741 | $ 4,823 |
| Suntrust loan (d) | - | 5,022 |
| Oehlbach (e) | 109 | 120 |
| Other (f) | 3,068 | 3,031 |
| Total debt | 6,918 | 12,996 |
| Less: current portion of long-term debt | 1,227 | 6,383 |
| | $ 5,691 | $ 6,613 |

(a) *Domestic Bank Obligations*

Up until March 31, 2010, the Company had a secured credit line to fund the temporary short-term working capital needs of the domestic operations. This line allowed aggregate borrowings of up to $10,000 at an interest rate of Prime (or similar designations) plus 1% or LIBOR plus 5%. The line was subsequently replaced by a $15,000 three-year facility at an interest rate of LIBOR plus 3.5%. As of May 31, 2010 and February 28, 2010, no direct amounts were outstanding under either of these agreements. At May 31, 2010, the Company had $1,017 and $1,248 outstanding in standby and commercial letters of credit, respectively, which reduces the amount available under the secured credit line.

(b) *Euro Asset-Based Lending Obligation*

The Company has Euro accounts receivable factoring arrangements totaling 23,000 and a 5,000 Euro Asset-Based Lending ("ABL") (finished goods inventory and non factored accounts receivable) credit facility for the Company's subsidiary, Audiovox Germany, which expires on November 1, 2010. Selected accounts receivable are purchased from the Company on a non-recourse basis at 85% of face value and payment of the remaining 15% upon receipt from the customer of the balance of the receivable purchased. The activity under this ABL is accounted for as a sale of accounts receivable. The rate of interest is the three month Euribor plus 1.4% to 2.5%, and the Company pays 0.16% to 0.29% of its gross sales as a fee for the accounts receivable factoring arrangement. As of May 31, 2010, the amount of accounts receivable and finished goods available for factoring exceeded the amounts outstanding under this obligation.

(c) *Euro Term Loan Agreement*

On March 30, 2008, Audiovox Germany entered into a 5 million Euro term loan agreement. This agreement is for a five-year term with a financial institution and was used to repay the Audiovox Germany intercompany debt to Audiovox Corporation. Payments under the term loan are to be made in two semi-annual installments of 500 Euros beginning on September 30, 2008 and ending on March 30, 2013. Interest accrues at a fixed rate of 4.82%. Any amount repaid can not be reborrowed. The term loan is secured by a pledge of the stock of Audiovox Germany and the Magnat brand name, prohibits the distribution of dividends, and takes precedence to all other intercompany loans with Audiovox Corporation.

(d) *Suntrust*

On February 1, 2010, the Company entered into a two-year monthly installment loan in the amount of $5,000 at an interest rate of LIBOR + 4%. This loan was used to pay down liabilities assumed in the asset purchase of Invision Systems, Inc. In April 2010 this loan was prepaid in full without penalty.

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

(e) *Oehlbach*

In connection with the Oehlbach acquisition, the Company acquired short term debt payable to various third parties. The interest rate on the debt ranges from 4.2% to 6.1% and is payable from May 2010 to March 2011.

(f) *Other Debt*

This amount includes a call/put option owed to certain employees of Audiovox Germany.

(15) Other Income (Expense)

Other income (expense) is comprised of the following:

| | Three Months Ended May 31, 2010 | Three Months Ended May 31, 2009 |
|---|---|---|
| Interest income | $ 171 | $ 164 |
| Rental income | 117 | 134 |
| Miscellaneous | 1,213 | 150 |
| Total Other, net | $ 1,501 | $ 448 |

Other income includes a gain on forward exchange contracts of approximately $1,100 (see Note 4).

(16) Venezuela

On Friday, January 8, 2010, the Venezuelan government announced its intention to devalue its currency (Bolivar fuerte) and move to a two tier exchange structure, 2.60 for essential goods and 4.30 for non-essential goods and services. Although products sold by our Venezuelan operation are expected to be classified as non-essential, the Company has certain US dollar denominated assets and liabilities for which the 2.60 rate has been applied.

Effective January 1, 2010, according to the guidelines in ASC 830, Venezuela has been designated as a hyper-inflationary economy. A hyper-inflationary economy designation occurs when a country has experienced cumulative inflation of approximately 100 percent or more over a 3 year period. The hyper-inflationary designation requires the local subsidiary in Venezuela to record all transactions as if they were denominated in U.S. dollars. The Company has transitioned to hyper-inflationary accounting on March 1, 2010. Accordingly, all gains and losses resulting from the remeasurement of our financial statements are required to be recorded directly in the income statement. If in the future, we convert Bolivars fuertes at a rate other than the official exchange rate, we may realize additional gains or losses that would be recorded in the income statement.

The Company's sales for the first Fiscal quarter of 2011 were impacted by the economic and political situation in Venezuela, which has resulted in work stoppages at the car manufacturers due to parts shortages and issues with foreign exchange. Venezuela represented 2% of sales for the quarter. The majority of assets invested in Venezuela are cash related. The Company will continue to monitor the situation.

(17) Contingencies and Derivative Settlement

*Contingencies*

The Company is currently, and has in the past been, a party to various routine legal proceedings incident to the ordinary course of business. If management determines, based on the underlying facts and circumstances, that it is probable a loss will result from a litigation contingency and the amount of the loss can be reasonably estimated, the estimated loss is accrued for. The Company believes its outstanding litigation matters disclosed below will not have a material adverse effect on the Company's financial statements, individually or in the aggregate; however, due to the uncertain outcome of these matters, the Company disclosed these specific matters below:

Certain consolidated class actions transferred to a Multi-District Litigation Panel of the United States District Court of the District of Maryland against the Company and other suppliers, manufacturers and distributors of hand-held wireless telephones alleging damages relating to exposure to radio frequency radiation from hand-held wireless telephones are still pending. No assurances regarding the outcome of this matter can be given, as the Company is unable to assess the degree of probability of an unfavorable outcome or estimated loss or liability, if any. Accordingly, no estimated loss has been recorded for the aforementioned case.

During the fourth quarter of Fiscal 2009, the Company became aware that certain personal consumer credit card information had been accessed by an intrusion by an unauthorized source. The Company has notified the various state and federal authorities in which the consumers reside and is offering a plan of credit monitoring and protection for the affected individuals. The Company is partially covered by insurance but anticipates amounts will be necessary to cover the cost of this issue. The Company recorded certain costs associated with this issue as of February 28, 2010, based on information available at the time. There were no additional costs recorded during the three months ended May 31, 2010.

The products the Company sells are continually changing as a result of improved technology. As a result, although the Company and its suppliers attempt to avoid infringing known proprietary rights, the Company may be subject to legal proceedings and claims for alleged infringement by its suppliers or distributors, of third party patents, trade secrets, trademarks or copyrights. Any claims relating to the infringement of third-party proprietary rights, even if not meritorious, could result in costly litigation, divert management's attention and resources, or require the Company to either enter into royalty or license agreements which are not advantageous to the Company or pay material amounts of damages.

(18) New Accounting Pronouncements

In June 2009, the FASB issued authoritative guidance included in ASC 860 "Transfers and Servicing" which changes the analysis required to determine controlling interest in variable interest entities and requires additional disclosures regarding a company's involvement with such entities. The standard, which was effective for the Company beginning March 1, 2010, did not have a material impact on the Company's consolidated financial statements.

In June 2009, the FASB issued authoritative guidance under ASC 810 which eliminates the concept of qualifying special purpose entities, limits the number of financial assets and liabilities that qualify for derecognition, and requires additional disclosures. The guidance, which was effective for the Company on March 1, 2010, did not have a material impact on the Company's consolidated financial statements.

In January 2010, the FASB issued an accounting pronouncement that improves disclosures around fair value measurements. This pronouncement requires additional disclosures regarding transfers between Levels 1, 2 and 3 of the fair value hierarchy of this pronouncement as well as a more detailed reconciliation of recurring Level 3 measurements. Certain disclosure requirements of this pronouncement were effective and adopted by the Company on March 1, 2010. The remaining disclosure requirements of this pronouncement will be effective for the Company's first quarter in Fiscal 2012. The adoption of this pronouncement did not have a material impact on the Company's financial statements.

**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

**Forward-Looking Statements**

Certain information in this Quarterly Report on Form 10-Q would constitute forward-looking statements, including but not limited to, information relating to the future performance and financial condition of the Company, the plans and objectives of the Company's management and the Company's assumptions regarding such performance and plans that are forward-looking in nature and involve certain risks and uncertainties. Actual results could differ materially from such forward-looking information.

We begin Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") with an overview of the business. This is followed by a discussion of the Critical Accounting Policies and Estimates that we believe are important to understanding the assumptions and judgments incorporated in our reported financial results. In the next section, we discuss our results of operations for the three months ended May 31, 2010 compared to the three months ended May 31, 2009. We then provide an analysis of changes in our balance sheets and cash flows, and discuss our financial commitments in the sections entitled "Liquidity and Capital Resources". We conclude this MD&A with a discussion of "Related Party Transactions" and "Recent Accounting Pronouncements".

Unless specifically indicated otherwise, all amounts and percentages presented in our MD&A below are exclusive of discontinued operations and are in thousands, except share and per share data.

**Business Overview**

Audiovox Corporation ("Audiovox", "We", "Our", "Us" or "Company") is a leading international distributor in the accessory, mobile and consumer electronics industries. With our most recent acquisition of Invision Automotive Systems, Inc. we have added manufacturing capabilities to our business model. We conduct our business through eleven wholly-owned subsidiaries: American Radio Corp., Audiovox Electronics Corporation ("AEC"), Audiovox Accessories Corp. ("AAC"), Audiovox Consumer Electronics, Inc. ("ACE"), Audiovox German Holdings GmbH ("Audiovox Germany"), Audiovox Venezuela, C.A., Audiovox Canada Limited, Entretenimiento Digital Mexico, S. de C.V. ("Audiovox Mexico"), Code Systems, Inc, Schwaiger GmbH ("Schwaiger") and Invision Automotive Syste ms, Inc. ("Invision"). We market our products under the Audiovox® brand name, other brand names and licensed brands, such as Acoustic Research®, Advent®, Ambico®, Car Link®, Chapman®, Code-Alarm®, Discwasher®, Energizer®, Heco®, Incaar™, Invision®, Jensen®, Mac Audio™, Magnat®, Movies2Go®, Oehlbach®, Phase Linear®, Prestige®, Pursuit®, RCA®, RCA Accessories®, Recoton®, Road Gear®, Schwaiger®, Spikemaster® and Terk®, as well as private labels through a large domestic and international distribution network. We also function as an OEM ("Original Equipment Manufacturer") supplier to several customers and presently have one reportable segment (the "Electronics Group"), which is organized by product category. 60;

The Company is organized by product category as follows:

Electronics products include:

- mobile multi-media video products, including in-dash, overhead, headrest and portable mobile video systems,
- autosound products including radios, speakers, amplifiers and CD changers,
- satellite radios including plug and play models and direct connect models,
- automotive security and remote start systems,
- automotive power accessories,
- rear observation and collision avoidance systems,
- home and portable stereos,
- digital multi-media products such as personal video recorders and MP3 products,
- camcorders,
- clock-radios,
- digital voice recorders,
- home speaker systems,
- portable DVD players,
- digital picture frames, and
- e-readers.

Accessories products include:

- High-Definition Television ("HDTV") antennas,
- Wireless Fidelity ("WiFi") antennas,
- High-Definition Multimedia Interface ("HDMI") accessories,
- home electronic accessories such as cabling,
- other connectivity products,

- § power cords,
- § performance enhancing electronics,
- § TV universal remotes,
- § flat panel TV mounting systems,
- § iPod specialized products,
- § wireless headphones,
- § rechargeable battery backups (UPS) for camcorders, cordless phones and portable video (DVD) batteries and accessories,
- § power supply systems,
- § electronic equipment cleaning products, and
- § set-top boxes.

We believe our product groups have expanding market opportunities with certain levels of volatility related to both domestic and international markets, new car sales, increased competition by manufacturers, private labels, technological advancements, discretionary consumer spending, energy and material costs and general economic conditions. Also, all of our products are subject to price fluctuations which could affect the carrying value of inventories and gross margins in the future.

Our objective is to continue to grow our business by acquiring new brands, embracing new technologies, expanding product development and applying this to a continued stream of new products that should increase gross margins and improve operating income. In addition, it is our intention to continue to acquire synergistic companies that would allow us to leverage our overhead, penetrate new markets and expand existing product categories through our business channels.

**Reportable Segments**

We have determined that we operate in one reportable segment, the Electronics Group, based on review of ASC 280, "Segment Reporting". The characteristics of our operations that are relied on in making and reviewing business decisions include the similarities in our products, the commonality of our customers, suppliers and product developers across multiple brands, our unified marketing and distribution strategy, our centralized inventory management and logistics, and the nature of the financial information used by our Executive Officers. Management reviews the financial results of the Company based on the performance of the Electronics Group.

**Critical Accounting Policies and Estimates**

The preparation of these financial statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses reported in those financial statements. These judgments can be subjective and complex, and consequently, actual results could differ from those estimates. Our most critical accounting policies and estimates relate to revenue recognition; sales incentives; accounts receivable reserves; inventory reserves; goodwill and other intangible assets; warranties; stock-based compensation; income taxes; and the fair value measurements of financial assets and liabilities. A summary of the Company's significant accounting policies is identified in Note 1 of the Consolidated Financial Statements in the Company's Form 10-K for the fiscal year ended Februa ry 28, 2010. Since February 28, 2010, there have been no changes in our critical accounting policies or changes to the assumptions and estimates related to them.

The Company evaluates its indefinite lived intangible assets for impairment triggering events at each reporting period in accordance with ASC 350. Based on our evaluation, there were no triggering events and no impairment of indefinite lived intangible assets in the quarter ended May 31, 2010. Due to the continued economic volatility, including fluctuations in interest rates, growth rates and changes in demand for our products, there could be a change in the valuation of indefinite lived intangible assets when the Company conducts its annual impairment test.

**Results of Operations**

As you read this discussion and analysis, refer to the accompanying consolidated statements of operations, which present the results of our operations for the three months ended May 31, 2010 and 2009.

The following tables set forth, for the periods indicated, certain statements of operations data for the three months ended May 31, 2010 and 2009.

*Net Sales*

| | Three Months Ended May 31, | | | |
|---|---|---|---|---|
| | **2010** | **2009** | **$ Change** | **% Change** |
| Electronics | $ 94,519 | $ 78,998 | $ 15,521 | 19.6% |
| Accessories | 35,794 | 40,808 | (5,014) | (12.3) |
| Total net sales | $ 130,313 | $ 119,806 | $ 10,507 | 8.8% |

Electronic sales represented 72.5 percent of the net sales for the three months ended May 31, 2010 compared to 65.9 percent in the prior year period. $13.4 million of the increase in sales from this product group was the result of our recent acquisition of Invision, a manufacturer of rear seat entertainment systems, and the addition of a new security distribution agreement. Our OEM sales increased as a result of increased car manufacturing and its related sales, as well as our new OEM programs. Our video and digital player product lines also experienced an increase in revenue period over period. Partially offsetting these increases were declines in audio, certain electronics products, and international sales due to the softness in the economy.

Accessory sales represented 27.5 percent of our net sales for the three months ended May 31, 2010 compared to 34.1 percent in the prior year period. This group was impacted by a decline in digital antenna sales compared to the prior year period as a result of the industry-wide switch from analogue to digital technology in early 2009. We also experienced lower sales in other Accessory products as a result of the economy. These declines were partially offset by increased sales in our international business both in existing business and the addition of our acquisition of Schwaiger.

Overall, a portion of our total international sales has been impacted by the strengthening of the U.S. dollar versus the Euro; and the economic and political climate in Venezuela.

During the quarter ended May 31, 2010, sales incentive expenses increased by $1.2 million primarily as a result of our Schwaiger acquisition, which has several marketing programs. The release of unearned or unclaimed sales incentives was $282. We believe the reversal of unearned but unclaimed or unearned sales incentives upon expiration of the claim period is a disciplined, rational, consistent, and systematic method of reversing these claims. These sales incentive programs are expected to continue and will either increase or decrease based upon competition and customer demands.

*Gross Profit*

| | Three Months Ended May 31, | |
|---|---|---|
| | **2010** | **2009** |
| Gross profit | $ 27,061 | $ 22,924 |
| Gross margins | 20.8% | 19.1% |

Gross margins, which increased by 170 basis points, were favorably impacted by increased sales in OEM related product; better margins in our existing product lines as new product was introduced; and reduced costs in freight and warehousing.

*Operating Expenses and Operating Loss*

| | Three Months Ended May 31, | | | |
|---|---|---|---|---|
| | **2010** | **2009** | **$ Change** | **% Change** |
| Operating expenses: | | | | |
| Selling | $ 8,829 | $ 6,959 | $ 1,870 | 26.9% |
| General and administrative | 17,330 | 13,661 | 3,669 | 26.9 |
| Engineering and technical support | 2,389 | 2,072 | 317 | 15.3 |
| Total operating expenses | $ 28,548 | $ 22,692 | $ 5,856 | 25.8% |
| | | | | |
| Operating (loss) income | $ (1,487) | $ 232 | $ (1,719) | (740.9) |

Operating expenses increased $5.9 million for the three months ended May 31, 2010 from $22,692 in the prior year period. As a percentage of net sales, operating expenses increased to 21.9% as compared to 18.9% for the three months ended May 31, 2009. The increase in total operating expenses was primarily due to our Schwaiger and Invision acquisitions which accounted for $3.3 million. In addition, the Company recorded $1.5 million in expenses for employee stock option costs and professional fees. The balance of the increase was due to a reinstatement of a portion of the reductions originally instituted in the salary reduction program to all employees below the level of vice president.

*Other Income (Expense)*

| | Three Months Ended May 31, 2010 | Three Months Ended May 31, 2009 | $ Change | % Change |
|---|---|---|---|---|
| Interest and bank charges | $ (441) | $ (319) | $ (122) | 38.2% |
| Equity in income of equity investees | 908 | 395 | 513 | 129.9 |
| Other, net | 1,501 | 448 | 1,053 | 235.0 |
| Total other income | $ 1,968 | $ 524 | $ 1,444 | 275.6% |

Interest and bank charges represent expenses for bank obligations of Audiovox Corporation and Audiovox Germany and interest for a capital lease.

Other income increased due to gains on forward exchange contracts during Fiscal 2011 (see Note 4).

*Income Tax Benefit/Provision*

The effective tax rate for the three months ended May 31, 2010 was an income tax benefit of (132.6)% compared to 37.5% in the prior period. The effective tax rate is different than the statutory rate primarily due to a discrete item related to the recognition of a tax receivable as a result of the favorable resolution of an income tax audit.

*Net Income*

The following table sets forth, for the periods indicated, selected statement of operations data beginning with net income and basic and diluted net income per common share.

| | Three Months Ended May 31, 2010 | Three Months Ended May 31, 2009 |
|---|---|---|
| Net income | $ 1,119 | $ 473 |
| Net income per common share: | | |
| Basic | $ 0.05 | $ 0.02 |
| Diluted | $ 0.05 | $ 0.02 |

Net income for the three months ended May 31, 2010 was $1,119 compared to a net income of $473 in the prior year. Net income per share for the three months ended May 31, 2010 was $0.05 (diluted) as compared to net income per share of $0.02 (diluted) for the prior year period. Net income for the three months ended May 31, 2010 includes a gain from foreign exchange contracts and a favorable tax settlement. Net income was impacted by sales incentive reversals of $282 (no taxes recorded) and $736 ($449 after taxes) for the three months ended May 31, 2010 and 2009, respectively.

## Liquidity and Capital Resources

### Cash Flows, Commitments and Obligations

As of May 31, 2010, we had working capital of $240,219 which includes cash and short-term investments of $83,597, compared with working capital of $239,787 at February 28, 2010, which included cash and short-term investments of $69,511. The increase in cash is primarily due to a decrease in accounts receivables, partially offset by an increase in inventory, a decrease in accounts payable and accrued expenses, and the repayment of bank obligations. We plan to utilize our current cash position as well as collections from accounts receivable, the cash generated from our operations and the income on our investments to fund the current operations of the business. However, we may utilize all or a portion of current capital resources to pursue other business opportunities, including acquisitions.

Operating activities provided cash of $21,089 for the three months ended May 31, 2010 principally due to decreased accounts receivables.

§ The Company experienced increased accounts receivable turnover of 5.3 during the three months ended May 31, 2010 compared to 4.4 during the three months ended May 31, 2009.

§ Inventory turnover declined to 3.3 during the three months ended May 31, 2010 compared to 4.2 during the three months ended May 31, 2009.

Investing activities used cash of $980 and $1,087 during the three months ended May 31, 2010 and 2009, respectively, primarily due to capital expenditures.

Financing activities used cash of $5,670 during the three months ended May 31, 2010, primarily from repayment of bank obligations.

Up until March 31, 2010, the Company had a secured credit line to fund the temporary short-term working capital needs of the domestic operations. This line allowed aggregate borrowings of up to $10,000 at an interest rate of Prime (or similar designations) plus 1% or LIBOR plus 5%. The line was subsequently replaced by a $15,000 three-year facility at an interest rate of LIBOR plus 3.5%. As of May 31, 2010 and February 28, 2010, no direct amounts were outstanding under either of these agreements. At May 31, 2010, the Company had $1,017 and $1,248 outstanding in standby and commercial letters of credit, respectively, which reduces the amount available under the secured credit line.

Certain contractual cash obligations and other commercial commitments will impact our short and long-term liquidity. At May 31, 2010, such obligations and commitments are as follows:

| | Payments Due by Period | | | | |
|---|---|---|---|---|---|
| **Contractual Cash Obligations** | **Total** | **Less than 1 Year** | **1-3 Years** | **4-5 Years** | **After 5 Years** |
| Capital lease obligation (1) | $ 10,275 | $ 521 | $ 1,121 | $ 1,147 | $ 7,486 |
| Operating leases (2) | 21,764 | 4,614 | 6,071 | 4,202 | 6,877 |
| Total contractual cash obligations | $ 32,039 | $ 5,135 | $ 7,192 | $ 5,349 | $ 14,363 |

| | Amount of Commitment Expiration per period | | | | |
|---|---|---|---|---|---|
| **Other Commercial Commitments** | **Total Amounts Committed** | **Less than 1 Year** | **1-3 Years** | **4-5 Years** | **After 5 years** |
| Bank obligations (3) | $ 1,582 | $ 1,582 | $ - | $ - | $ - |
| Stand-by letters of credit (4) | 2,265 | 2,265 | - | - | - |
| Debt (5) | 6,918 | 1,227 | 5,691 | - | - |
| Contingent earn-out payments (6) | 7,572 | 1,990 | 3,386 | 2,196 | - |
| Unconditional purchase obligations (7) | 90,589 | 90,589 | - | - | - |
| Total commercial commitments | $ 108,926 | $ 97,653 | $ 9,077 | $ 2,196 | $ - |

1. Represents total payments (interest and principal) due under a capital lease obligation which has a current (included in other current liabilities) and long term principal balance of $84 and $5,428, respectively at May 31, 2010.

2. We enter into operating leases in the normal course of business.

3. Represents amounts outstanding under the Audiovox Germany Euro asset-based lending facility at May 31, 2010.

4. We issue standby and commercial letters of credit to secure certain bank obligations and insurance requirements.

5. Represents amounts outstanding under a loan agreement for Audiovox Germany. This amount also includes amounts due under a call-put option with certain employees of Audiovox Germany.

6. Represents contingent payments in connection with the Thomson Accessory and Thomson Audio/Video acquisitions (see Note 3 of the Company's annual report).

7. Open purchase obligations represent inventory commitments. These obligations are not recorded in the consolidated financial statements until commitments are fulfilled and such obligations are subject to change based on negotiations with manufacturers.

We regularly review our cash funding requirements and attempt to meet those requirements through a combination of cash on hand, cash provided by operations, available borrowings under bank lines of credit and possible future public or private debt and/or equity offerings. At times, we evaluate possible acquisitions of, or investments in, businesses that are complementary to ours, which transactions may require the use of cash. We believe that our cash, other liquid assets, operating cash flows, credit arrangements, and access to equity capital markets, taken together, provide adequate resources to fund ongoing operating expenditures. In the event that they do not, we may require additional funds in the future to support our working capital requirements or for other purposes and may seek to raise such additional f unds through the sale of public or private equity and/or debt financings as well as from other sources. No assurance can be given that additional financing will be available in the future or that if available, such financing will be obtainable on terms favorable when required.

**Off-Balance Sheet Arrangements**

We do not maintain any off-balance sheet arrangements, transactions, obligations or other relationships with unconsolidated entities that would be expected to have a material current or future effect upon our financial condition or results of operations.

**Acquisitions**

During the third quarter of Fiscal 2010, the Company completed the acquisition of Schwaiger GmbH, a German market leader in the consumer electronics, SAT and receiver technologies for $4,348. The purpose of this acquisition was to expand our European operations and increase our presence in the European accessory market.

On February 1, 2010, the Company's newly formed subsidiary, Invision Automotive Systems, Inc., purchased the assets of Invision Industries, Inc., a manufacturer of rear seat entertainment systems for OEM's, ports and car dealers. As consideration for Invision, the Company paid $15,320 (including payments to principal and certain vendors).

In conjunction with the acquisition, the Company refinanced and executed a new loan with Suntrust Bank to pay down the former obligation of Invision Industries, Inc. and assumed certain debt. The total debt at closing was $5,000, which is included in the purchase price.

The results of operations of this acquisition have been included in the consolidated financial statements from the date of acquisition. The purpose of this acquisition was to further strengthen our OEM presence and add manufacturing capabilities to our business model (see Note 7 for the purchase price allocation).

**Subsequent Events**

The Company evaluated events occurring subsequent to May 31, 2010 for potential recognition and disclosure in the consolidated financial statements.

**Related Party Transactions**

During 1998, we entered into a 30-year capital lease for a building with our principal stockholder and chairman, which was the headquarters of the discontinued Cellular operation. Payments on the capital lease were based upon the construction costs of the building and the then-current interest rates. This capital lease was refinanced in December 2006 and the lease expires on November 30, 2026. The effective interest rate on the capital lease obligation is 8%. On November 1, 2004, we entered into an agreement to sublease the building to Personal Communication Devices, LLC (Formerly UTStarcom) for monthly payments of $46 until November 1, 2009. The sublease lease agreement has been renewed and requires, for a term of three years, monthly payments of $50 until November 1, 2012. We al so lease another facility from our principal stockholder which expires on November 30, 2016. Total lease payments required under all related party leases for the five-year period ending May 31, 2015 are $6,615.

**New Accounting Pronouncements**

We are required to adopt certain new accounting pronouncements (see Note 18) to our consolidated financial statements included herein.

## ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There has been no significant change in our market risk sensitive instruments since February 28, 2010 with the exception of our Venezuelan operation. The Company's sales for the first fiscal quarter of 2011 were impacted by the economic and political situation in Venezuela, which has resulted in work stoppages at the car manufacturers due to parts shortages and issues with foreign exchange. Venezuela represented 2% of sales for the quarter. The majority of assets invested in Venezuela are cash related and are subject to government foreign exchange controls including its investment in Venezuelan government bonds. The Company will continue to monitor the situation.

The Company also continues to monitor the circumstances related to its equity investment in Bliss-tel (Thailand) as discussed in Note 4.

## ITEM 4. CONTROLS AND PROCEDURES

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we have evaluated the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Exchange Act Rules 13a-15(e) and 15d-15(e) as of the end of the period covered by this report. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of the period covered by this report, these disclosure controls and procedures are effective at a "reasonable assurance" level.

There were no material changes in our internal control over financial reporting (as such term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) during the three month period ended May 31, 2010 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

## PART II - OTHER INFORMATION

### <u>ITEM 1</u> <u>LEGAL PROCEEDINGS</u>

See Note 17 of the Notes to the Consolidated Financial Statements in Part I, Item 1 of this Form 10-Q and Note 14 of the Form 10-K for the fiscal year ended February 28, 2010 for information regarding legal proceedings.

### <u>ITEM 1A.</u> <u>RISK FACTORS</u>

There have been no material changes from the risk factors previously disclosed in the Company’s Form 10-K for the fiscal year ended February 28, 2010.

### <u>ITEM 2.</u> <u>UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS</u>

There were no shares of common stock repurchased during the three months ended May 31, 2010.

**ITEM 6.** **EXHIBITS**

| Exhibit Number | Description |
|---|---|
| 31.1 | Certification of Chief Executive Officer Pursuant to Rule 13a-14(a) and rule 15d-14(a) of the Securities Exchange Act of 1934 (filed herewith). |
| 31.2 | Certification of Chief Financial Officer Pursuant to Rule 13a-14(a) and rule 15d-14(a) of the Securities Exchange Act of 1934 (filed herewith). |
| 32.1 | Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith). |
| 32.2 | Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (filed herewith). |

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

AUDIOVOX CORPORATION

July 12, 2010

By: /s/ Patrick M. Lavelle
Patrick M. Lavelle,
President and Chief Executive Officer

By: /s/ Charles M. Stoehr
Charles M. Stoehr,
Senior Vice President and Chief Financial Officer

CERTIFICATION PURSUANT TO RULE 13a-14(a) AND RULE 15d-14(a) OF THE SECURITIES EXCHANGE ACT OF 1934

I, Patrick M. Lavelle, President and Chief Executive Officer of Audiovox Corporation, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Audiovox Corporation (the “Company”);

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) designed such internal controls over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the three months ended May 31, 2010) that has materiality affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):

   a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and

   b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

July 12, 2010

/s/ Patrick M. Lavelle
Patrick M. Lavelle

Exhibit 31.1

CERTIFICATION PURSUANT TO RULE 13a-14(a) AND RULE 15d-14(a) OF THE SECURITIES EXCHANGE ACT OF 1934

I, C. Michael Stoehr, Senior Vice President and Chief Financial Officer of Audiovox Corporation, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Audiovox Corporation (the "Company");

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal controls over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the three months ended May 31, 2010) that has materiality affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

July 12, 2010

/s/ C. Michael Stoehr
C. Michael Stoehr

Exhibit 31.2

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Audiovox Corporation (the “Company”) on Form 10-Q for the three months ended May 31, 2010 (the “Report”) as filed with the Securities and Exchange Commission on the date hereof, I, Patrick M. Lavelle, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

July 12, 2010

/s/Patrick M. Lavelle
Patrick M. Lavelle

EXHIBIT 32.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Audiovox Corporation (the “Company”) on Form 10-Q for the three months ended May 31, 2010 (the “Report”) as filed with the Securities and Exchange Commission on the date hereof, I, C. Michael Stoehr, Senior Vice President and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

July 12, 2010

/s/ C. Michael Stoehr
C. Michael Stoehr

EXHIBIT 32.2