TECHNOLOGY DRIVEN

AUDIOVOX

1997 Annual Report

Company Profile

Audiovox Corporation is an international leader in the marketing of cellular telephones, auto sound, vehicle security and mobile video systems and their related accessories. The Company markets its products under its own brands and private labels through a large and diverse distribution network both domestically and internationally. International sales are handled through several joint ventures as well as directly to international carriers and distributors.

Audiovox products are separated into two marketing groups: Communications and Automotive. Communications' products accounted for nearly seventy percent of the Company's sales in fiscal 1997. Audiovox Corporation purchases most of its products from sources in Asia, Europe and the US and is a thirty one percent owner of TALK Corporation, a Japanese company involved in the manufacturing of cellular and auto sound products for Audiovox.

Communications

Audiovox Communications Corp. (ACC), a wholly-owned subsidiary of the Company, markets wireless products including cellular telephones in a variety of different technologies. ACC distributes its products in the United States to the regional Bell Operating Companies, other carriers and their respective agents, distributors and retailers. ACC maintains a substantial marketing effort, both domestically and internationally, for private label and Original Equipment (OE) programs. ACC also operates twenty six retail locations under the name Quintex that act as agents of the carriers.

Automotive

The Automotive Electronics Division (AE) divides its sales into Mobile Electronics and Consumer Electronics. Mobile Electronics products include auto sound, vehicle security and mobile video systems. The Mobile Electronics group focuses on the 12 Volt specialist, with the Audiovox® and Prestige® brands, and the Car Dealer Expediter, with the Pursuit® and SPS brands. The Consumer Electronics group targets the mass merchandiser with Audiovox branded vehicle security, home and portable stereo systems and Rampage® brand auto sound products.

The AE Division supports a considerable OE and private label effort that includes light manufacturing and assembly in its Hauppauge, New York facility.

Selected Financial Data

Years ended November 30, 1997, 1996, 1995, 1994 and 1993

	1997	1996	1995	1994	1993
Net sales	**$639,082**	$597,915	$500,740	$486,448	$389,038
Net income (loss)	**21,022**(a)	(26,469)(b)	(11,883)(c)	26,028 (e)	12,224 (g
Net income (loss) per common share, primary	**1.09**(a)	(2.82)(b)	(1.31)(c)	2.86 (e)	1.35 (g
Net income (loss) per common share, fully diluted	**1.05**(a)	—	—	2.20 (e)	1.25 (g
Total assets	**289,827**	265,545	308,428	239,098	169,671
Long-term obligations, less current installments	**38,996**	70,413	142,802	110,698 (f)	13,610(h
Stockholders' equity	**187,892**(d)	131,499(d)	114,595(d)	92,034	65,793

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

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

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

(d) Includes a $12.2 million unrealized gain on marketable securities, net, a $773,000 unrealized gain on equity collar, net, and a $20.8 million increase as a result of the exchange of $21.5 million of subordinated debentures in 1997 and a $10.3 million unrealized gain on marketable securities, net, and a $34.4 million increase as a result of the exchange o $41.3 million of subordinated debentures in 1996 and a $31.7 million unrealized gain on marketable securities, net, for 1995.

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

(f) Long-term debt includes the addition of a $65 million bond offering in 1994.

(g) Includes an extraordinary item of $2.2 million or $0.24 per share, primary, and $0.22 per share, fully diluted.

(h) Long-term debt does not include $38.8 million of bank obligations which were classified as current.

Quarterly Financial Data

(unaudited)

	Quarter Ended			
	Feb. 28	May 31	Aug. 31	Nov. 30
1997				
Net sales	**$166,614**	**148,195**	**153,124**	**171,149**
Gross profit	**28,002**	**25,055**	**25,634**	**28,071**
Operating expenses	**23,486**	**21,243**	**20,606**	**21,732**
Income before provision for income taxes	**15,328 (a)**	**14,032 (c)**	**5,565 (e)**	**8,517(g**
Provision for income taxes	**11,125 (b)**	**5,678 (d)**	**2,467 (f)**	**3,150(h**
Net income	**4,203**	**8,354**	**3,098**	**5,367**
Net income per common share (primary)	**0.24**	**0.43**	**0.16**	**0.27**
Net income per share (fully diluted)	**0.23**	**0.42**	**0.16**	**0.26**
1996				
Net sales	$122,493	141,194	142,828	191,400
Gross profit	19,877	21,586	24,639	30,286
Operating expenses	17,519	19,347	2,091	25,536
Income (loss) before provision for income taxes	1,091	426	1,575	(23,727)(i
Provision for income taxes	612	276	808	4,138 (j
Net income (loss)	479	150	767	(27,865)
Net income (loss) per common share (primary)	0.05	0.02	0.08	(2.83)
Net income (loss) per share (fully diluted)	—	—	—	—

NOTE: The Company does not compute fully diluted earnings per share when the addition of potentially dilutive securities would result in anti-dilution.

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

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

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

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

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

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

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

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

(i) Includes a pre-tax charge of $26.3 million for costs associated with the exchange of $41.3 million of subordinated debentures into 6,806,580 shares of common stock.

(j) Includes tax expense of $2.9 million associated with the exchange of debentures.

TO OUR STOCKHOLDERS

This past year has been an exciting one, highlighted by a record number of cellular telephones sold; the successful launch of Audiovox Venezuela; a major joint venture agreement and the introduction of a new product line, Mobile Video.

In addition to those developments, the Company achieved the highest sales and profits from operations in our history, as sales exceeded $639 million and profits rose to $21 million during 1997. Strong sales programs and tight operating controls in all of the Company's product groups, cellular, auto sound and vehicle security, contributed to this result.

Our communications subsidiary, Audiovox Communications Corp., sold a record three million cellular telephones in 1997, bringing the total number of Audiovox phones in the marketplace to over 10 million. Our Automotive Division exceeded both sales and profit projections for the year.

During 1997, we completed the successful launch of Audiovox Venezuela, which finished the year with $10 million in sales and $1.8 million in pre-tax profits. We also completed the formation of Audiovox Specialized Applications, LLC from the consolidation of our Heavy Duty Sound division with ASA Electronics Corporation of Elkhart, Indiana.

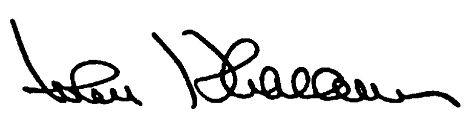
In a recent development, a result of the continuing financial crisis in Asia, we withdrew the agreement for the proposed transfer of our auto sound mass merchandiser sales group to a Korean company. Sales of this group were profitable in 1997 and are ahead of projections thus far this year. We have decided to continue sales to the mass merchandisers through our Automotive Division.

We begin 1998 with the delivery of our first digital cellular telephone in the CDMA format. In addition, our communications subsidiary is planning delivery of TDMA and GSM/PCS technology products during 1998. There is no doubt that growth in wireless during 1998 will be driven by new digital technology formats as they gain in popularity. The shift from analog to digital will present both opportunity and challenge to our company as the competition to bring digital products to market increases. It is expected that this shift will affect earnings in the first and second quarters as both demand for analog phones and prices for those products decline.

In keeping with our long-term goals of expanding our product lines, our Automotive Division has introduced mobile video products that we anticipate will be a strong addition to that Division's sales. During 1998, we will be closely monitoring the performance or our Malaysian operation, which we believe, will be affected by the slow down in that country's economy brought on by the financial crisis in Asia.

As we begin this challenging year, I would like to express my appreciation to the shareholders for their continued confidence and support. We operate in a highly competitive marketplace with fast changing technology and continually eroding price structures. We are constantly aware of the pressures that those factors bring to bear. Every employee in this company remains focused on delivering the highest return and I wish to thank them for their continuous contributions above and beyond my expectations.

Sincerely,



John J. Shalam

Chairman, President and CEO

AUDIOVOX COMMUNICATIONS CORP

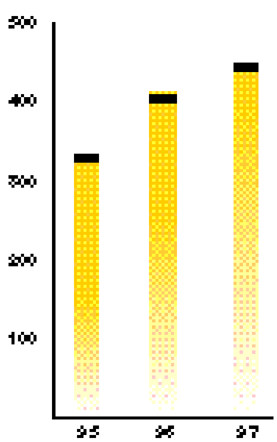
An Interview with Philip Christopher, President & CEO Audiovox Communications Corp. and Executive Vice President, Audiovox

Audiovox wireless products are marketed through Audiovox Communications Corp., a wholly-owned subsidiary of the Company. ACC distributes its products in the United States to theregional Bell Operating Companies, other carriers and their respective agents, distributors and retailers. International sales are handled through several joint ventures as well as directly to international carriers and distributors. The subsidiary maintains a substantial marketing effort, both domestically and internationally, for private label and OE programs. ACC also operates twenty-six retail locations under the name Quintex that act as agents for the carriers in their respective markets.

Communications

Net Sales

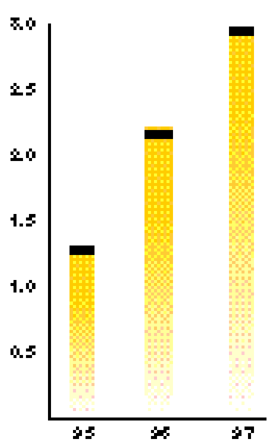
($ in millions)



Unit

Sales

(in millions)



QUESTION:

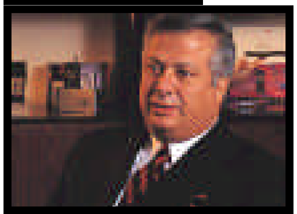
Can you comment on the growth of Audiovox Communications Corp.?

ANSWER: Since we entered the market in 1984, Audiovox has been an industry leader in cellular with our products consistently ranking among the top brands. Our customer base reads like a who's who in the telecommunication industry as we sell our products to virtually every carrier, both wireline and non-wireline. Audiovox Communication products represented nearly seventy percent of the Company's total sales this past fiscal year. In 1997 ACC shipped 3 million cellular telephones, bringing the total number of Audiovox cellular telephones in the market today to over 10 million.

QUESTION:

AUDIOVOX IS NOT A MANUFACTURER. HOW DO YOU COMPETE?

ANSWER:



We have been able to compete against the giants in the industry such as Motorola, Nokia and Ericsson because we are unique in our approach to the wireless industry. We are a manufacturer without a factory and we believe that we provide our customers with even more services than our manufacturing competitors.

First of all, we have the ability to source all of the different technologies that are and will be a part of this growing market. As the new digital technologies emerge, this ability will allow us to provide product to the entire industry without technology limitations.

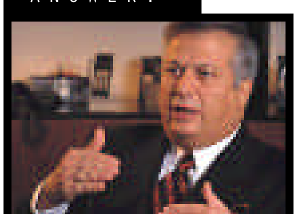
Second, we are flexible. We provide our customers with extensive engineering support both in product development, training and service programs as well as sales and marketing. This flexibility allows us to tailor product and programs to our customers and their specific market needs.

Third, we have the commitment to the wireless industry. A commitment to continue to develop products and programs that give our customers an edge over the competition. We believe that we provide a measure of service that is simply unavailable from any other supplier in the industry.

QUESTION:

HOW DOES YOUR PRODUCT LINE SHAPE UP WITH THE NEW TECHNOLOGIES?

ANSWER:



Industry estimates indicate that approximately 30% of the US market has shifted from analog to digital technology. At this time, only Audiovox, Qualcomm, SONY and Nokia are delivering CDMA product. Our new CDM 3000 began quantity delivery in February and we plan to begin shipping approximately 30,000 CDMA phones a month by April, 1998. We expect to introduce TDMA and GSM/PCS product during the year.

QUESTION:

HOW HAS THE NEW CDMA PHONE BEEN RECEIVED?

ANSWER:

Very well. This first CDMA phone is being manufactured for us by Toshiba, which has been a manufacturing partner for us since we started in the cellular industry. The carriers who have tested the new CDMA phone have indicated that it follows in the same tradition of quality that has seen several of our AMPS phones rated number one in national consumer preference surveys.

QUESTION:

YOUR NEW FACILITY IS TWICE THE SIZE OF THE EXISTING ONE. WHAT WILL IT HOUSE?

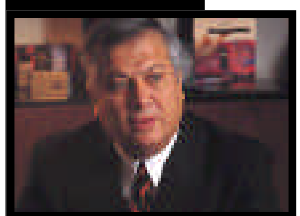
ANSWER:

During April 1998, ACC will move to a new 70,000 sq. foot facility equipped with state-of-the-art warehousing, communications and management information systems. This building will serve as headquarters for both Domestic and International Sales as well as be the headquarters for our Quintex retail operation. The additional space will allow us to expand our engineering and service operations as well as provide the room to support the customer fulfillment programs, which are an essential part of or growth plans.

QUESTION:

DOES THE INTERNATIONAL MARKET REPRESENT A GROWTH AREA FOR YOU?

ANSWER:



In many countries throughout the world, the development of cellular telephone service takes precedence over traditional wireline networks due to lower system costs and quicker deployment. More and more international carriers are aligning themselves with US carrier partners anxious to expand their influence overseas. Audiovox Communications Corp. with its strong US carrier relationships is poised to take full advantage of some of those new partnerships.

QUESTION:

WHERE DO YOUR INTERNATIONAL SALES STAND?

ANSWER:

Since 1993, ACC's international sales have grown to represent nearly 25% of total communications product revenues. We sell our products in over thirty countries worldwide. To date, our strongest emphasis has been in Canada, South and Latin America with some penetration in markets throughout Asia and Europe. Europe and Southeast Asia are targets for the new GSM/PCS world phone that we expect to introduce later this year.

QUESTION:

WHAT IS THE GROWTH POTENTIAL FOR AUDIOVOX COMMUNICATIONS?

ANSWER:

There were an estimated 200 million wireless subscribers worldwide as of the end of 1997 with over 500 million projected by the year 2000. With our access to technology sources and our commitment to the industry, we believe we are poised to be a player in this market well into the millennium.

AUDIOVOX ELECTRONICS DIVISION

An Interview with Patrick M. Lavelle,

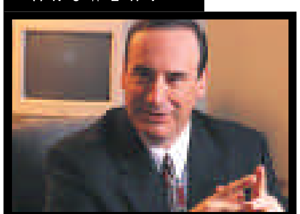
Senior Vice President, Automotive Electronics

Audiovox Automotive products, auto sound, vehicle security and mobile video, are marketed through the Automotive Electronics Division. The Division's Mobile Electronics Group focuses on the mobile electronics specialist, with the Audiovox and Prestige brands, and the Car Dealer Expediter, with the Pursuit and Custom SPS Brands. The Consumer Electronics Group focuses on leisure products, sold under the Audiovox brand, and Autosound products, sold under the Rampage brand. The AE Division supports a considerable OE and private label effort that includes light manufacturing and assembly in its Hauppauge, New York facility. International sales efforts for AE include majority-owned joint ventures for OE programs in Malaysia and Venezuela.

QUESTION:

Audiovox has been around for over 30 years. To what do you attribute its staying power?

ANSWER:



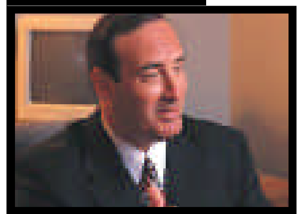
Lots of things-reliable products; strong distribution; dedicated employees. But if I had to pick just one, flexibility would be a key factor. Audiovox pays attention to the needs of our customer base as well as the ever changing consumer appetite for new electronic products. Audiovox started out over 30 years ago as a car stereo company, but we didn't stop there. We hold the distinction of being the only car stereo company to have made the successful transition into security and communications. In fact, Audiovox holds a dominant position in all three of those major market categories.

Sales in the Automotive Division at Audiovox have grown steadily over the last five years. Our Prestige brand name is by far, one of the most respected security brands in the market. In autosound, Prestige continues to make steady progress in consumer recognition as a high quality but affordable car stereo line. Prestige sound is now one of the broadest lines of car stereo available with a full compliment of cassette units, in-dash CD units, CD changers, amplifiers, speakers and components.

QUESTION:

Can you give a time line on the division's expansion into international markets?

ANSWER:



For most of the 90's our expansion has been in international distribution. Over the last five years, we have established distribution in over 25 countries around the world and have added a majority-owned subsidiary in Malaysia for distribution of OE programs in that country.

1997 has been one of our biggest years for strategic moves. Early in the year we announced the formation of a majority-owned subsidiary in Venezuela for the marketing of OE products to automobile manufacturers in that country. We also split off our Heavy Duty Sound division into a 50/50 venture called Audiovox Specialized Applications which is better- equipped to handle the specialized needs of that market.

QUESTION:

What is the new mobile video sales group?

ANSWER:

Last October, we launched our new Mobile Video sales group which will focus on bringing the new car dealer and mobile electronics specialist mobile video products, such as in car console TV's and video players, DVD players and LCD monitors.

QUESTION:

Is this a big market?

ANSWER:

It certainly is. The consumer acceptance of the family van and sport utility vehicle has skyrocketed over the last couple of years. These new vehicles are the station wagons of today-packed with families all looking to be entertained as they travel the country's roads. Those bigger vehicles with lots of room inside offer us a wide variety of possibilities for new entertainment products.

QUESTION:

Audiovox has been in the security market for a long time. Is it saturated?

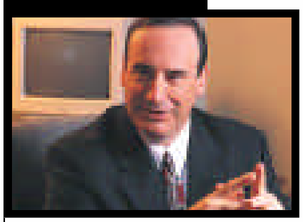
ANSWER:

Not by a long shot. Thanks to advances in technology the category keeps growing. Security systems are now far more than just car alarms. They couple convenience features with security, safety and now communications. Systems that include remote starters, remote garage door openers, remote trunk releases, keyless entry systems and now vehicle tracking. With Global Positioning Systems (GPS) and navigation, there's no end to how far these products can go.

QUESTION:

What about the technology involved in vehicle tracking?

ANSWER:



At the Consumer Electronics show in January, we showed two new vehicle tracking products that are satellite based, two-way GPS which we expect to ship in 1998. They will be central station monitored for fast response. Featuring our patent pending 'Log and Locate' technology, the new Pursuit Vehicle Track will deliver an alarm signal as soon as the vehicle moves 2,000 feet. It does not wait until you report the vehicle missing to start tracking. In addition, unlike its biggest competitor, its a full featured alarm system as well. These systems have some great convenience features too. On command the satellite can remote start your vehicle, find your car in a parking lot, or unlock your doors, should you lock the keys inside.

QUESTION:

Can you tell me what makes Audiovox different from all the other automotive electronics companies out there?

ANSWER:

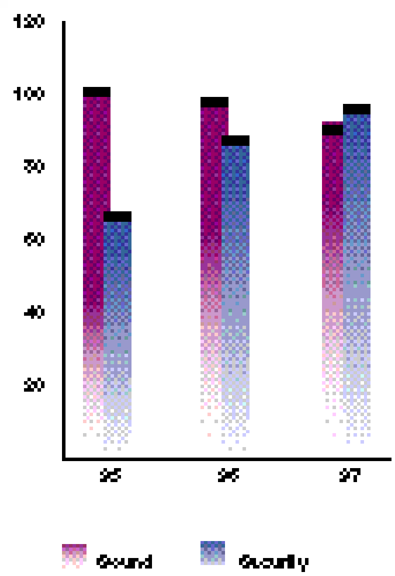
Plenty. But it all comes down to one key thing. We develop products tailored to the markets that our different distribution outlets serve. We recognize that the needs of the car dealer are different from those of the mobile electronic specialist. It takes a major investment in engineering support, but we don't develop one product and try to force it through our varied distribution channels.

We're always looking for ways to give our customers an edge. We know they can buy other products but they don't because we always put their needs first. We're always developing sales programs or new cutting edge products and we're not afraid of taking the risks that diversification requires.

Audiovox remains committed to never resting on our past success. We will continue to explore new markets and accept new challenges as we strive to provide our customers with the latest in consumer electronics products for this ever changing marketplace.

Automotive Sound & Security & Accessories Net Sales

($ in millions)



AUDIOVOX CORPORATION

An Interview with Charles M. Stoehr,

Senior Vice President and Chief Financial Officer

QUESTION:

1997 saw significant changes to the Company's balance sheet. Can you elaborate?

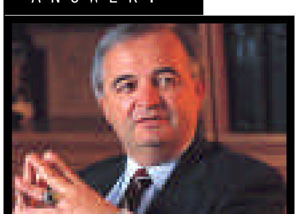
ANSWER: Our balance sheet is stronger than it has ever been. Financial highlights of the year include a 6.9% increase in net sales over last year and a drop in accounts receivable days on hand from 71 in 1996 to 59 in 1997. Cash collections were up 13.2% over 1996 and working capital has increased 13.3% from last year.

In January 1997, we completed an exchange of $21.5 million of Audiovox subordinated debentures for 2,860,925 shares of Class A Common Stock. This was in addition to the exchange made in late fiscal 1996. The combined exchanges will save the Company $3.9 million in annual interest expense. Stockholders' equity has increased $56.4 million from November 30, 1996.

QUESTION:

What is the Company's position on CellStar shares?

ANSWER:



The liquidity provided by the 865,000 shares of CellStar common stock that the Company still holds will be reserved for future strategic planning initiatives. In fiscal 1997, the Company sold 1,835,000 shares of its holdings of CellStar common stock for net cash proceeds of $45.9 million and a net gain of $23.2 million.

QUESTION:

Can you outline the changes the Company is making to its Management Information Systems?

ANSWER: We just completed the successful installation of a new system that will resolve the year 2000 issue and give the Company global MIS control. With this system, we can transmit and process data from any of our worldwide locations and translate the local language. The system will also give us fulfillment capability that provides for advanced inventory management from the time we receive product from our suppliers to the time we ship to our customers. We expect to use the fulfillment capability extensively in our wireless subsidiary.

QUESTION:

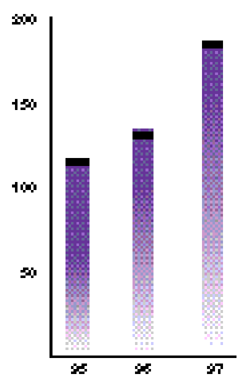
Overall how do you see the Company's financial position?

ANSWER:

I believe that we are on solid ground and well positioned for growth. The bond conversion, sale of CellStar shares and earnings results give us the balance sheet strength to position the Company to support future strategic growth initiatives in both of our marketing groups. Both our Communications and Automotive groups will require capital as they develop the new technologies necessary to expand in their respective markets.

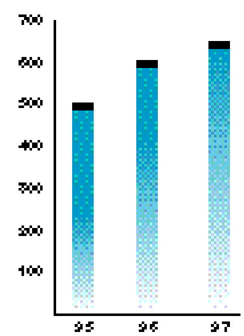
Stockholders' Equity

($ in millions)



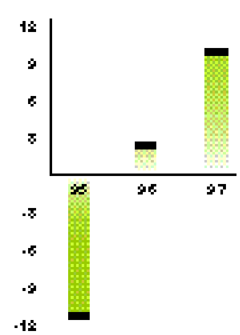
Net Sales

($ in millions)



Net Income (Loss) From Operations

($ in millions)



Management's Discussion and Analysis of Financial Condition and Results of Operations

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

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

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

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

	Percentage of Net Sales Years Ended November 30,		
	1997	1996	1995
Net sales:			
Product sales:			
Cellular wholesale	**61.1%**	58.6%	52.3%
Cellular retail	**1.0**	1.3	2.8
Sound	**14.4**	16.4	20.3
Security and accessories	**15.2**	14.6	13.5
	91.7	90.9	88.9
Activation commissions	**4.9**	5.5	7.7
Residual fees	**0.7**	0.8	1.0
Other	**2.7**	2.8	2.4
Total net sales	**100.0**	100.0	100.0
Cost of sales	**(83.3)**	(83.9)	(85.9)
Gross profit	**16.7**	16.1	14.1
Warehousing and assembly	**(1.9)**	(1.8)	(2.0)
Selling	**(6.0)**	(6.7)	(6.9)
General and administrative expense	**(5.8)**	(5.4)	(7.2)
Total operating expenses	**(13.7)**	(13.9)	(16.1)
Operating income (loss)	**3.0**	2.2	(2.0)
Interest expense	**(0.4)**	(1.4)	(1.9)
Income of equity investments	**0.2**	0.1	–
Management fees	**–**	–	–
Gain on sale of equity investment	**5.9**	0.2	1.7
Debt conversion expense	**(2.0)**	(4.4)	–
Expenses related to issuance of warrants	**–**	–	(0.6)
Other income (expense)	**–**	(0.1)	(0.2)
Income tax (expense) recovery	**(3.5)**	(1.0)	0.6
Net income (loss)	**3.3%**	(4.4)%	(2.4)%

Fiscal 1997 Compared to Fiscal 1996

Consolidated Results

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

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

Years Ended November 30,

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

Communication Results

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

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

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

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

Communications

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

Automotive Results

Net sales increased approximately $5,494 compared to last year, an increase of 2.9%. Increases were experienced in security and accessories and were partially offset by a decrease in sound products. A majority of the increase was from the group's international operations, both from an increase in existing business and the formation of a new subsidiary in Venezuela. Automotive sound decreased 6.7% compared to last year, due to the transfer of the Heavy Duty Sound division to a new joint venture. Excluding sound sales from the Heavy Duty Sound division for fiscal 1997 and 1996, sound sales decreased 0.6%. Automotive security and accessories increased 11.7% compared to last year, primarily due to increased sales in Prestige Security, Protector Hardgoods and alarms and video, partially offset by decreases in net sales of AA security and cruise controls. Gross margins increased to 20.8% from 18.9% last year. This increase was experienced in the AV and Private Label sound lines and cruise control, Protector Hardgoods and AA security accessory lines, partially offset by decreases in Prestige Security. Operating expenses increased to $27,989 from $25,559. Selling expenses increased over last year by $1,151, primarily in our international operations, in commissions and advertising. General and administrative expenses increased over 1996 by $1,512, primarily from our international operations, in occupancy, office expenses and bad debt expense. Warehousing and assembly expenses decreased from 1996 by $233, primarily from the transfer of Heavy Duty Sound business to the new joint venture. Pre-tax income for 1997 was $8,002, an increase of $2,303 compared to last year. Without the transfer of the Heavy Duty Sound business, pre-tax income increased $2,796 compared to 1996.

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

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

Automotive

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

Other Income and Expense

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

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

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

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

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

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

Provision for Income Taxes

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

Fiscal 1996 Compared to Fiscal 1995

Net sales increased by approximately $97,175, or 19.4% for fiscal 1996, compared to fiscal 1995. This result was primarily attributable to increases in net sales from the cellular division of approximately $76,413, or 23.9%, automotive security and accessory equipment of approximately $20,418, or 27.9% and other products, primarily home stereo systems of $3,052. These increases were partially offset by a decrease in automotive sound equipment of approximately $2,708, or 2.5%.

The improvement in net sales of cellular telephone products was primarily attributable to an increase in unit sales. Net sales of cellular products increased by approximately 857,000 units, or 70.9%, compared to fiscal 1995, primarily resulting from an increase in sales of hand-held portable cellular telephones and transportable cellular telephones, partially offset by a decline in sales of installed mobile cellular telephones. The average unit selling price declined approximately 23.7% vs. 1995 as production efficiencies and market competition continues to reduce unit selling prices. The Company believes that the shift from installed mobile cellular telephones to hand-held and transportable cellular telephones is reflective of a desire by consumers for increased flexibility in their use of cellular telephones. Toward that end, the Company markets an accessory package that permits its Minivox™ and Minivox Lite® hand-held cellular telephones to be used in an automobile on a hands-free basis and to draw power from the automobile's electrical system like an installed mobile cellular telephone.

Activation commissions decreased by approximately $5,424, or 14.1%, for fiscal 1996 compared to fiscal 1995. This decrease was primarily attributable to fewer new cellular subscriber activations and partially due to fewer retail outlets operated by the Company. The number of activation commissions decreased 21.4% compared to fiscal 1995. This decrease in commission revenue was offset by a 9.3% increase in average activation commissions paid to the Company. Residual revenues on customer usage increased by approximately $47, or 1.0%, for fiscal 1996, compared to fiscal 1995, due primarily to the addition of new subscribers to the Company's cumulative subscriber base, despite a decrease in current year activations. A majority of the residual income resides with the remaining operating retail locations.

Net sales of automotive sound equipment decreased by approximately $2,708, or 2.5%, for fiscal 1996, compared to fiscal 1995. This decrease was attributable primarily to a decrease in sales of products sold to mass merchandise chains and auto sound sales to new car dealers. This decrease was partially offset by increases in sales of sound products to private label customers. Net sales of automotive security and accessory products increased approximately $20,418, or 27.9%, for fiscal 1996, compared to fiscal 1995, principally due to increases in sales of vehicle security products, Protector Hardgoods and cruise controls. This increase was partially offset by a reduction in net sales of AA security products.

Gross margins increased to 16.1% in fiscal 1996 from 14.1% in fiscal 1995. The 1995 gross margin included a $9,300 charge for inventory written down to market at August 31, 1995. Cellular gross margins were 13.2% compared to 9.8% in 1995. Despite a 23.7% decrease in average unit selling prices, the average gross margin per unit increased 25.3%. The number of new subscriber activations decreased 21.4% but was partially offset by a 9.3% increase in average activation commissions earned by the Company. Residuals increased 1.0% compared to 1995. The Company believes that the cellular market will continue to be a highly-competitive and price-sensitive environment. Increased price competition related to the Company's product could result in downward pressure on the Company's gross margins if the Company is unable to obtain competitively priced product from its suppliers or result in adjustments to the carrying value of the Company's inventory.

Automotive sound margins were 19.9%, up from 17.5% in 1995. Most product lines in the category experienced an increase and there was a marked increase in the gross margin on international sales. Automotive accessory margins decreased from 27.9% in 1995 to 24.5% in 1996. This decrease was primarily in the Prestige and cruise control lines.

Total operating expenses increased approximately $2,837, or 3.5%, compared to 1995. As a percentage to sales, total operating expenses decreased to 13.9% during 1996 compared to 16.1% for 1995. Selling expenses increased approximately $5,544, or 16.1%, compared to 1995. Divisional marketing and advertising increased approximately $8,256 compared to 1995 in addition to travel and related expenses. These increases were partially offset by decreases in salesmen's commissions, salesmen's salaries, payroll taxes and employee benefits. General and administrative expenses decreased approximately $3,708 during 1996. The decreases were in occupancy costs, telephone and overseas buying office expenses and were partially offset by increases in office salaries, travel, payroll taxes, employee benefits and professional fees. Warehousing, assembly and repair expenses increased approximately $1,001 compared to1995, predominately in warehousing expenses and direct labor.

Management fees and related income and equity in income from joint venture investments increased by approximately $463 for 1996 compared to 1995 as detailed in the following table:

	1996 Management Fees	1996 Equity Income (Loss)	1996 Total	1995 Management Fees	1995 Equity Income (Loss)	1995 Total
CellStar	–	–	–	–	$ 2,151	$ 2,151
ASMC	–	$ 948	$ 948	–	819	819
G.L.M.	$100	–	100	$ 14	–	14
Pacific	22	(334)	(312)	186	21	207
TALK	–	–	–	–	(2,837)	(2,837)
Quintex West	18	–	18	–	–	–
Posse	46	17	63	–	–	–
	$186	$ 631	$ 817	$200	$ 154	$ 354

This increase was primarily due to non-recurring costs recorded by TALK during 1995, their first full year of operations. This was offset by the Company owning less than 20% of CellStar for the entire fiscal year and, therefore, not accounting for the investment on the equity method. During 1995, the Company owned more than 20% of CellStar until the third quarter and, therefore, accounted for CellStar under the equity method until then. Audiovox Pacific has experienced an overall decline in gross margins, as the cellular market in Australia has experienced the same competitive factors as those in the United States.

Interest expense and bank charges decreased by $1,214, or 12.5%, compared to 1995 as a result of a decrease in interest bearing debt. Other expenses decreased approximately $412 primarily due to the write-off of fixed assets in the retail group during 1995 which did not recur in 1996. Costs associated with the issuance of stock warrants for no monetary consideration to certain holders of the Company's convertible subordinated debentures also did not recur in 1996.

During the fourth quarter of 1996, the Company exchanged $41,252 of its 6 1/4% subordinated debentures for 6,806,580 shares of Class A Common Stock. This exchange resulted in a charge to earnings of approximately $26,318 before income taxes. This charge includes the loss on the exchange and the write-off of the remaining debt issuance costs associated with the original issue of the debentures.

Liquidity and Capital Resources

The Company's cash position at November 30, 1997 was approximately $2,905 below the November 30, 1996 level. Operating activities used approximately $36,899, primarily from increases in inventory and prepaid expenses and other assets, and a decrease in accounts payable, accrued expenses and other current liabilities. These events were partially offset by a decrease in accounts receivable and an increase in income taxes payable. Investing activities provided approximately $37,695, composed primarily of $45,937 from the sale of investment securities, partially offset by the purchase of property, plant and equipment of $3,986 and purchase of equity investments of $4,706. Financing activities used approximately $3,458, principally from the repayment of borrowings under line of credit agreements.

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

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

On May 5, 1995, the Company entered into the Second Amended and Restated Credit Agreement (the Credit Agreement) which superseded the first amendment in its entirety. During 1997 and 1996, the Credit Agreement was amended ten times providing for various changes to the terms. The terms as of November 30, 1997 are summarized below.

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 continue to be guaranteed by certain of the Company's subsidiaries and are secured by accounts receivable and inventory of the Company and those subsidiaries. The obligations were secured at November 30, 1996 by a pledge agreement entered into by the Company for 2,125,000 shares of CellStar Common Stock and 100 shares of ACC. Subsequent to November 30, 1996, the shares of CellStar Common Stock were released from the Pledge Agreement. Availability of credit under the Credit Agreement is a maximum aggregate amount of $95,000, subject to certain conditions, and is based upon a formula taking into account the amount and quality of its accounts receivable and inventory. The Credit Agreement expires on February 28, 2000.

The Credit Agreement contains several covenants requiring, among other things, minimum levels of pre-tax income and minimum levels of net worth as follows: Pre-tax income of $4,000 per annum; pre-tax income of $1,500 for the two consecutive fiscal quarters ending May 31, 1997, 1998 and 1999; pre-tax income of $2,500 for the two consecutive fiscal quarters ending November 30, 1997, 1998 and 1999; the Company cannot have pre-tax losses of more than $1,000 in any quarter; and the Company cannot have pre-tax losses in any two consecutive quarters. In addition, the Company must maintain a minimum level of total net worth of $170,000. The Credit Agreement provides for adjustments to the covenants in the event of certain specified non-operating transaction. Additionally, the agreement includes restrictions and limitations on payments of dividends, stock repurchases and capital expenditures. During 1997, the Company received amendments and waivers to allow the Company to make stock repurchases and enter into the equity collar. Subsequent to year end, the Company received a waiver which allowed for the delay in issuance of its financial statements.

The Company granted to an investor in CellStar, in connection with the CellStar initial public offering, two options to purchase up to an aggregate of 1,750,000 shares of CellStar Common Stock owned by the Company, 1,500,000 of which was exercised in full on June 1, 1995 at an exercise price of $11.50 per share. As a result, the Company recorded a gain, before provision for income taxes, of $8,435. This reduced the Company's ownership in CellStar below 20% and, as such, the Company will no longer account for CellStar under the equity method of accounting. Subsequent to November 30, 1996, the remaining 250,000 shares under the remaining option expired. The remaining 2,375,000 CellStar shares owned by the Company will be accounted for as an investment in marketable equity securities. During 1997, the Company sold 1,835,000 shares of its CellStar shares for a gain of $23,232, net of income tax. The Company continues to hold 865,000 shares of CellStar common stock. Based upon the closing market price of CellStar on November 30, 1997, the unrealized gain in equity is $12,194, net of deferred taxes.

The Company believes that it has sufficient liquidity to satisfy its anticipated working capital and capital expenditure needs through November 30, 1998 and for the reasonable foreseeable future.

Impact of Inflation and Currency Fluctuation

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

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

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

Seasonality

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

Year 2000 Date Conversion

Management believes that a significant portion of its computer systems are year 2000 compliant and is in the process of assessing the balance of its systems. The Company intends to communicate with its customers, suppliers, financial institutions and others with which it does business to ensure that any year 2000 issue will be resolved timely. This issue affects computer systems that have time-sensitive programs that may not properly recognize the year 2000. If necessary modifications and conversions by those with which the Company does business are not completed timely or if all of the Company's systems are not year 2000 compliant, the year 2000 issue may have a material adverse effect on the Company's consolidated financial position, results of operations or liquidity.

Recent Accounting Pronouncements

The Financial Accounting Standards Board (FASB) has issued Statement No. 128, "Earnings per Share" (Statement 128), on December 1, 1997. Under Statement 128, the Company is required to report basic and diluted earnings per share. It will replace the presentation of both primary and fully diluted earnings per share. Statement 128 requires restatement of all prior-period earnings per share data. The provisions of Statement 128 are effective for financial statements issued for periods ending after December 15, 1997, including interim periods, and earlier application is not permitted. The provisions of Statement 128 must be implemented no later than fiscal 1998. The Company believes that Statement 128 will not have an impact on the Company's financial position, results of operations, or liquidity, however, the impact on previously reported earnings per share data is currently unknown.

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

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

AUDIOVOX CORPORATION AND SUBSIDIARIES

Consolidated Balance Sheets

November 30, 1997 and 1996
(In thousands, except share data)

	1997	1996
Assets		
Current assets:		
Cash and cash equivalents	**$ 9,445**	$ 12,350
Accounts receivable, net	**104,698**	118,408
Inventory, net	**105,242**	72,785
Receivable from vendor	**5,000**	4,565
Prepaid expenses and other current assets	**9,230**	7,324
Deferred income taxes	**4,673**	5,241
Equity collar	**1,246**	–
Total current assets	**239,534**	220,673
Investment securities	**22,382**	27,758
Equity investments	**10,693**	5,836
Property, plant and equipment, net	**8,553**	6,756
Debt issuance costs, net	**–**	269
Excess cost over fair value of assets acquired and other intangible assets, net	**5,557**	804
Other assets	**3,108**	3,449
	$ 289,827	$ 265,545
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	**$ 24,237**	$ 28,192
Accrued expenses and other current liabilities	**16,538**	18,961
Income taxes payable	**9,435**	7,818
Bank obligations	**6,132**	4,024
Documentary acceptances	**3,914**	3,501
Total current liabilities	**60,256**	62,496
Bank obligations	**24,300**	31,700
Deferred income taxes	**8,505**	10,548
Long-term debt	**6,191**	28,165
Total liabilities	**99,252**	132,909
Minority interest	**2,683**	1,137
Stockholders' equity:		
Preferred stock	**2,500**	2,500
Common stock:		
Class A; 30,000,000 authorized; 17,253,533 issued	**173**	141
Class B; 10,000,000 authorized; 2,260,954 issued	**22**	22
Paid-in capital	**145,155**	107,833
Retained earnings	**32,924**	11,902
Cumulative foreign currency translation and adjustment	**(3,428)**	(1,176)
Unrealized gain on marketable securities, net	**12,194**	10,277
Unrealized gain on equity collar, net	**773**	–
Treasury stock, 290,000 Class A common stock, at cost	**(2,421)**	–
Total stockholders' equity	**187,892**	131,499
Commitments and contingencies		
Total liabilities and stockholders' equity	**$ 289,827**	$ 265,545

See accompanying notes to consolidated financial statements..

AUDIOVOX CORPORATION AND SUBSIDIARIES

Consolidated Statements of Income (Loss)

Years Ended November 30, 1997, 1996 and 1995
(In thousands, except per share data)

	1997	1996	1995
Net sales	**$ 639,082**	$597,915	$500,740
Cost of sales (including an inventory write-down to market in 1995 of $9,300)	**532,320**	501,527	429,998
Gross profit	**106,762**	96,388	70,742
Operating expenses:			
Selling	**38,044**	40,033	34,489
General and administrative	**37,000**	32,452	36,160
Warehousing, assembly and repair	**12,023**	10,828	9,827
Total operating expenses	**87,067**	83,313	80,476
Operating income (loss)	**19,695**	13,075	(9,734)
Other income (expense):			
Debt conversion expense	**(12,686)**	(26,318)	—
Interest and bank charges	**(2,542)**	(8,480)	(9,694)
Equity in income of equity investments	**1,359**	631	154
Management fees and related income	**109**	186	200
Gain on sale of equity investment	**37,471**	985	8,435
Expense related to issuance of warrants	**–**	—	(2,921)
Other, net	**36**	(714)	(1,126)
Total other income (expense)	**23,747**	(33,710)	(4,952)
Income (loss) before provision for (recovery of) income taxes	**43,442**	(20,635)	(14,686)
Provision for (recovery of) income taxes	**22,420**	5,834	(2,803)
Net income (loss)	**$ 21,022**	$(26,469)	$ (11,883)
Net income (loss) per common share (primary)	**$ 1.09**	$ (2.82)	$ (1.31)
Net income per common share (fully diluted)	**$ 1.05**	—	—

See accompanying notes to consolidated financial statements.

VOX

AUDIOVOX CORPORATION AND SUBSIDIARIES

Consolidated Statements of Stockholders' Equity

Years Ended November 30, 1997, 1996 and 1995
(In thousands)

	Preferred Stock	Common Stock	Paid-In Capital	Unearned Compen-sation	Retained Earnings	Cumulative Foreign Currency Translation Adjustment	Treasury Stock	Unrealized Gain on Equity Collar	Unrealized Gain (Loss) On Marketable Secur-ities	Total Stock-holders Equity
Balances at November 30, 1994	2,500	90	40,338	(623)	50,254	(525)	–	–	–	92,034
Net loss	–	–	–	–	(11,883)	–	–	–	–	(11,883)
Equity adjustment from foreign currency translation	–	–	–	–	–	(438)	–	–	–	(438)
Unearned compensation relating to grant of options and non-performance restricted stock	–	–	62	(62)	–	–	–	–	–	–
Compensation expense	–	–	46	194	–	–	–	–	–	240
Options and non-performance restricted stock forfeitures due to employee terminations	–	–	(81)	81	–	–	–	–	–	–
Issuance of warrants	–	–	2,921	–	–	–	–	–	–	2,921
Implementation of change in accounting for debt and equity securities, net of tax effect of $24,517	–	–	–	–	–	–	–	–	40,004	40,004
Net unrealized loss on marketable securities, net of tax effect of $(5,076)	–	–	–	–	–	–	–	–	(8,283)	(8,283)
Balances at November 30, 1995	2,500	90	43,286	(410)	38,371	(963)	–	–	31,721	114,595
Net loss	–	–	–	–	(26,469)	–	–	–	–	(26,469)
Equity adjustment from foreign currency translation	–	–	–	–	–	(213)	–	–	–	(213)
Compensation expense	–	–	39	258	–	–	–	–	–	297
Options and non-performance restricted stock forfeitures due to employee terminations	–	–	(27)	27	–	–	–	–	–	–
Issuance of 250,000 shares of common stock	–	3	–	–	–	–	–	–	–	3
Conversion of debentures into 7,012,626 shares of common stock	–	70	64,660	–	–	–	–	–	–	64,730
Net unrealized loss on marketable securities, net of tax effect of ($13,143)	–	–	–	–	–	–	–	–	(21,444)	(21,444)
Balance at November 30, 1996	2,500	163	107,958	(125)	11,902	(1,176)	–	–	10,277	131,499
Net income	**–**	**–**	**–**	**–**	**21,022**	**–**	**–**	**–**	**–**	**21,022**
Equity adjustment from foreign currency translation	**–**	**–**	**–**	**–**	**–**	**(2,252)**	**–**	**–**	**–**	**(2,252)**
Compensation expense	**–**	**–**	**118**	**17**	**–**	**–**	**–**	**–**	**–**	**135**
Options and non-performance restricted stock forfeitures due to employee terminations	**–**	**–**	**(23)**	**23**	**–**	**–**	**–**	**–**	**–**	**–**
Issuance of 352,194 shares of common stock	**–**	**3**	**3,489**	**–**	**–**	**–**	**–**	**–**	**–**	**3,492**
Conversion of debentures into 2,860,925 shares	**–**	**29**	**33,592**	**–**	**–**	**–**	**–**	**–**	**–**	**33,621**
Issuance of warrants	**–**	**–**	**106**	**–**	**–**	**–**	**–**	**–**	**–**	**106**
Acquisition of 290,000 common shares	**–**	**–**	**–**	**–**	**–**	**–**	**(2,421)**	**–**	**–**	**(2,421)**
Net unrealized gain on marketable securities, net of tax effect of $1,174	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**1,917**	**1,917**
Unrealized gain on equity collar, net of tax effect of $473	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**773**	**–**	**773**
Balances at November 30, 1997	**2,500**	**195**	**145,240**	**(85)**	**32,924**	**(3,428)**	**(2,421)**	**773**	**12,194**	**187,892**

See accompanying notes to consolidated financial statements.

VOX

AUDIOVOX CORPORATION AND SUBSIDIARIES

Consolidated Statements of Cash Flows

Years Ended November 30, 1997, 1996 and 1995
(In thousands)

	1997	1996	1995
Cash flows from operating activities:			
Net income (loss)	**$ 21,022**	$ (26,469)	$ (11,883)
Adjustment to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Debt conversion expense	**12,386**	25,629	—
Depreciation and amortization	**1,903**	3,298	4,100
Provision for bad debt expense	**1,300**	429	1,816
Equity in income of equity investments	**(1,468)**	(614)	(154)
Minority interest	**1,623**	767	225
Gain on sale of equity investment	**(37,471)**	(985)	(8,435)
Provision for (recovery of) deferred income taxes	**(3,123)**	468	(5,158)
Provision for unearned compensation	**135**	297	240
Expense relating to issuance of warrants	**106**	—	2,921
(Gain) loss on disposal of property, plant and equipment, net	**(9)**	(32)	246
Changes in:			
Accounts receivable	**6,853**	(21,848)	(4,468)
Note receivable from equity investment	**–**	532	(5,097)
Inventory	**(36,823)**	27,688	(16,950)
Accounts payable, accrued expenses and other current liabilities	**(2,855)**	12,445	488
Income taxes payable	**2,181**	5,360	1,623
Prepaid expenses and other, net	**(2,659)**	(2,954)	250
Net cash provided by (used in) operating activities	**(36,899)**	24,011	(40,236)
Cash flows from investing activities:			
Purchase of equity investments	**(4,706)**	—	—
Purchases of property, plant and equipment, net	**(3,986)**	(2,805)	(2,722)
Net proceeds from sale of investment securities	**45,937**	1,000	17,250
Proceeds from distribution from equity investment	**450**	317	267
Net cash provided by (used in) investing activities	**37,695**	(1,488)	14,795
Cash flows from financing activities:			
Net borrowings (repayments) under line of credit agreements	**(3,765)**	(14,040)	19,577
Net borrowings (repayments) under documentary acceptances	**413**	(3,620)	7,120
Principal payments on long-term debt	**–**	(5,029)	(11)
Debt issuance costs	**(13)**	(392)	(714)
Principal payments on capital lease obligation	**–**	(158)	(233)
Proceeds from issuance of long-term debt	**–**	—	675
Proceeds from issuance of Class A Common Stock	**2,328**	—	—
Repurchase of Class A Common Stock	**(2,421)**	—	—
Proceeds from release of restricted cash	**–**	5,959	600
Net cash provided by (used in) financing activities	**(3,458)**	(17,280)	27,014
Effect of exchange rate changes on cash	**(243)**	31	8
Net increase in cash and cash equivalents	**(2,905)**	5,274	1,581
Cash and cash equivalents at beginning of period	**12,350**	7,076	5,495
Cash and cash equivalents at end of period	**$ 9,445**	$ 12,350	$ 7,076

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

November 30, 1997, 1996 and 1995
(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 cellular telephones and accessories, automotive aftermarket sound and security equipment, other automotive aftermarket accessories, and certain other products, principally in the United States, Canada, and overseas. In addition to generating product revenue from the sale of cellular telephone products, the Company's retail outlets, as agents for cellular carriers, are paid activation commissions and residual fees from such carriers.

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

(b) Principles of Consolidation

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

(c) Cash Equivalents

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

(d) Cash Discount and Co-operative Advertising Allowances

The Company accrues for estimated cash discounts and trade and promotional co-operative advertising allowances 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 third quarter of 1995, the Company recorded a charge of approximately $9,300 to accurately reflect the Company's inventory at the lower of cost or market. No estimate can be made of losses that are reasonably possible should additional write-downs to market be required in the future.

(f) Derivative Financial Instruments

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

(1) Forward Exchange Contracts

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

Gains and losses on the forward exchange contracts that qualify as hedges are reported as a component of the underlying transaction. Foreign currency transactions which have not been hedged are marked-to-market on a current basis with gains and losses recognized through income and reflected in other income (expense). In addition, any previously deferred gains and losses on hedges which are terminated prior to the transaction date are recognized in current income when the hedge is terminated (Note 16(a)(1)).

(2) Equity Collar

The Company has an equity collar for 100,000 of its shares in CellStar Corporation (CellStar) (Note 6). 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 stockholders' equity (Note 16(a)(2)). The equity collar acts as a hedging item for the CellStar shares. Being that the item being hedged, the CellStar shares, is an available-for-sale security carried at fair market value with unrealized gains and losses recorded as a separate component of stockholders' equity, the unrealized gains and losses on the equity collar are also recorded as a separate component of stockholders' equity.

(g) Investment Securities

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

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

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

(h) Debt Issuance Costs

Costs incurred in connection with the issuance of the convertible subordinated debentures and restructuring of the Series A and Series B convertible subordinated notes (Note 10) and the restructuring of bank obligations (Note 9(a)) have been capitalized. These charges are amortized over the lives of the respective agreements. Amortization expense of these costs amounted to $37, $1,109, and $1,319 for the years ended November 30, 1997, 1996 and 1995, respectively. During 1997 and 1996, the Company wrote off $245 and $3,249, respectively, of debt issuance costs (Note 10).

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

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

(j) Intangible Assets

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

Accumulated amortization approximated $1,759 and $1,413 at November 30, 1997 and 1996, respectively. Amortization of the excess cost over fair value of assets acquired and other intangible assets amounted to $363, $145, and $127 for the years ended November 30, 1997, 1996, and 1995, respectively. During 1997, the Company made investments in two companies that resulted in additional excess cost over fair value of assets acquired (Note 8).

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

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

(k) Equity Investments

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

(l) Cellular Telephone Commissions

Under various agreements, the Company typically receives an initial activation commission for obtaining subscribers for cellular telephone services. Additionally, the agreements typically contain provisions for commissions based upon usage and length of continued subscription. The agreements also typically 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, $37,930, and $43,307 for the years ended November 30, 1997, 1996, and 1995, respectively. Related commissions paid to outside selling representatives for cellular activations are reflected as cost of sales in the accompanying consolidated statements of income (loss) and amounted to $19,924, $20,443, and $15,374 for the years ended November 30, 1997, 1996, and 1995, respectively.

(m) Advertising

The Company expenses the production costs of advertising as incurred and expenses the costs of communicating advertising when the service is received. During the years ended November 30, 1997, 1996, and 1995, 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, 1997 and 1996, the liability for future warranty expense amounted to $2,257 and $2,618, respectively.

(o) Foreign Currency

Assets and liabilities of those subsidiaries and equity investments located outside the United States whose cash flows are primarily in local currencies have been translated at rates of exchange at the end of the period. Revenues and expenses have been translated at the weighted average rates of exchange in effect during the period. Gains and losses resulting from translation are accumulated in the cumulative foreign currency translation account in stockholders' equity. Exchange gains and losses on hedges of foreign net investments and on intercompany balances of a long-term investment nature are also recorded in the cumulative foreign currency translation adjustment account. Other foreign currency transaction gains and losses are included in net income, none of which were material for the years ended November 30, 1997, 1996, and 1995.

(p) Income Taxes

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

(q) Net Income (Loss) Per Common Share

Primary earnings per share are computed based on the weighted average number of common shares outstanding and common stock equivalents. The Company did not present fully-diluted earnings per share for the years ended November 30, 1996 and 1995 as the addition of potentially dilutive securities would result in anti-dilution.

The following weighted average shares were used for the computation of primary and fully-diluted earnings per share:

	For the Years Ended November 30,		
	1997	1996	1995
Primary	**19,295,346**	9,398,352	9,038,742
Fully diluted	**20,112,523**	—	—

The Company will adopt the provisions of Statement of Financial Accounting Standards (SFAS) No. 128, "Earnings per Share", on December 1, 1997. Adoption of SFAS No. 128 will not have an impact on the Company's financial position, results of operations or liquidity, however, the impact on previously reported earnings per share data is currently unknown.

(r) Supplementary Financial Statement Information

Advertising expenses approximated $16,981, $21,794, and $13,538 for the years ended November 30, 1997, 1996, and 1995, respectively.

Interest income of approximately $1,525, $1,097, and $1,047 for the years ended November 30, 1997, 1996, and 1995, respectively, is included in other in the accompanying consolidated statements of income (loss).

Included in accrued expenses and other current liabilities is $4,091 and $4,405 of accrued wages and commissions at November 30, 1997 and 1996, respectively.

(s) Use of Estimates

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

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

On December 1, 1996, the Company adopted SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of." SFAS No. 121 requires that long-lived assets and certain identifiable intangibles be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by comparison of the carrying amount of an asset to the future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceed the fair value of assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less cost to sell. Adoption of SFAS No. 121 did not have a material impact on the Company's financial position, results of operations or liquidity.

(u) Accounting for Stock-Based Compensation

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

(2) Business Acquisitions/Dispositions

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

In April 1996, the Company formed Audiovox Holdings (M) Sdn. Bhd. (Audiovox Holdings) and Audiovox Communications (Malaysia) Sdn. Bhd. (Audiovox Communications), which are 80% and 72%-owned subsidiaries of Audiovox Asia, Inc. (Audiovox Asia), respectively, which, in turn, is a wholly-owned subsidiary of the Company. In July 1994, the Company formed Audiovox (Thailand) Co., Ltd., a 100%-owned subsidiary of Audiovox Asia. In 1996, Audiovox Communications formed Vintage Electronics Holdings (Malaysia) Sdn. Bhd., a wholly-owned subsidiary. The Company formed these subsidiaries to assist in its planned expansion of its international business.

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

(3) Supplemental Cash Flow Information

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

	For the Years Ended November 30,		
	1997	1996	1995
Cash paid during the years for:			
Interest	**$ 1,560**	$7,666	$9,224
Income taxes	**$23,530**	$ 272	$ 818

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

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

As of November 30, 1997, the Company recorded an unrealized holding gain relating to the equity collar, net of deferred income taxes, of $773 as a separate component of stockholders' equity (Note 16).

As of November 30, 1997 and 1996, the Company recorded an unrealized holding gain relating to available-for-sale marketable equity securities, net of deferred income taxes, of $12,194 and $10,277, respectively, as a separate component of stockholders' equity (Note 6).

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

On November 25, 1996, the Company completed an exchange of $41,252 of its $65,000 6 1/4% convertible subordinated debentures into 6,806,580 shares of Common Stock (Note 10).

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

During 1995, the Company contributed $36 of property, plant, and equipment in exchange for a 50% ownership interest in a newly-formed joint venture (Note 8).

(4) Transactions With Major Suppliers

The Company engaged in transactions with Shintom Co., Ltd. (Shintom), a stockholder who owned approximately 1.7% at November 30, 1996 of the outstanding Class A Common Stock and all of the outstanding Preferred Stock of the Company at November 30, 1997 and 1996. During 1994, the Company formed TALK Corporation (TALK), a 30.8%-owned joint venture in Japan (Note 8), with Shintom and other companies.

Transactions with Shintom and TALK included financing arrangements and inventory purchases which approximated 26% and 20% for the years ended November 30, 1996 and 1995, respectively, of total inventory purchases. Transactions with TALK included financing arrangements and inventory purchases which approximated 29% for the year ended November 30, 1997 of total inventory purchases. At November 30, 1997 and 1996, the Company had recorded $9,702 and $3,501, respectively, of liabilities due to TALK for inventory purchases included in accounts payable. The Company also has documentary acceptance obligations outstanding from TALK as of November 30, 1997 and 1996 (Note 9(b)). At November 30, 1996, the Company had recorded a receivable from TALK in the amount of $4,565 payable with interest (Note 8).

Inventory purchases from a major supplier approximated 32%, 28%, and 44% of total inventory purchases for the years ended November 30, 1997, 1996, and 1995, respectively. Although there are a limited number of manufacturers of its products, management believes that other suppliers could provide similar products on comparable terms. A change in suppliers, however, could cause a delay in product availability and a possible loss of sales, which would affect operating results adversely.

(5) Accounts Receivable

Accounts receivable is comprised of the following:

	November 30, 1997	1996
Trade accounts receivable	**$113,498**	$127,854
Receivables from equity investments (Note 8)	**1,921**	2,626
	115,419	130,480
Less:		
Allowance for doubtful accounts	**3,497**	3,115
Allowance for cellular deactivations	**1,363**	1,666
Allowance for co-operative advertising and cash discounts	**5,861**	7,291
	$104,698	$118,408

See Note 16(c) for concentrations of credit risk.

(6) Investment Securities

The Company's investment securities consist primarily of 865,000 and 2,375,000 shares of CellStar Common Stock, which were classified as available-for-sale marketable equity securities at November 30, 1997 and 1996, respectively. The aggregate fair value of available-for-sale marketable equity securities were $22,382 and $27,758 at November 30, 1997 and 1996, respectively, which is comprised of a cost basis of $2,715 and $11,181 and a gross unrealized holding gain of $19,667 and $16,577 recorded as a separate component of stockholders' equity at November 30, 1997 and 1996, respectively. A related deferred tax liability of $7,473 and $6,300 was recorded at November 30, 1997 and 1996, respectively, as a reduction to the unrealized holding gain included as a separate component of stockholders' equity.

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

(7) Property, Plant, and Equipment

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

	November 30, 1997	1996
Land	**$ 363**	$ 363
Buildings	**2,099**	1,782
Furniture, fixtures and displays	**3,418**	3,277
Machinery and equipment	**4,341**	3,221
Computer hardware and software	**14,307**	12,658
Automobiles	**800**	954
Leasehold improvements	**3,510**	3,454
	28,838	25,709
Less accumulated depreciation and amortization	**(20,285)**	(18,953)
	$ 8,553	$ 6,756

Computer software includes approximately $1,672 and $690 of unamortized costs as of November 30, 1997 and 1996, respectively, related to the acquisition and installation of management information systems for internal use which are being amortized over a five-year period.

Depreciation and amortization of plant and equipment amounted to $1,503, $2,044, and $2,654 for the years ended November 30, 1997, 1996, and 1995, respectively, which includes amortization of computer software costs of $19, $364, and $922 for the years ended November 30, 1997, 1996, and 1995, respectively.

(8) Equity Investments

As of November 30, 1997, the Company had a 30.8% ownership interest in TALK. As of November 30, 1997, the Company's 72% owned subsidiary, Audiovox Communications, had a 29% ownership interest in Avx Posse (Malaysia) Sdn. Bhd. (Posse) which monitors car security commands through a satellite based system in Malaysia. As of November 30, 1997, the Company had a 20% ownership interest in Bliss-Tel which distributes cellular telephones and accessories in Thailand. Additionally, the Company had 50% non-controlling ownership interests in five other entities: Protector Corporation (Protector) which acts as a distributor of chemical protection treatments; ASA which acts as a distributor to specialized markets for RV's and van conversions, of televisions and other automotive sound, security, and accessory products; Audiovox Pacific Pty., Limited (Audiovox Pacific) which distributes cellular telephones and automotive sound and security products in Australia and New Zealand; G.L.M. Wireless Communications, Inc. (G.L.M.) which is in the cellular telephone, pager, and communications business in the New York metropolitan area; and Quintex Communications West, LLC (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.

On June 1, 1995, at an exercise price of $11.50 per share, an option to purchase up to an aggregate of 1,500,000 shares of CellStar Common Stock owned by the Company was exercised. As a result, the Company recorded a gain, before provision for income taxes, of approximately $8,400. This reduced the Company's ownership in CellStar below 20% and, as such, the Company discontinued the equity method of accounting for CellStar. The remaining CellStar shares owned by the Company are accounted for as an investment in marketable equity securities (Note 6).

The following table presents financial information relating to CellStar for the year ended November 30, 1995:

	1995
Current assets	$271,156
Non-current assets	43,765
Current liabilities	196,746
Non-current liabilities	6,880
Net sales	811,915
Gross profit	109,841
Net income	22,896

In August 1994, the Company invested 600 million Japanese Yen (approximately $6,000) into a newly-formed company, TALK, in exchange for 12,000 shares of TALK, representing a 33% ownership interest. Five million dollars of this investment was financed by a non-recourse note with a third party lender, which provides for the repayment of the note either in cash or by surrendering 10,000 shares in TALK. During 1997 and 1996, additional investments were made by outside investors reducing the Company's ownership to 30.8%. The Company accounts for its investment in TALK under the equity method of accounting.

TALK, which holds world-wide distribution rights for product manufactured by Shintom, has given the Company exclusive distribution rights on all wireless personal communication products for all countries except Japan, China, Thailand, and several mid-eastern countries. The Company granted Shintom a license agreement permitting the use of the Audiovox trademark to be used with TALK video cassette recorders sold in Japan from August 29, 1994 to August 28, 1997, in exchange for royalty fees. For the years ended November 30, 1997, 1996 and 1995, no such royalty fees were earned by the Company.

On July 31, 1995, the Company purchased a 50% equity investment in a newly-formed company, G.L.M., for approximately $36 in contributed assets. In addition, the Company has guaranteed certain obligations of G.L.M. (Note 16(b)).

On December 1, 1995, the Company purchased a 50% equity investment in a newly-formed company, Quintex West, for approximately $97 in contributed assets.

During 1997, the Company purchased a 20% equity investment in Bliss-Tel in exchange for 250,000 shares of the Company's Class A Common Stock and a credit for open accounts receivable of $1,250. The issuance of the common stock resulted in an increase to additional paid-in capital of approximately $1,248. The investment in Bliss-Tel will be accounted for under the equity method of accounting.

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 effective date of the registration statement filed with the Securities and Exchange Commission to register such shares. The adjustment to the selling price will equal the loss incurred by the Investor up to a maximum of 50% of the shares. In the event the Company does make an adjustment to the shares, additional goodwill will be recorded as the adjustment represents contingent consideration. The Company received the following management fees and related income from its equity investments:

	November 30,		
	1997	1996	1995
Pacific	**–**	$ 22	$ 186
G.L.M.	**$ 12**	100	14
Quintex West	**–**	18	–
Posse	**97**	46	–
	$109	$186	$200

The Company's net sales to the equity investments amounted to $6,132, $6,483, and $17,864 for the years ended November 30, 1997, 1996, and 1995, respectively. The Company's purchases from the equity investments amounted to $144,488, $115,109, and $83,858 for the years ended November 30, 1997, 1996, and 1995, respectively. The Company recorded $2,027 and $2,130 of outside representative commission expenses for activations and residuals generated by G.L.M. on the Company's behalf during fiscal year 1997 and 1996, respectively, (Note 1(l)).

Included in accounts receivable at November 30, 1997 and 1996 are trade receivables due from its equity investments aggregating $1,921 and $2,576, respectively. At November 30, 1996, a management fee receivable of $50 was also included in accounts receivable. Receivable from vendor is interest bearing and represents claims on late deliveries, product modifications, and price protection from TALK as well as prepayments on product shipments. Interest is payable in monthly installments at rates which range from 6.5% to 8%. Amounts representing prepayments of $5,000 were repaid via receipt of product shipments in December 1997. At November 30, 1997 and 1996, other long-term assets include equity investment advances outstanding and management fee receivables of $1,496 and $1,634, respectively. At November 30, 1997 and 1996, included in accounts payable and other accrued expenses were obligations to equity investments aggregating $9,783 and $3,773, respectively. Documentary acceptance obligations were outstanding from TALK at November 30, 1997 (Note 9(b)).

During 1997, the Company recorded interest income from TALK relating to the receivable from vendor, reimbursement of interest expense incurred under the subordinated loan to hedge the TALK investment (Note 10), and other short-term loans made to TALK during 1997 at market interest rates. For the years ended November 30, 1997, 1996, and 1995, interest income earned on equity investment notes and other receivables approximated $653, $725, and $573, respectively. Interest expense on equity investment documentary acceptances approximated $203 and $198 in 1997 and 1996, respectively.

(9) Financing Arrangements

(a) Bank Obligations

During 1993, the Company had established a revolving credit agreement with several financial institutions which was first amended on March 15, 1994. On May 5, 1995, the Company entered into the Second Amended and Restated Credit Agreement (the Credit Agreement) which superseded the first amendment in its entirety. During 1997, the Credit Agreement was amended four times providing for various changes to the terms. The terms as of November 30, 1997 are summarized below.

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 continue to be guaranteed by certain of the Company's subsidiaries and is secured by accounts receivable and inventory of the Company and those subsidiaries. The obligations were secured at November 30, 1997 by a pledge agreement entered into by the Company for 100 shares of ACC. Availability of credit under the Credit Agreement is a maximum aggregate amount of $95,000, subject to certain conditions, and is based upon a formula taking into account the amount and quality of its accounts receivable and inventory. The Credit Agreement expires on February 28, 2000. As a result, bank obligations under the Credit Agreement have been classified as long-term at November 30, 1997.

Outstanding obligations under the Credit Agreement at November 30, 1997 and 1996 were as follows:

	November 30,	
	1997	1996
Revolving Credit Notes	**$18,300**	$ 11,700
Eurodollar Notes	**6,000**	20,000
	$24,300	$31,700

For the year ended November 30, 1995 through and including February 8, 1996, interest on revolving credit notes were .25% above the prime rate, which was 8.75% at November 30, 1995. For the same period, interest on Eurodollar Notes were 2% above the Libor rate which was approximately 5.1% at November 30, 1995 and interest on bankers' acceptances were 2% above the bankers' acceptance rate which was approximately 6.25% at November 30, 1995. Pursuant to an amendment on February 9, 1996, the interest rates were increased to the following: revolving credit notes at .50% above the prime rate, which was approximately 8.5% at November 30, 1997 and Eurodollar Notes at 2.75% above the Libor rate which was approximately 5.97% at November 30, 1997. Interest on bankers' acceptances remained at 2% above the bankers' acceptance rate which was approximately 5.77% at November 30, 1997. The maximum commitment fee on the unused portion of the line of credit is .25% as of November 30, 1997.

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 1997, the Company received amendments and waivers to allow the Company to make stock repurchases (Note 12) and enter into the equity collar (Note 16(a)(2)). Subsequent to year end, the Company received a waiver which allowed for the delay in issuance of its financial statements.

The Company also has a revolving credit facility with a Malaysian bank (Malaysian Credit Agreement) to finance additional working capital needs. As of November 30, 1997 and 1996, the available line of credit for direct borrowing, letters of credit, bankers' acceptances and other forms of credit approximated $8,017 and $9,320, respectively. The credit facility is partially secured by two standby letters of credit totaling $5,320, issued under the Credit Agreement by the Company and is payable upon demand or upon expiration of the standby letters of credit on August 31, 1998. The obligations of the Company under the Malaysian Credit Agreement are secured by the property and building owned by Audiovox Communications. Outstanding obligations under the Malaysian Credit Agreement at November 30, 1997 and 1996 were approximately $4,146 and $4,024, respectively. At November 30, 1997, interest on the credit facility ranged from 8.25% to 11.10%. At November 30, 1996, interest on the credit facility ranged from 9.25% to 9.52%.

On October 28, 1997, Audiovox Venezuela issued a note payable to a Venezuelan bank in the amount of 994,000 Venezuelan Bolivars (approximately $1,986 at November 30, 1997) to finance additional working capital needs. The note is scheduled to be repaid within one year and as such, is classified as short-term. Interest on the note payable is 20%. The note payable is secured by a standby letter of credit in the amount of $2,000, issued under the Credit Agreement by the Company and is payable upon demand or upon expiration of the standby letter of credit on August 31, 1998.

The maximum month-end amounts outstanding under the Credit Agreement and Malaysian Credit Agreement borrowing facilities during the years ended November 30, 1997, 1996, and 1995 were $28,420, $44,213, and $59,315, respectively. Average borrowings during the years ended November 30, 1997, 1996, and 1995 were $11,478, $33,662, and $43,470, respectively, and the weighted average interest rates were 11.3%, 8.9%, and 8.7%, respectively.

(b) Documentary Acceptances

During 1997, 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, 1997, $3,914 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, 1996, and 1995 were $4,162, $9,792, and $9,977, respectively. Average borrowings during the years ended November 30, 1997, 1996, and 1995 were $3,199, $5,845, and $5,876, respectively, and the weighted average interest rates, including fees, were 6.3%, 5.1%, and 4.4%, respectively.

(10) Long-Term Debt

A summary of long-term debt follows:

	November 30,	
	1997	1996
Convertible subordinated debentures:		
6 1/4%, due 2001, convertible at		
$17.70 per share	**$2,269**	$23,748
Subordinated note payable	**3,922**	4,417
	6,191	28,165
Less current installments	**–**	–
	$6,191	$28,165

On March 15, 1994, the Company completed the sale of $65,000, 6 1/4% convertible subordinated debentures (Subordinated Debentures) due 2001 and entered into an Indenture Agreement. The Subordinated Debentures are convertible into shares of the Company's Class A Common Stock, par value $.01 per share at an initial conversion price of $17.70 per share, subject to adjustment under certain circumstances. The Indenture Agreement contains various covenants. The bonds are subject to redemption by the Company in whole, or in part, at any time after March 15, 1997, at certain specified amounts. On May 9, 1995, the Company issued warrants to certain beneficial holders of these Subordinated Debentures (Note 13(d)).

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

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

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

On October 20, 1994, the Company issued a note payable for 500,000 Japanese Yen (approximately $3,922 and $4,417 on November 30, 1997 and 1996, respectively) to finance its investment in TALK (Note 8). The note is scheduled to be repaid on October 20, 2004 and bears interest at 4.1%. The note can be repaid by cash payment or by giving 10,000 shares of its TALK investment to the lender. The lender has an option to acquire 2,000 shares of TALK held by the Company in exchange for releasing the Company from 20% of the face value of the note at any time after October 20, 1995. This note and the investment in TALK are both denominated in Japanese Yen, and, as such, the foreign currency translation adjustments are accounted for as a hedge. Any foreign currency translation adjustment resulting from the note will be recorded in stockholders' equity to the extent that the adjustment is less than or equal to the adjustment from the translation of the investment in TALK. Any portion of the adjustment from the translation of the note that exceeds the adjustment from the translation of the investment in TALK is a transaction gain or loss that will be included in earnings.

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

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

1998	–
1999	–
2000	–
2001	$2,269
2002	–

(11) Income Taxes

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

	November 30, 1997	1996	1995
Domestic Operations	**$42,613**	$(21,899)	$(12,424)
Foreign Operations	**829**	1,264	(2,262)
	$43,442	$(20,635)	$(14,686)

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

	November 30, 1997	1996
Income (loss) from continuing operations	**$22,420**	$ 5,834
Stockholders' equity		
Unrealized holding gain (loss) on investment securities recognized for financial reporting purposes	**1,174**	(13,143)
Unrealized holding gain on equity collar recognized for financial reporting purposes	**473**	–
Total income tax expense (recovery)	**$24,067**	$(7,309)

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

	Federal	Foreign	State	Total
1995:				
Current	$ 1,455	$ 570	$ 330	$ 2,355
Deferred	(4,189)	–	(969)	(5,158)
	$(2,734)	$ 570	$ (639)	$(2,803)
1996:				
Current	$ 3,711	$ 802	$ 853	$ 5,366
Deferred	330	–	138	468
	$ 4,041	$ 802	$ 991	$ 5,834
1997:				
Current	**$23,316**	**$1,159**	**$1,068**	**$25,543**
Deferred	**(2,845)**	**–**	**(278)**	**(3,123)**
	$20,471	**$1,159**	**$ 790**	**$22,420**

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

	November 30, 1997		1996		1995	
Tax provision (recovery) at Federal statutory rates	**$15,205**	**35.0%**	$(7,222)	(35.0)%	$(5,140)	(35.0)%
Expense relating to exchange of subordinated debentures	**4,578**	**10.5**	11,421	55.3	–	–
Undistributed earnings from equity investments	**123**	**0.3**	128	0.6	1,330	9.1
State income taxes, net of Federal benefit	**1,637**	**3.8**	275	1.3	(415)	(2.8)
(Decrease) increase in beginning-of-the-year balance of the valuation allowance for deferred tax assets	**(180)**	**(0.4)**	1,270	6.2	644	4.3
Foreign tax rate differential	**323**	**0.7**	30	0.1	(34)	(0.2)
Expense relating to the issuance of warrants	**–**	**–**	–	–	1,022	6.9
Other, net	**734**	**1.7**	(68)	(0.2)	(210)	(1.4)
	$22,420	**51.6%**	$ 5,834	28.3%	$(2,803)	(19.1)%

The significant components of deferred income tax expense (recovery) for the years ended November 30, 1997 and 1996 are as follows:

	November 30, 1997	1996
Deferred tax recovery (exclusive of the effect of other components listed below)	**$(2,938)**	$ (802)
(Decrease) increase in beginning-of-the-year balance of the valuation allowance for deferred tax assets	**(180)**	1,270
	$(3,118)	$ 468

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, 1997	1996
Deferred tax assets:		
Accounts receivable, principally due to allowance for doubtful accounts and cellular deactivations	**$ 1,483**	$ 1,593
Inventory, principally due to additional costs capitalized for tax purposes pursuant to the Tax Reform Act of 1986	**439**	306
Inventory, principally due to valuation reserve	**941**	930
Accrual for future warranty costs	**830**	978
Plant, equipment, and certain intangibles, principally due to depreciation and amortization	**719**	714
Net operating loss carryforwards, state and foreign	**2,662**	2,458
Accrued liabilities not currently deductible	**405**	491
Other	**381**	664
Total gross deferred tax assets	**7,860**	8,134
Less: valuation allowance	**(2,713)**	(2,893)
Net deferred tax assets	**5,147**	5,241
Deferred tax liabilities:		
Equity investments, principally due to undistributed earnings	**(8,506)**	(10,548)
Equity collar	**(473)**	–
Total gross deferred tax liabilities	**(8,979)**	(10,548)
Net deferred tax liability	**$(3,832)**	$ (5,307)

The net change in the total valuation allowance for the year ended November 30, 1997 was a decrease of $180. A valuation allowance is provided when it is more likely than not that some portion, or all, of the deferred tax assets will not be realized. The Company has established valuation allowances primarily for net operating loss carryforwards in certain states and foreign countries as well as other deferred tax assets in foreign countries. Based on the Company's ability to carry back future reversals of deferred tax assets to taxes paid in current and prior years and the Company's historical taxable income record, adjusted for unusual items, management believes it is likely that the Company will realize the benefit of the net deferred tax assets existing at November 30, 1997. 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, 1997, the Company had net operating loss carryforwards for state and foreign income tax purposes of approximately $21,851, which are available to offset future state and foreign taxable income, if any, which will expire through the year ended November 30, 2011.

(12) Capital Structure

The Company's capital structure is as follows:

Security	Par Value	Shares Authorized November 30, 1997	1996	Shares Issued and Outstanding November 30, 1997	1996	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	**16,963,533**	14,040,414	One	Ratably with Class B
Class B Common Stock	0.01	**10,000,000**	10,000,000	**2,260,954**	2,260,954	Ten	Ratably with Class A

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

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

On May 16, 1997, the Company's Board of Directors approved the repurchase of 1,000,000 shares of the Company's Class A Common Stock in the open market under a share repurchase program (the Program). As of November 30, 1997, 290,000 shares were repurchased under the Program at an average price of $8.35 per share for an aggregate amount of $2,421. Subsequent to November 30, 1997, 50,000 shares have been repurchased under the Program at an average price of $7.37 per share for an aggregate amount of $368.

As of November 30, 1997 and 1996, 969,500 shares of the Company's Class A Common Stock are reserved for issuance under the Company's Stock Option and Restricted Stock Plans and 5,491,192 for all convertible securities and warrants outstanding at November 30, 1997 and 1996 (Notes 10 and 13).

Undistributed earnings from equity investments included in retained earnings amounted to $1,564 and $3,728 at November 30, 1997 and 1996, respectively.

(13) Common Stock and Compensation Plans

(a) 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.

Compensation expense is recorded with respect to the options based upon the quoted market value of the shares and the exercise provisions at the date of grant. Compensation expense for the year ended November 30, 1996 and 1995 was $97 and $113, respectively. No compensation expense was recorded for the year ended November 30, 1997.

Information regarding the Company's stock option plans is summarized below:

	Number of Shares	Weighted Average Exercise Price
Outstanding at		
November 30, 1994	313,000	11.72
Granted	279,000	5.88
Exercised	–	–
Canceled	(33,750)	11.76
Outstanding at		
November 30, 1995	558,250	8.80
Granted	–	–
Exercised	–	–
Canceled	(9,500)	10.17
Outstanding at		
November 30, 1996	548,750	8.78
Granted	1,260,000	7.09
Exercised	–	–
Canceled	(109,000)	10.95
Outstanding at		
November 30, 1997	**1,699,750**	**7.38**
Options exercisable,		
November 30, 1997	**166,750**	**12.10**

At November 30, 1997 and 1996, 190,250 and 341,250 shares, respectively, were available for future grants under the terms of these plans.

The Company adopted SFAS No. 123 in fiscal 1997. The Company has elected to disclose the pro forma net earnings and earnings per share as if such method had been used to account for stock-based compensation costs as described in SFAS No. 123.

The per share weighted average fair value of stock options granted during 1997 was $5.73 on the date of the grant using the Black-Scholes option-pricing model with the following weighted average assumptions: risk free interest rate of 6.49%, expected dividend yield of 0.0%, expected stock volatility of 70% and an expected option life of 10 years. No options were granted in 1996.

The Company applies APB Opinion No. 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 SFAS No. 123, the Company's net income (loss) and net income (loss) per common share would have been reduced to the proforma amounts indicated below:

	1997	1996
Net income (loss):		
As reported	**$21,022**	$(26,469)
Pro forma	**18,786**	(26,469)
Net income (loss) per common share (primary):		
As reported	**$ 1.09**	$ (2.82)
Pro forma	**0.97**	(2.82)
Net income (loss) per common share (fully diluted):		
As reported	**1.05**	–
Pro forma	**0.94**	–

Proforma net earnings reflect only options granted in 1997 and 1996. Therefore, the full impact of calculating compensation cost for stock options under SFAS No. 123 is not reflected in the proforma net earnings amounts presented above because compensation cost is reflected over the options' vesting period and compensation cost for options granted prior to December 1, 1995 was not considered.

Summarized information about stock options outstanding as of November 30, 1997 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
$5.50-$8.00	1,533,000	6.87	9.22	–	–
$8.01-$13.00	166,750	12.10	6.50	166,750	$12.10
	1,699,750			166,750	

(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, 1997 and 1996 was 78,500 and 79,500, respectively.

The per share weighted average fair value of restricted stock awards granted in 1995 was $5.88 on the date of the grant. The fair value was determined to be the fair market value of the Company's Class A Common Stock on the date of the grant. No restricted stock awards were granted in 1997 or 1996.

Compensation expense for the performance accelerated shares is recorded based upon the quoted market value of the shares on the date of grant. Compensation expense for the performance restricted shares is recorded based upon the quoted market value of the shares on the balance sheet date. Compensation expense for these grants for the years ended November 30, 1997, 1996 and 1995 were $135, $200 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 or about the last business day of each month at a price equal to 85% of the fair market value. This Plan provides for purchases of up to 1,000,000 shares.

(d) Stock Warrants

During the third quarter of fiscal 1993, pursuant to a consulting agreement effective April 1993, the Company granted warrants to purchase 100,000 shares of Class A Common Stock, which have been reserved, at $7.50 per share. The warrants, which are exercisable in whole or in part at the discretion of the holder, expire on December 31, 1998. There were no warrants exercised as of November 30, 1997. The consulting agreement, valued at $100, was expensed in 1994 when the services to be provided, pursuant to the consulting agreement, were completed.

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

On May 9, 1995, the Company issued 1,668,875 warrants in a private placement, each convertible into one share of Class A Common Stock at $7 1/8, subject to adjustment under certain circumstances. The warrants were issued to the beneficial holders as of June 3, 1994, of approximately $57,600 of the Company's Subordinated Debentures in exchange for a release of any claims such holders may have against the Company, its agents, directors and employees in connection with their investment in the Subordinated Debentures. As a result, the Company incurred a warrant expense of $2,900 and recorded a corresponding increase to paid in capital. The warrants are not exercisable after March 15, 2001, unless sooner terminated under certain circumstances. John J. Shalam, Chief Executive Officer of the Company, has granted the Company an option to purchase 1,668,875 shares of Class A Common Stock from his personal holdings. The exercise price of this option is $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 fiscal 1997, the Company granted warrants to purchase 100,000 shares of Class A Common Stock, which have been reserved, at $6.75 per share. The warrants, which are exercisable in whole or in part at the discretion of the holder, expire on January 29, 2002. There were no warrants exercised as of November 30, 1997.

(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 and $150 was made by the Company to the United States plan in fiscal 1997 and 1996, respectively. No contributions were made to the plan for fiscal year 1995. Contributions required by law to be made for eligible employees in Canada were not material.

(14) Export Sales

Export sales of approximately $102,659 and $87,334 for the years ended November 30, 1997 and 1996, respectively, exceeded 10% of sales. Export sales for the year ended November 30, 1995 did not exceed 10% of sales.

(15) Lease Obligations

At November 30, 1997, the Company was obligated under non-cancelable leases for equipment and warehouse facilities for minimum annual rental payments as follows:

	Operating Leases
1998	$1,377
1999	904
2000	504
2001	217
2002	25
Thereafter	2
Total	$3,029

Rental expense for the above-mentioned operating lease agreements and other leases on a month-to-month basis approximated $2,516, $2,292 and $4,080 for the years ended November 30, 1997, 1996 and 1995, respectively.

The Company leases certain facilities 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, 1997, minimum annual rental payments on these related party leases, which are included in the above table, are as follows:

1998	$162
1999	23

(16) Financial Instruments

(a) Derivative Financial Instruments

(1) Forward Exchange Contracts

At November 30, 1997 and 1996, the Company had contracts to exchange foreign currencies in the form of forward exchange contracts in the amount of $26,502 and $5,451, respectively. These contracts have varying maturities with none exceeding one year as of November 30, 1997. For the years ended November 30, 1997, 1996 and 1995, gains and losses on foreign currency transactions which were not hedged were not material. For the years ended November 30, 1997, 1996 and 1995, there were no gains or losses as a result of terminating hedges prior to the transaction date.

(2) Equity Collar

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

Subsequent to year end, the Company sold the equity collar for $1,499 in cash.

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

(b) Off-Balance Sheet Risk

Commercial letters of credit are issued by the Company during the ordinary course of business through major domestic banks as requested by certain suppliers. The Company also issues standby letters of credit principally to secure certain bank obligations of Audiovox Communications and Audiovox Venezuela (Note 9(a)). The Company had open commercial letters of credit of approximately $19,078 and $23,785, of which $10,625 and $17,400 were accrued for as of November 30, 1997 and 1996, 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 a joint and several guarantee on behalf of G.L.M. up to the amount of $200. There is no market for this guarantee and it was issued without explicit cost. Therefore, it is not practicable to establish its fair value.

(c) Concentrations of Credit Risk

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

At November 30, 1997, two customers, a cellular carrier and service provider and a Bell Operating Company, accounted for approximately 8.7% and 5.3%, respectively, of accounts receivable. At November 30, 1996, two customers, which included a cellular carrier and service provider and a Bell Operating Company accounted for approximately 11% and 10%, respectively, of accounts receivable.

During the year ended November 30, 1997, two customers, a cellular carrier and service provider and a Bell Operating Company, accounted for approximately 11.3% and 9.0%, respectively, of the Company's 1997 sales. During the year ended November 30, 1996, two customers, a Bell Operating Company and a cellular carrier and service provider, accounted for approximately 12% and 9%, respectively, of the Company's 1996 sales. During the year ended November 30, 1995, two Bell Operating Companies and a cellular carrier and service provider accounted for approximately 6%, 7% and 7%, respectively, of the Company's 1995 sales.

The Company generally grants credit based upon analyses of its customers' financial position and previously established buying and payment patterns. The Company establishes collateral rights in accounts receivable and inventory and obtains personal guarantees from certain customers based upon management's credit evaluation. At November 30, 1997 and 1996, 43 and 44 customers, respectively, representing approximately 69% and 70%, of outstanding accounts receivable, had balances owed greater than $500.

A significant 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 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. The carrying value of all financial instruments classified as a current asset or liability is deemed to approximate fair value, with the exception of current installments of long-term debt, because of the short maturity of these instruments.

Investment Securities

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

Equity Collar (Derivative)

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

Long-Term Debt Including Current Installments

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

Forward Exchange Contracts (Derivative)

The fair value of the forward exchange contracts are based upon exchange rates at November 30, 1997 and 1996 as the contracts are short term.

The estimated fair value of the Company's financial instruments are as follows:

	November 30, 1997		November 30, 1996	
	Carrying Amount	**Fair Value**	Carrying Amount	Fair Value
Equity collar (derivative)	**$1,246**	**$1,246**	–	–
Long-term obligations including current installments	**$30,491**	**$30,910**	$59,865	$56,046
Forward exchange contract obligation (derivative)	**–**	**$26,125**	–	5,316

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.

(17) Contingencies

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

The Company has guaranteed certain obligations of its equity investments and has established standby letters of credit to guarantee the bank obligations of Audiovox Communications and Audiovox Venezuela (Note 16(b)).

AUDIOVOX CORPORATION AND SUBSIDIARIES

Independent Auditors' Report

KPMG Peat Marwick LLP

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, 1997 and 1996, and the related consolidated statements of income (loss), stockholders' equity and cash flows for each of the years in the three-year period ended November 30, 1997. 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, 1997 and 1996, and the results of their operations and their cash flows for each of the years in the three-year period ended November 30, 1997, in conformity with generally accepted accounting principles.

KPMG Peat Marwick LLP

KPMG PEAT MARWICK LLP
Jericho, New York
March 6, 1998

Corporate Information

Audiovox Corporation Board of Directors and Officers

Board of Directors

John J. Shalam
Chairman, President and Chief Executive Officer

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

Charles M. Stoehr
Senior Vice President, Chief Financial Officer

Patrick Lavelle
Senior Vice President, Automotive Electronics

Ann Boutcher
Vice President, Marketing

Richard Maddia
Vice President, MIS

Gordon Tucker, PhD.
Rabbi of Temple Israel, White Plains, N.Y.

Irving Halevy
Industrial Relations Consultant

Dennis McManus
Telecommunications Consultant

Paul C. Kreuch, Jr.
President and CEO, Lafayette American Bank

Officers

John J. Shalam
President and Chief Executive Officer

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

Charles M. Stoehr
Senior Vice President, Chief Financial Officer

Patrick Lavelle
Senior Vice President, Automotive Electronics

Chris L. Johnson
Vice President, Secretary

Ann Boutcher
Vice President, Marketing

Richard Maddia
Vice President, MIS

Independent Auditors

KPMG Peat Marwick LLP
Jericho, New York

Legal Counsel

Levy & Stopol, LLP
New York, New York

Stockholder Information

Corporate Office

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

Stock Exchange Listing

American Stock Exchange
Ticker Symbol: "VOX"

Annual Meeting

The Annual Meeting of Stockholders will be held on Thursday, May 7, 1998 at 10AM at the Company's Headquarters, 150 Marcus Blvd., Hauppauge, New York

Transfer Agent and Registrar

Continental Stock
Transfer and Trust Company
New York, New York

Financial Public Relations

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

Analyst Coverage

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

Form 10-K

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

Audiovox Corporation is an Equal Opportunity Employer

Web Site: www.audiovox.com

Except for historical information contained herein, statements made in this release that would constitute forward-looking statements may involve certain risks such as market volatility, price competition and new product introductions. These factors may cause actual results to differ materially from the results suggested in the forward-looking statements, including those risks detailed from time to time in the Company's reports on file at the Securities and Exchange Commission, including the Company's Form 10-K for the fiscal year ended November 30, 1997.

Summary of Stock Prices and Dividend Data

Class A Common Shares of Audiovox are traded on the American Stock Exchange under the symbol VOX. No dividends have been paid on the Company's common stock. The Company is restricted by agreements with its financial institutions from the payment of common stock dividends while certain loans are outstanding (see Liquidity and Capital Resources of Management's Discussion and Analysis). There are approximately 6,300 beneficial holders of Class A Common Stock and 4 holders of Class B Common Stock.

Class A Common Stock		High	Low	Average Daily Trading Volume
Fiscal Period 1997 –	**First Quarter**	**$ 8 1/2**	**$ 4 5/8**	**368,639**
	Second Quarter	**7 7/8**	**4 15/16**	**171,733**
	Third Quarter	**8 13/16**	**6 5/16**	**201,653**
	Fourth Quarter	**10 3/4**	**7 5/16**	**131,779**
Fiscal Period 1996 –	First Quarter	6 3/8	4 3/4	15,924
	Second Quarter	7 7/16	4 1/16	52,039
	Third Quarter	6 5/16	4	16,309
	Fourth Quarter	6 3/4	4 5/8	95,817
Fiscal Period 1995 –	First Quarter	8 1/2	6 3/8	25,300
	Second Quarter	7	5 1/16	13,500
	Third Quarter	7 3/8	47/16	30,100
	Fourth Quarter	6 13/16	4 3/8	21,600