SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 8-K

PURSUANT TO SECTION 13 or 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

Date of Report (Date of earliest event reported):
May 5, 1995

AUDIOVOX CORPORATION
(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of incorporation)

1-9532	13-1964841
Commission File Number	(IRS Employer Identification No.)

150 Marcus Blvd., Hauppauge, New York	11788
(Address of principal executive offices)	(Zip Code)

(516) 231-7750
Registrant's Telephone Number

Page 1 of [ ] Pages
Exhibit Index on Page [ ]

Item 5. Other Events.

A. Amended Credit Agreement.

On May 5, 1995, Audiovox Corporation (the "Company") entered into the Second Amended and Restated Credit Agreement with five banks, including Chemical Bank which acts as agent for the bank group (the "Credit Agreement"). Under the Credit Agreement the Company may obtain credit through direct borrowings, letters of credit, and banker's acceptances. The obligations of the Company under the Credit Agreement continue to be guaranteed by certain of the Company's subsidiaries and will be secured by accounts receivable and inventory of the Company and those subsidiaries. Availability of credit under the Credit Agreement is in a maximum aggregate amount of $95,000,000, is subject to certain conditions and is based upon a formula taking into account the amount and quality of its accounts receivable and inventory. A copy of the Credit Agreement is attached as Exhibit 1 hereto and incorporated herein by reference.

B. Warrant Offering.

On May 10, 1995, the Company issued a press release (attached as Exhibit 5 hereto) announcing that it had issued certain warrants in a private placement, with the underlying shares to be supplied from the Chairman's personal stock holdings. A copy of the Offering Memorandum for the private placement, as supplemented, is attached as Exhibit 2 hereto and incorporated herein by reference.

1,668,875 Warrants were issued by the Company in a private placement under a warrant agreement, dated as of May 9, 1995 (the "Warrant Agreement"), between the Company and Continental Stock Transfer & Trust Company, as Warrant Agent. A copy of the Warrant Agreement is attached as Exhibit 3 hereto and incorporated herein by reference. Each Warrant can be converted 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 $57,640,000 million of Audiovox's 6 1/4% Convertible Subordinated Debentures due 2001, in exchange for a release of any claims such holder may have against Audiovox, its agents, directors and employees in connection with their investment in the Debentures. Each holder received 30 Warrants for each $1,000 of principal amount of Debentures, except for Oppenheimer & Co., Inc. which received 25 Warrants. The Warrants are not exercisable (a) until the later of (x) May 9, 1996 and (y) the date a registration statement with respect to the Class A Common Stock issuable upon exercise of the Warrants has been filed and declared effective by the Securities and Exchange Commission or (b) after March 15, 2001, unless sooner terminated under certain circumstances. The Company has also agreed to register the Warrants and the underlying Common Stock within one year of the date of issuance pursuant to a registration rights agreement, dated as of May 9, 1995 (the "Registration

Rights Agreement"), between the Company and the purchasers of the Warrants. A copy of the Registration Rights Agreement is attached as Exhibit 4 hereto and incorporated herein by reference.

To eliminate the current dilutive effect on earnings per share, John J. Shalam, Chief Executive Officer of Audiovox, has granted the Company an option to supply 1,668,875 shares of Class A Common Stock from his personal holdings at the same price. The Company has agreed to reimburse Mr. Shalam should the exercise of this option be treated as dividend income rather than capital gains. The independent directors of the Company may elect to issue shares from the Company instead of drawing on Mr. Shalam's shares if such directors determine it is in the best interest of the shareholders and the Company.

During the second quarter the Company will take a one-time non-cash charge to earnings of approximately $3 million, which will be offset by a $3 million increase in paid-in capital, therefore there will be no net effect on total shareholders equity.

Item 7. Exhibits.

1. Second Amended and Restated Credit Agreement among Audiovox Corporation and its lenders, dated May 5, 1995.

2. Offering Memorandum in Connection with Audiovox Corporation Warrants for the Purchase of One Share of Class A Common Stock, dated as of April 12, 1995, as supplemented in Supplement No. 1, dated May 1, 1995.

3. Warrant Agreement, dated as of May 9, 1995, between Audiovox Corporation and Continental Stock Transfer & Trust Company, as Warrant Agent.

4. Registration Rights Agreement, dated as of May 9, 1995, between Audiovox Corporation and certain purchasers of Audiovox Corporation warrants.

5. Press release dated May 10, 1995.

SIGNATURE

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

AUDIOVOX CORPORATION

By: /s/ C. Michael Stoehr

Name: C. Michael Stoehr
Title: Senior Vice President and Chief Financial Officer

Dated: May 31, 1995

EXHIBIT INDEX

Exhibit	Description	Page
1.	Second Amended and Restated Credit Agreement among Audiovox Corporation and its lenders, dated May 5, 1995.	[ ]
2.	Offering Memorandum in Connection with Audiovox Corporation Warrants for the Purchase of One Share of Class A Common Stock, dated as of April 12, 1995, as supplemented in Supplement No. 1, dated May 1, 1995.	[ ]
3.	Warrant Agreement, dated as of May 9, 1995, between Audiovox Corporation and Continental Stock Transfer & Trust Company, as Warrant Agent.	[ ]
4.	Registration Rights Agreement, dated as of May 9, 1995, between Audiovox Corporation and certain purchasers of Audiovox Corporation warrants.	[ ]
5.	Press release dated May 10, 1995.	[ ]

Exhibit 1

CONFORMED COPY

==========

SECOND AMENDED AND RESTATED CREDIT AGREEMENT

among

AUDIOVOX CORPORATION,
as Borrower

CHEMICAL BANK
NATWEST BANK N.A.
THE CHASE MANHATTAN BANK, N.A.
EUROPEAN AMERICAN BANK
THE FIRST NATIONAL BANK OF BOSTON,
as Lenders

and

CHEMICAL BANK,
as Administrative and Collateral Agent,

Dated as of May 5, 1995

==========

TABLE OF CONTENTS

SECOND AMENDED AND RESTATED CREDIT AGREEMENT, dated as of May 5, 1995, among AUDIOVOX CORPORATION, a Delaware corporation (the "Borrower"), the several banks and other financial institutions from time to time parties to this Agreement (collectively, the "Lenders"; individually, a "Lender") and CHEMICAL BANK, a New York banking corporation, as administrative and collateral agent for the Lenders hereunder (in such capacity, the "Agent").

W I T N E S S E T H :

WHEREAS, the Borrower, the Lenders and the Agent are parties to the Amended and Restated Credit Agreement, dated as of March 15, 1994 (as amended prior to the date hereof, the "Existing Credit Agreement");

WHEREAS, pursuant to the Existing Credit Agreement, the Lenders have over time made loans to, and have issued letters of credit, steamship guarantees and airway releases and created bankers' acceptances for or for the account of, the Borrower (collectively, the "Existing Extensions of Credit") which are secured pursuant to the Security Documents (as hereinafter defined);

WHEREAS, the Borrower has requested that the Existing Credit Agreement be amended and restated in the manner provided for herein; and

WHEREAS, the security interests granted and guarantees issued pursuant to the Security Documents will continue to provide collateral security for the obligations of the Borrower under this Agreement:

ACCORDINGLY, the parties hereto hereby agree that upon the satisfaction of the conditions hereto the Existing Credit Agreement is hereby amended and restated as follows:

SECTION 1. DEFINITIONS

1.1 Defined Terms. As used in this Agreement, the following terms shall have the following meanings:

"Acceptance Obligations": at any time, an amount equal to the sum of (a) the aggregate face amount of unmatured Acceptances (including Existing Acceptances) at such time and (b) the aggregate amount of all unpaid Acceptance Reimbursement Obligations at such time.

"Acceptance Participants": with respect to each Acceptance (including each Existing Acceptance), collectively, all the Lenders other than the Accepting Bank.

"Acceptance Rate": the rate equal to 2% per annum plus the discount rate, as determined from time to time by the Accepting Bank, in its sole and absolute discretion, as generally available as the discount rate to other customers of the Accepting Bank for bankers' acceptances for up to and including 90-day tenor.

"Acceptance Reimbursement Obligations": the obligation of the Borrower to reimburse the Accepting Bank pursuant to subsection 5.5(b) for the face amount of Acceptances (including any Existing Acceptances).

"Acceptance Request": an Acceptance Request, substantially in the form of Exhibit E hereto, with appropriate insertions, or in such other form as the Accepting Bank shall reasonably request, including any such Acceptance Request issued in connection with any Existing Acceptance.

"Acceptances": as defined in subsection 4.1(a).

"Accepting Bank": Chemical, or its successor pursuant to subsections 11.9 and 11.10, in its capacity as creator of Acceptances pursuant to subsection 4.1(a).

"Account Debtor": as to any Account, any Person who is or may become obligated to any other Person under, with respect to, or on account of, such Account.

"Accounts": as to any Person at any time, all accounts, accounts receivable and other receivables of such Person at such time.

"Affiliate": as to any Person, (a) any other Person (other than a Subsidiary) which, directly or indirectly, is in control of, is controlled by, or is under common control with, such Person, including, without limitation, any Joint Venture of such Person, or (b) any Person who is a director, officer, shareholder or partner (i) of such Person, (ii) of any Subsidiary of such Person or (iii) of any Person described in the preceding clause (a). For purposes of this definition, "control" of a Person means the power, directly or indirectly, either to (i) vote 10% or more of the securities having ordinary voting power for the election of directors of such Person or (ii) direct or cause the direction of the management and policies of such Person whether by contract or otherwise. "Affiliates" of the Borrower shall be deemed (a) not to include any or all of the Existing Noteholders or any transferee of Common Stock of any Existing Noteholder and (b) to include CellStar for so long as the Borrower owns any capital stock of CellStar.

"Aggregate Outstanding Direct Extensions of Credit": as to any Lender at any time, an amount equal to the sum of

(a) the aggregate principal amount of all Loans made by such Lender then outstanding and (b) such Lender's Commitment Percentage of the Acceptance Obligations then outstanding.

"Aggregate Outstanding Extensions of Credit": as to any Lender at any time, an amount equal to the sum of (a) the aggregate principal amount of all Loans made by such Lender then outstanding, (b) such Lender's Commitment Percentage of the L/C Obligations then outstanding and (c) such Lender's Commitment Percentage of the Acceptance Obligations then outstanding.

"Agreement": this Amended and Restated Credit Agreement, as the same may be amended, supplemented or otherwise modified from time to time.

"Airway Release": as defined in subsection 3.1(b).

"Applicable Margin": for each Type of Loan, the rate per annum set forth under the relevant column heading below:

Chemical Rate Loans	Eurodollar Loans
0.25%	2.00%

"Application": an application, in such form as the Issuing Bank may specify from time to time, requesting the Issuing Bank to open a Letter of Credit, including any such application issued in connection with any Existing Letter of Credit.

"Available Commitment": as to any Lender at any time, an amount equal to the excess, if any, of (a) the amount of such Lender's Commitment over (b) the aggregate principal amount of the Aggregate Outstanding Extensions of Credit of such Lender then outstanding.

"Borrower Security Agreement": the Amended and Restated Security Agreement, dated as of March 15, 1994, made by the Borrower in favor of the Collateral Agent, a copy of which is attached hereto as Exhibit J.

"Borrowing Base": on any date of determination thereof, the sum of (a) 75% of the aggregate amount of Eligible Accounts of the Borrower and its consolidated Domestic and Canadian Subsidiaries on such date of determination and (b) the lesser of (i) 30% of the aggregate amount of Eligible Inventory of the Borrower and its consolidated Domestic and Canadian Subsidiaries on such date of determination and (ii) at any time prior to the date on which the Borrower shall have sold 1,000,000 shares of common stock of CellStar in the aggregate after the Closing Date, $30,000,000 and, at any time thereafter, $25,000,000. The Borrowing Base shall be reduced from time to time by an

amount equal to the Foreign Exchange Liabilities of the Borrower as most recently determined prior to such time by the Agent pursuant to subsection 5.16. The Borrowing Base shall be determined by the Agent in its sole discretion exercising reasonable judgment from time to time by reference to the most recent monthly Borrowing Base Certificate delivered to the Agent pursuant to subsection 8.2(g). The Agent shall determine the Borrowing Base in effect on the first Business Day of each month during the Commitment Period and shall send a Borrowing Base Notice on such Business Day to the Borrower and each Lender setting forth the Borrowing Base as so determined. The Agent shall also send a Borrowing Base Notice to the Borrower and each Lender on each Business Day on which the Borrowing Base is changed other than pursuant to the immediately preceding sentence setting forth the Borrowing Base as so changed.

"Borrowing Base Certificate": a certificate, substantially in the form of Exhibit C-1, or in such other form as the Agent shall from time to time request.

"Borrowing Base Notice": a notice, substantially in the form of Exhibit C-2, or in such other form as the Agent shall from time to time specify.

"Borrowing Date": any Business Day specified in a notice pursuant to subsection 2.3 as a date on which the Borrower requests the Lenders to make Loans hereunder.

"Business Day": a day other than a Saturday, Sunday or other day on which commercial banks in New York City are authorized or required by law to close.

"Canadian Subsidiary": Audiovox Canada Limited, an Ontario corporation.

"Capital Stock": any and all shares, interests, participations or other equivalents (however designated) of capital stock of a corporation, any and all equivalent ownership interests in a Person (other than a corporation) and any and all warrants or options to purchase any of the foregoing, provided that the Exchange Debentures and Subordinated Debentures shall not, prior to the conversion thereof, be deemed to be Capital Stock of the Borrower.

"Cash Equivalents": (i) securities issued or directly and fully guaranteed or insured by the United States Government or any agency or instrumentality thereof having maturities of not more than 180 days from the date of acquisition, (ii) time deposits and certificates of deposit having maturities of not more than 180 days from the date of acquisition of any Lender or of any domestic commercial bank the long-term debt of which is rated at least A-2 or the equivalent thereof by Standard & Poor's Corporation or a-2

or the equivalent thereof by Moody's Investors Service, Inc. and having capital and surplus in excess of $500,000,000, (iii) repurchase obligations with a term of not more than seven days for underlying securities of the types described in clauses (i) and (ii) entered into with any bank meeting the qualifications specified in clause (ii) above, (iv) commercial paper rated at least A-2 or the equivalent thereof by Standard & Poor's Corporation or a-2 or the equivalent thereof by Moody's Investors Service, Inc. and in either case maturing within 180 days after the date of acquisition and (v) securities issued by any municipality in the United States rated at least A-2 or the equivalent thereof by Standard & Poor's Corporation or a-2 or the equivalent thereof by Moody's Investors Service, Inc. and in either case maturing within 180 days after the date of acquisition.

"CellStar": CellStar Corporation, a Delaware corporation.

"CellStar Option Agreements": the collective reference to the Option
----
Agreement - I, dated as of December 3, 1993, between the Borrower and Alan H. Goldfield and the Option Agreement - II, dated as of December 3, 1993, between the Borrower and Alan H. Goldfield.

"Cellular Inventory": at a particular date, all cellular telephones
----
and other cellular Inventory of the Borrower and its Subsidiaries on hand at such date.

"Chemical": Chemical Bank, a New York banking corporation.

"Chemical Rate": the rate of interest per annum publicly announced by
----
Chemical as its prime rate in effect at its principal office in New York, New York. The prime rate is not intended to be the lowest rate of interest charged by Chemical in connection with extensions of credit to debtors.

"Chemical Rate Loans": Loans the rate of interest applicable to which
----
is based upon the Chemical Rate.

"Chemical Standby Letters of Credit": the collective reference to the
----
Irrevocable Standby Letters of Credit from time to time issued by Chemical to secure payment of the Exchange Debentures on the terms provided therein in an aggregate face amount not exceeding $6,802,971.30.

"Closing Date": the date on which all the conditions set forth in
----
Section 7 shall first have been satisfied.

"Code": the Internal Revenue Code of 1986, as amended from time to
----
time.

"Collateral Agent": Chemical,in its capacity as collateral agent under the Security Documents.

"Commitment": as to any Lender at any time, the obligation of such Lender to make Loans and/or issue or participate in Letters of Credit issued on behalf of the Borrower and/or create or participate in Acceptances created for the Borrower in an aggregate principal amount and/or face amount at any one time outstanding not to exceed the amount set forth opposite such Lender's name on Schedule I hereto, as the same may be reduced from time to time in accordance with the terms of this Agreement; collectively as to all the Lenders, the "Commitments".

"Commitment Percentage": as to any Lender at any time, the percentage which such Lender's Commitment then constitutes of the aggregate Commitments (or, at any time after the Commitments shall have expired or terminated, the percentage which the aggregate principal amount of such Lender's Loans then outstanding constitutes of the aggregate principal amount of the Loans then outstanding).

"Commitment Period": the period from and including the date hereof to but not including the Termination Date or such earlier date on which the Commitments shall terminate as provided herein.

"Commonly Controlled Entity": an entity, whether or not incorporated, which is under common control with the Borrower within the meaning of Section 4001 of ERISA or is part of a group which includes the Borrower and which is treated as a single employer under Section 414 of the Code.

"Consent of Guarantors": the Consent of Guarantors, dated as of May 5, 1995, executed by the Subsidiaries parties to the Subsidiaries Guarantee, the form of which Consent of Guarantors is attached hereto as Exhibit I.

"Consolidated Current Assets": at a particular date, all amounts which would, in conformity with GAAP, be included under current assets on a consolidated balance sheet of the Borrower and its Subsidiaries as at such date.

"Consolidated Current Liabilities": at a particular date, all amounts which would, in conformity with GAAP, be included under current liabilities on a consolidated balance sheet of the Borrower and its Subsidiaries as at such date.

"Consolidated Net Income": for any period, the consolidated net income (or deficit) of the Borrower and its Subsidiaries for such period (taken as a cumulative whole), determined in conformity with GAAP (but excluding gains or losses from sale of securities of any Person (other than a Subsidiary)).

"Consolidated Net Worth": at a particular date, all amounts which would, in conformity with GAAP, be included under stockholders' equity on a consolidated balance sheet of the Borrower and its Subsidiaries as at such date, excluding any treasury stock and any Foreign Translation Adjustments.

"Consolidated Total Liabilities": at a particular date, all amounts which would, in conformity with GAAP, be included under liabilities on a consolidated balance sheet of the Borrower and its Subsidiaries as at such date, and including in any event the Aggregate Outstanding Direct Extensions of Credit of the Lenders on such date, and excluding in any event the Talk Note, the Subordinated Debentures and any Standby Letter of Credit issued to support the Borrower's obligation under the Subordinated Debentures.

"Consolidated Working Capital": at a particular date, the excess of Consolidated Current Assets over Consolidated Current Liabilities at such date.

"Contractual Obligation": as to any Person, any provision of any security issued by such Person or of any agreement, instrument or other undertaking to which such Person is a party or by which it or any of its property is bound.

"Debenture Exchange Agreement": the Debenture Exchange Agreement dated as of March 8, 1994, among the Borrower and the Existing Noteholders, as the same may be amended, supplemented or otherwise modified from time to time in accordance with the terms of this Agreement.

"Default": any of the events specified in Section 10, whether or not any requirement for the giving of notice, the lapse of time, or both, or any other condition, has been satisfied.

"Dollars" and "$": dollars in lawful currency of the United States of America.

"Domestic Subsidiary": any Subsidiary incorporated under the laws of the United States of America or a State thereof.

"Draft": a draft, substantially in the form of Exhibit F hereto, or in such other form as the Accepting Bank shall reasonably request.

"Eligible Accounts": as to any Person, at a particular date, the total outstanding balance of Accounts of such Person:

(a) which are bona fide, valid and legally enforceable obligations of the Account Debtor in respect thereof and arise from the actual sale and delivery of goods or rendition and acceptance of services in the ordinary course of business to such Account Debtor;

(b) which do not contravene, or arise from sales which contravene, any Requirement of Law applicable thereto;

(c) which are payable in full not later than 60 days after the date of the creation of original invoices related thereto unless (i) the payment of such Accounts are supported by letters of credit issued by a bank and on terms reasonably acceptable to the Agent or (ii) (A) the Account Debtors on such Accounts have Dun & Bradstreet ratings of 5A1 or higher and (B) such Accounts are payable in full not later than 90 days after the date of the creation of original invoices related thereto;

(d) which are not subject to any offset, net-out, set-off, deduction, dispute, counterclaim or defense, and with respect to which no return, rejection or repossession has occurred;

(e) which do not represent a consignment sale, guaranteed sale, sale or return or other similar arrangement;

(f) which are not Accounts relating to sales to employees or representatives;

(g) which are reduced by any amounts then owing by such Person to the Account Debtor or obligor in respect of such Accounts, including, without limitation, any amounts credited or charged back to such Accounts;

(h) which have been invoiced by such Person and which have not been past due for more than 60 days after the payment dates specified in the invoices related to such Accounts;

(i) with respect to which, the Agent is, and continues to be, reasonably satisfied with the credit standing of the Account Debtor or obligor;

(j) which are not owed by an Account Debtor or obligor which is an Affiliate (other than CellStar) or Subsidiary of such Person;

(k) which are not owed by an Account Debtor or obligor which has taken any of the actions or suffered any of the events of the kind described in paragraph (g) of Section 10, except to the extent any such Accounts are

entitled to an administrative expense priority under the Bankruptcy Code;

(l) with respect to which, together with its Affiliates, more than 50% of the aggregate amount of Accounts owed by any Account Debtor or obligor to such Person are not more than 60 days past due after the payment dates specified in the invoices related to such Accounts;

(m) which are (i) with respect to Accounts owed to the Borrower or any Domestic Subsidiary, denominated in Dollars and payable only in Dollars and only in the United States of America and (ii) with respect to Accounts owed to the Canadian Subsidiary, are denominated in Dollars or Canadian dollars and payable only in Dollars or Canadian dollars and only in the United States of America or Canada;

(n) which are owned solely by such Person free and clear of all Liens or other rights or claims of any other Person (except in favor of the Collateral Agent for the benefit of the Lenders) and arise from sales in respect of which all sales, excise or similar taxes have been paid in full;

(o) which are subject to a perfected first priority security interest in favor of the Collateral Agent for the benefit of the Lenders pursuant to the Borrower Security Agreement or the Subsidiaries Security Agreement, as the case may be;

(p) with respect to which all consents, licenses, approvals or authorizations of, or registrations or declarations with, any Governmental Authority, required to be obtained, effected or given in connection with the execution, delivery and performance of such Accounts have been duly obtained, effected or given, and are in full force and effect;

(q) which are not Accounts owed by any Governmental Authority other than such Accounts as to which all required filings to perfect the security interest in such Accounts in favor of the Collateral Agent pursuant to the Borrower Security Agreement or the Subsidiaries Security Agreement, as the case may be, have been made, including, without limitation, any filings and/or assignments required under the Assignment of Claims Act of 1940, as amended;

(r) which, with respect to Accounts owed to the Canadian Subsidiary, may be reduced by an amount, as determined by the Agent in its reasonable discretion, equal to any costs, taxes or other amounts that might

be payable in the event the security interest in such Accounts in favor of the Collateral Agent was to be enforced;

(s) which constitute "accounts" within the meaning of the Uniform Commercial Code of the state in which the chief executive office of such Person is located; and

(t) which conform in all other respects to the representations and warranties contained in the Borrower Security Agreement or the Subsidiaries Security Agreement, as the case may be.

Standards of eligibility may be fixed and revised from time to time solely by the Agent in the Agent's reasonable judgment, provided that the Agent
----
shall not revise the standards of eligibility in a manner which would increase the outstanding balance of Eligible Accounts at the time of such revision without the prior written consent of the Required Lenders. Unless a Default or Event of Default has occurred and is continuing, the Agent shall give five days prior written notice to the Borrower of any change in the standards of eligibility set forth above, except for changes relating to the credit standing of the Account Debtor or obligor on any Account.

"Eligible Inventory": as to any Person, at a particular date, the
----
aggregate amount of Inventory of such Person:

(a) which is owned solely by such Person free and clear of all Liens or other rights or claims of any other Person (except in favor of the Collateral Agent for the benefit of the Lenders);

(b) which (i) is subject to a perfected first priority security interest in favor of the Collateral Agent for the benefit of the Lenders pursuant to the Borrower Security Agreement or the Subsidiaries Security Agreement, as the case may be, and is located at a storage, manufacturing or public facility owned or leased by such Person in the United States of America or, with respect to the Inventory of the Canadian Subsidiary, in Canada, and, in either case, as to which, if such storage, manufacturing or public facility is leased, a Landlord's Consent has been received by the Collateral Agent, or (ii) is being shipped to the United States of America or Canada under a Letter of Credit issued, or Acceptance created, under this Agreement, if, upon arrival of such Inventory in the United States of America or Canada, such Inventory will immediately be subject to a first priority security interest in favor of the Collateral Agent for the benefit of the Lenders pursuant to the Borrower

Security Agreement or the Subsidiaries Security Agreement, as the case may be, provided that, if any such Letter of Credit is not denominated
----
in Dollars, the value of such Inventory is reduced from time to time to account for currency fluctuations;

(c) which is readily marketable for sale;

(d) which is not damaged;

(e) which has not been returned or rejected by any prospective buyer thereof, unless, if such Inventory is returned, such Inventory is readily marketable for sale upon return;

(f) which are not display goods;

(g) which is not in the form of books or other literature;

(h) which, in the case of Cellular Inventory, has a turnover of 6 months or less and, in the case of other Inventory, has a turnover of 9 months or less;

(i) which is not owned by an Affiliate or Subsidiary of such Person;

(j) with respect to which, no Account has been created;

(k) which, with respect to Inventory located at a storage, manufacturing or public facility in Canada, may be reduced by an amount, as determined by the Agent in its sole discretion, equal to any costs, taxes or other amounts that would be payable in the event the security interest in favor of the Collateral Agent was to be enforced;

(l) which is not work in progress, raw materials, supplies or capitalized fees; and

(m) which conforms in all other respects to the representations and warranties contained in the Borrower Security Agreement or the Subsidiaries Security Agreement, as the case may be.

Eligible Inventory shall be increased by an amount equal to the undrawn face amount of any Letter of Credit against which goods are to be shipped to the Borrower or any of its Subsidiaries, provided that if any
----
such Letter of Credit is not denominated in Dollars, the amount by which Eligible Inventory is increased pursuant to this sentence shall be adjusted from time to time by the Agent to account for currency fluctuations. Standards of eligibility may be fixed and revised from time to time solely by the Agent in

the Agent's reasonable judgment, provided that the Agent shall not revise
the standards of eligibility in a manner which would increase the outstanding amount of Eligible Inventory at the time of such revision without the prior written consent of the Required Lenders. Unless a Default or Event of Default has occurred and is continuing, the Agent shall give five days prior written notice to the Borrower of any change in the standards of eligibility set forth above.

"Environmental Laws": any and all foreign, Federal, state, local or municipal laws, rules, orders, regulations, statutes, ordinances, codes, decrees, requirements of any Governmental Authority or other Requirements of Law (including common law) regulating, relating to or imposing liability or standards of conduct concerning protection of human health or the environment, as now or may at any time hereafter be in effect.

"ERISA": the Employee Retirement Income Security Act of 1974, as amended from time to time.

"Eurocurrency Reserve Requirements": for any day as applied to a Eurodollar Loan, the aggregate (without duplication) of the rates (expressed as a decimal fraction) of reserve requirements in effect on such day (including, without limitation, basic, supplemental, marginal and emergency reserves under any regulations of the Board of Governors of the Federal Reserve System or other Governmental Authority having jurisdiction with respect thereto) dealing with reserve requirements prescribed for eurocurrency funding (currently referred to as "Eurocurrency Liabilities" in Regulation D of such Board) maintained by a member bank of such System.

"Eurodollar Base Rate": with respect to each day during each Interest Period pertaining to a Eurodollar Loan, the rate per annum equal to the rate at which Chemical is offered Dollar deposits at or about 10:00 A.M., New York City time, two Business Days prior to the beginning of such Interest Period in the interbank eurodollar market where the eurodollar and foreign currency and exchange operations in respect of its Eurodollar Loans are then being conducted for delivery on the first day of such Interest Period for the number of days comprised therein and in an amount comparable to the amount of its Eurodollar Loan to be outstanding during such Interest Period.

"Eurodollar Loans": Loans the rate of interest applicable to which is based upon the Eurodollar Rate.

"Eurodollar Rate": with respect to each day during each Interest Period pertaining to a Eurodollar Loan, a rate per annum determined for such day in accordance with the

following formula (rounded upward to the nearest 1/100th of 1%):

$$\frac{\text{Eurodollar Base Rate}}{1.00 - \text{Eurocurrency Reserve Requirements}}$$

"Eurodollar Tranche": the collective reference to Eurodollar Loans whose Interest Periods each begin on the same day and end on the same other day.

"Event of Default": any of the events specified in Section 10, provided that any requirement for the giving of notice, the lapse of time, or both, or any other condition, has been satisfied.

"Exchange Debentures": collectively, the Series AA 10.80% Convertible Debentures due February 9, 1996 and the Series BB 11.00% Convertible Debentures due February 9, 1996 issued pursuant to the Debenture Exchange Agreement.

"Existing Acceptances": such bankers' acceptances as are part of the Existing Extensions of Credit and are outstanding and/or unreimbursed on the Closing Date.

"Existing Credit Agreement": as defined in the recitals to this Agreement.

"Existing Extensions of Credit": as defined in the recitals to this Agreement.

"Existing Letters of Credit": such letters of credit, steamship guarantees and airway releases as are part of the Existing Extensions of Credit and are outstanding and/or unreimbursed on the Closing Date.

"Existing Noteholders": the financial institutions which are parties to the Debenture Exchange Agreement.

"Financing Lease": any lease of property, real or personal, the obligations of the lessee in respect of which are required in accordance with GAAP to be capitalized on a balance sheet of the lessee.

"Foreign Exchange Contracts": as defined in subsection 5.16.

"Foreign Exchange Liabilities": as defined in subsection 5.16.

"Foreign Translation Adjustment": as defined under GAAP.

"GAAP": generally accepted accounting principles in the United States of America in effect from time to time.

"Governmental Authority": any nation or government, any state or other political subdivision thereof and any entity exercising executive, legislative, judicial, regulatory or administrative functions of or pertaining to government.

"Government Contracts": as defined in subsection 6.21.

"Guarantee Obligation": as to any Person (the "guaranteeing person"), any obligation of (a) the guaranteeing person or (b) another Person (including, without limitation, any bank under any letter of credit or bankers' acceptance) to induce the creation of which the guaranteeing person has issued a reimbursement, counter indemnity or similar obligation, in either case guaranteeing or in effect guaranteeing any Indebtedness, leases, dividends or other obligations (the "primary obligations") of any other third Person (the "primary obligor") in any manner, whether directly or indirectly, including, without limitation, any obligation of the guaranteeing person, whether or not contingent, (i) to purchase any such primary obligation or any property constituting direct or indirect security therefor if such purchase of property is primarily for the purpose of assuring the owner of any such primary obligation of the ability of the primary obligor to make payment of such primary obligation, (ii) to advance or supply funds (1) for the purchase or payment of any such primary obligation or (2) to maintain working capital or equity capital of the primary obligor or otherwise to maintain the net worth or solvency of the primary obligor, (iii) to purchase property, securities or services primarily for the purpose of assuring the owner of any such primary obligation of the ability of the primary obligor to make payment of such primary obligation or (iv) otherwise to assure or hold harmless the owner of any such primary obligation against loss in respect thereof; provided, however, that the term Guarantee Obligation shall not include endorsements of instruments for deposit or collection in the ordinary course of business. The amount of any Guarantee Obligation of any guaranteeing person shall be deemed to be the lower of (a) an amount equal to the stated or determinable amount of the primary obligation in respect of which such Guarantee Obligation is made and (b) the maximum amount for which such guaranteeing person may be liable pursuant to the terms of the instrument embodying such Guarantee Obligation, unless such primary obligation and the maximum amount for which such guaranteeing person may be liable are not stated or determinable, in which case the amount of such Guarantee Obligation shall be such guaranteeing person's maximum reasonably anticipated liability in respect thereof as determined by the Required Lenders in good faith.

"Guarantors": collectively, the Domestic Subsidiaries, the Canadian Subsidiary and any other Subsidiaries required to execute a guarantee, security agreement or other Security Document pursuant to subsection 8.7.

"Indebtedness": of any Person at any date, (a) all indebtedness of such Person for borrowed money or for the deferred purchase price of property or services (other than current trade liabilities, accrued expenses and documentary acceptances incurred in the ordinary course of business and payable in accordance with customary practices) or which is evidenced by a note, bond, debenture or similar instrument, (b) all obligations of such Person under Financing Leases, (c) all obligations of such Person in respect of letters of credit or acceptances issued or created for or for the account of such Person, (d) all obligations of such Person under Foreign Exchange Contracts and (e) all liabilities secured by any Lien on any property owned by such Person even though such Person has not assumed or otherwise become liable for the payment thereof.

"Insolvency": with respect to any Multiemployer Plan, the condition that such Plan is insolvent within the meaning of Section 4245 of ERISA.

"Insolvent": pertaining to a condition of Insolvency.

"Interest Payment Date": with respect to any Loan, the last day of each month to occur while such Loan is outstanding, provided that (a) with respect to any Chemical Rate Loan, the date upon which such Loan is converted to another Type of Loan shall also be an Interest Payment Date for such Loan and (b) with respect to any Eurodollar Loan, the last day of the Interest Period with respect to such Loan shall also be an Interest Payment Date for such Loan.

"Interest Period": with respect to any Eurodollar Loan:

(a) initially, the period commencing on the borrowing or conversion date, as the case may be, with respect to such Eurodollar Loan and ending one, two, three or six months thereafter, as selected by the Borrower in its notice of borrowing or notice of conversion, as the case may be, given with respect thereto; and

(b) thereafter, each period commencing on the last day of the next preceding Interest Period applicable to such Eurodollar Loan and ending one, two, three or six months thereafter, as selected by the Borrower by irrevocable notice to the Agent not less than three Business Days prior to the last day of the then current Interest Period with respect thereto;

provided that all of the foregoing provisions relating to Interest Periods
----
are subject to the following:

(i) if any Interest Period would otherwise end on a day which is not a Business Day, such Interest Period shall be extended to the next succeeding Business Day unless the result of such extension would be to carry such Interest Period into another calendar month in which event such Interest Period shall end on the immediately preceding Business Day;

(ii) no Interest Period shall extend beyond the Termination Date;

(iii) if the Borrower shall fail to give notice as provided above, the Borrower shall be deemed to have selected a Chemical Rate Loan to replace the affected Eurodollar Loan; and

(iv) any Interest Period that begins on the last Business Day of a calendar month (or on a day for which there is no numerically corresponding day in the calendar month at the end of such Interest Period) shall end on the last Business Day of a calendar month.

"Inventory": as defined in the UCC and including, without limitation,
----
all Cellular Inventory.

"Issuing Bank": Chemical, or its successor pursuant to subsections
----
11.9 and 11.10, in its capacity as issuer of Letters of Credit pursuant to subsection 3.1(a).

"Joint Venture": as to any Person, a corporation, partnership or
----
other entity (other than a Subsidiary) of which 50% or less (but more than 10%) of the shares of stock or other ownership interests are at the time owned, directly or indirectly, through one or more intermediaries, or both, by such Person. Unless otherwise qualified, all references to a "Joint Venture " or "Joint Ventures" in this Agreement shall refer to a Joint Venture or Joint Ventures of the Borrower, including, without limitation, the entities listed in Schedule 6.15 under the heading "Joint Ventures".
------------ --------------

"Landlord's Consent": a consent substantially in the form of Exhibit
------------------ -------
H hereto.
-

"L/C Obligations": at any time, an amount equal to the sum of (a) the
----
aggregate then undrawn and unexpired amount of the then outstanding Letters of Credit (including Existing Letters of Credit) and (b) the aggregate amount of unpaid L/C Reimbursement Obligations at such time, provided that,
----
solely for purposes of the definition of Aggregate Outstanding Extensions of Credit and for purposes of subsections 2.1, 3.1 and 4.1, L/C Obligations shall not

include the aggregate undrawn and unexpired amount of any then outstanding Steamship Guarantees and Airway Releases which have not been outstanding for a period in excess of 30 days after the date of issuance thereof, provided further that, notwithstanding the immediately preceding proviso, the amount excluded from L/C Obligations pursuant to such proviso shall never exceed $2,000,000 in the aggregate.

"L/C Reimbursement Obligations": the obligation of the Borrower to reimburse the Issuing Bank pursuant to subsection 5.5(a) for amounts drawn under Letters of Credit (including Existing Letters of Credit).

"L/C Participants": with respect to each Letter of Credit (including each Existing Letter of Credit), collectively, all the Lenders other than the Issuing Bank.

"Letters of Credit": as defined in subsection 3.1(a).

"Lien": any mortgage, pledge, hypothecation, assignment, deposit arrangement, encumbrance, lien (statutory or other), or preference, priority or other security agreement or preferential arrangement of any kind or nature whatsoever (including, without limitation, any conditional sale or other title retention agreement, any Financing Lease having substantially the same economic effect as any of the foregoing, and the filing of any financing statement under the Uniform Commercial Code or comparable law of any jurisdiction in respect of any of the foregoing).

"Loans": as defined in subsection 2.1.

"Loan Documents": this Agreement, the Notes, the Security Documents, the Consent of Guarantors, any Application, any Acceptance Request, and all other documents executed and delivered in connection herewith or therewith, including any amendments, supplements or other modifications to any of the foregoing.

"Material Adverse Effect": a material adverse effect on (a) the business, operations, property or financial condition of the Borrower and its Subsidiaries taken as a whole, (b) the ability of the Borrower to perform its obligations under this Agreement, the Notes or any of the other Loan Documents, or (c) the validity or enforceability of this Agreement, the Notes or any of the other Loan Documents or the rights or remedies of the Agent, the Collateral Agent or the Lenders hereunder or thereunder.

"Material Foreign Subsidiary": any Subsidiary, other than a Domestic Subsidiary, which (a) has total assets of $5,000,000 (or the equivalent thereof in any foreign currency) or greater or (b) has net income in Dollars (or

the equivalent thereof in any foreign currency) in any year equal to or in excess of an amount equal to 10% of Consolidated Net Income for such year, in either such case as determined in accordance with GAAP or the comparable principles of any foreign country used in the preparation of the financial statements of such Subsidiary.

"Materials of Environmental Concern": any gasoline or petroleum (including crude oil or any fraction thereof) or petroleum products or any hazardous or toxic substances, materials or wastes, defined or regulated as such in or under any Environmental Law, including, without limitation, asbestos, polychlorinated biphenyls and urea-formaldehyde insulation.

"Multiemployer Plan": a Plan which is a multiemployer plan as defined in Section 4001(a)(3) of ERISA.

"Non-Excluded Taxes": as defined in subsection 5.15.

"Note": the collective reference to the promissory notes, substantially in the form of Exhibit A hereto, issued pursuant to this Agreement, including, without limitation, the promissory notes issued pursuant to subsection 2.2.

"Participant": as defined in subsection 12.6(b).

"Participating Lender": any Lender (other than the Issuing Bank or the Accepting Bank, as the case may be) with respect to its Participating Interest in each Letter of Credit (including each Existing Letter of Credit) and Acceptance (including each Existing Acceptance).

"Participating Interest": with respect to each Letter of Credit (including each Existing Letter of Credit) or Acceptance (including each Existing Acceptance), (i) in the case of the Issuing Bank or the Accepting Bank, as the case may be, its interest (a) in such Letter of Credit and any Application relating thereto or (b) in such Acceptance and any Acceptance Request relating thereto, as the case may be, in either case after giving effect to the granting of any participating interests therein pursuant to this Agreement and (ii) in the case of each Participating Lender, its undivided participating interest (a) in such Letter of Credit and any Application relating thereto or (b) in such Acceptance and any Acceptance Request relating thereto, as the case may be.

"PBGC": the Pension Benefit Guaranty Corporation established pursuant to Subtitle A of Title IV of ERISA.

"Person": an individual, partnership, corporation, business trust, joint stock company, limited liability company, trust, unincorporated association, joint venture,

Governmental Authority or other entity of whatever nature.

"Plan": at a particular time, any employee benefit plan which is covered by ERISA and in respect of which the Borrower or a Commonly Controlled Entity is (or, if such plan were terminated at such time, would under Section 4069 of ERISA be deemed to be) an "employer" as defined in Section 3(5) of ERISA.

"Proceeds": as defined in the UCC.

"Purchasing Lenders": as defined in subsection 12.6(c).

"Reimbursement and Cash Collateral Agreement": the Reimbursement and Cash Collateral Agreement, dated as of March 15, 1994, between the Borrower and Chemical, as the same may be amended, supplemented or otherwise modified from time to time in accordance with the terms of this Agreement.

"Registration Rights Agreement": the Registration Rights Agreement made and entered into as of May 6, 1992, by and between the Borrower and the Existing Noteholders.

"Regulation U": Regulation U of the Board of Governors of the Federal Reserve System.

"Reimbursement Obligations": collectively, the L/C Reimbursement Obligations and the Acceptance Reimbursement Obligations.

"Reorganization": with respect to any Multiemployer Plan, the condition that such plan is in reorganization within the meaning of Section 4241 of ERISA.

"Reportable Event": any of the events set forth in Section 4043(b) of ERISA, other than those events as to which the thirty day notice period is waived under subsection .13, .14, .16, .18, .19 or .20 of PBGC Reg. Sec.2615.

"Required Lenders": at any time, Lenders the Commitment Percentages of which then aggregate at least 66-2/3%.

"Requirement of Law": as to any Person, the Certificate of Incorporation and By-Laws or other organizational or governing documents of such Person, and any law, treaty, rule or regulation or determination of an arbitrator or a court or other Governmental Authority, in each case applicable to or binding upon such Person or any of its property or to which such Person or any of its material property is subject.

"Responsible Officer": the chief executive officer, the president or the chief financial officer of the Borrower.

"Security Documents": collectively, the Borrower Security Agreement, the Subsidiaries Guarantee and the Subsidiaries Security Agreement and any other agreement or document executed in connection with this Agreement or any other Security Document which is intended to provide security for the obligations of the Borrower and the Subsidiaries under or in respect of this Agreement, including, without limitation, any security agreement or document executed pursuant to subsection 8.7.

"Single Employer Plan": any Plan which is covered by Title IV of ERISA, but which is not a Multiemployer Plan.

"Standby L/C Commitment": $5,000,000.

"Standby Letters of Credit": as defined in subsection 3.1(b).

"Standby L/C Obligations": at any time, an amount equal to the sum of (a) the aggregate then undrawn and unexpired amount of the then outstanding Standby Letters of Credit and (b) the aggregate amount of unpaid Standby L/C Reimbursement Obligations at such time.

"Steamship Guarantee": as defined in subsection 3.1(b).

"Subordinated Debenture Indenture": the Indenture dated as of March 15, 1994, among the Borrower and Continental Stock Transfer & Trust Company, as the same may be amended, supplemented or otherwise modified from time to time in accordance with the terms of this Agreement.

"Subordinated Debentures": the 6-1/4% Convertible Subordinated Debentures due 2001 issued by the Borrower pursuant to the Subordinated Debenture Indenture.

"Subsidiaries Guarantee": the Amended and Restated Subsidiaries Guarantee, dated as of March 15, 1994, made by the Subsidiaries parties thereto in favor of the Collateral Agent, a copy of which is attached hereto as Exhibit K.

"Subsidiaries Security Agreement": the Amended and Restated Security Agreement, dated as of March 15, 1994, made by the Subsidiaries parties thereto in favor of the Collateral Agent, a copy of which is attached hereto as Exhibit L.

"Subsidiary": as to any Person, a corporation, partnership or other entity of which more than 50% of the

shares of stock, or other ownership interests having ordinary voting power (other than stock or such other ownership interests having such power only by reason of the happening of a contingency) to elect a majority of the board of directors or other managers of such corporation, partnership or other entity, are at the time owned, directly or indirectly, through one or more intermediaries, or both, by such Person. Unless otherwise qualified, all references to a "Subsidiary" or "Subsidiaries" shall refer to a Subsidiary or Subsidiaries of the Borrower and shall include, without limitation, the corporations listed in Schedule 6.15 under the headings "Domestic Subsidiaries", "Canadian Subsidiaries" and "Material Foreign Subsidiaries".

"Talk Corporation": as defined in subsection 9.9(f).

"Talk Note": the note issued by the Borrower to General Leasing USA in the aggregate principal amount of Yen500,000,000.

"Termination Date": February 28, 1997.

"Trade Letters of Credit": as defined in subsection 3.1(b).

"Transferee": as defined in subsection 12.6(f).

"Type": as to any Loan, its nature as a Chemical Rate Loan or a Eurodollar Loan.

"UCC": the Uniform Commercial Code as from time to time in effect in the State of New York.

"Uniform Customs": the Uniform Customs and Practice for Documentary Credits (1993 Revision), International Chamber of Commerce Publication No. 500, as the same may be amended from time to time.

1.2 Other Definitional Provisions. (a) Unless otherwise specified therein, all terms defined in this Agreement shall have the defined meanings when used in the Notes or any certificate or other document made or delivered pursuant hereto.

(b) As used herein and in the Notes, and any certificate or other document made or delivered pursuant hereto, accounting terms relating to the Borrower and its Subsidiaries not defined in subsection 1.1 and accounting terms partly defined in subsection 1.1, to the extent not defined, shall have the respective meanings given to them under GAAP.

(c) The words "hereof", "herein" and "hereunder" and words of similar import when used in this Agreement shall refer to this Agreement as a whole and not to any particular provision

of this Agreement, and Section, subsection, Schedule and Exhibit references are to this Agreement unless otherwise specified.

(d) The meanings given to terms defined herein shall be equally applicable to both the singular and plural forms of such terms.

SECTION 2. AMOUNT AND TERMS OF LOANS

2.1 Commitments. (a) Subject to the terms and conditions hereof, each Lender severally agrees to make revolving credit loans ("Loans") to the Borrower from time to time during the Commitment Period in an aggregate principal amount at any one time outstanding, when added to such Lender's Commitment Percentage of the then outstanding L/C Obligations and Acceptance Obligations, not to exceed the lesser of (A) the amount of such Lender's Commitment and (B) such Lender's Commitment Percentage share of the Borrowing Base then in effect. During the Commitment Period the Borrower may use the Commitments by borrowing, prepaying the Loans in whole or in part, and reborrowing, all in accordance with the terms and conditions hereof.

(b) The Loans may from time to time be (i) Eurodollar Loans, (ii) Chemical Rate Loans or (iii) a combination thereof, as determined by the Borrower and notified to the Agent in accordance with subsections 2.3 and 5.8, provided that no Loan shall be made or continued as or converted to a Eurodollar Loan after the day that is one month prior to the Termination Date.

2.2 Notes. The Loans made by each Lender shall be evidenced by a Note, substantially in the form of Exhibit A hereto, with appropriate insertions as to payee, date and principal amount, payable to the order of such Lender and in a principal amount equal to the lesser of (a) the amount set forth opposite such Lender's name on Schedule I hereto under the heading "Commitment" and (b) the aggregate unpaid principal amount of all Loans made by such Lender. Each Lender is hereby authorized to record the date, Type and amount of each Loan made by such Lender, each continuation thereof, each conversion of all or a portion thereof to another Type, the date and amount of each payment or prepayment of principal thereof and, in the case of Eurodollar Loans, the Eurodollar Rate and the length of each Interest Period with respect thereto, on the schedule annexed to and constituting a part of its Note, and any such recordation shall constitute prima facie evidence of the accuracy of the information so recorded; provided that the failure by any Lender to make any such recordation on its Note (or any error therein) shall not affect any of the obligations of the Borrower under such Note or this Agreement. Each Note shall (x) be dated the Closing Date, (y) be stated to mature on the Termination Date and (z) provide for the payment of interest in accordance with subsection 5.6.

2.3 Procedure for Revolving Credit Borrowing. The Borrower may borrow under the Commitments during the Commitment Period on any Business Day, provided that the Borrower shall give the Agent irrevocable notice (which notice must be received by the Agent prior to 11:30 A.M., New York City time, (a) three Business Days prior to the requested Borrowing Date, if all or any part of the requested Loans are to be initially Eurodollar Loans or (b) on the requested Borrowing Date, otherwise), specifying (i) the amount to be borrowed, (ii) the requested Borrowing Date, (iii) whether the borrowing is to be of Eurodollar Loans, Chemical Rate Loans or a combination thereof and (iv) if the borrowing is to be entirely or partly of Eurodollar Loans, the amount of such Eurodollar Loans and the respective lengths of the initial Interest Periods therefor. Each borrowing under the Commitments shall be in an amount equal to (x) in the case of Chemical Rate Loans, $500,000 or a whole multiple thereof (or, if the then Available Commitments are less than $500,000, such lesser amount) and (y) in the case of Eurodollar Loans, an amount equal to $1,500,000 or a whole multiple of $500,000 in excess thereof. Upon receipt of any such notice from the Borrower, the Agent shall (a) in the case of a notice requesting a borrowing of Eurodollar Loans, promptly notify each Lender thereof and (b) in the case of a notice requesting a borrowing of Chemical Rate Loans, notify each Lender thereof prior to 1:00 P.M. on the requested Borrowing Date. Each Lender will make the amount of its pro rata share of each borrowing available to the Agent for the account of the Borrower at the office of the Agent specified in subsection 12.2 prior to 2:00 P.M., New York City time, on the Borrowing Date requested by the Borrower in funds immediately available to the Agent. Such borrowing will then be made available to the Borrower by the Agent crediting the account of the Borrower on the books of such office with the aggregate of the amounts made available to the Agent by the Lenders and in like funds as received by the Agent.

SECTION 3. AMOUNT AND TERMS OF LETTERS OF CREDIT

3.1 Letters of Credit. (a) Subject to the terms and conditions hereof, the Issuing Bank, in reliance on the agreements of the other Lenders set forth in subsection 3.4(a), agrees to issue letters of credit, steamship guarantees and airway releases (collectively, "Letters of Credit") for the account of the Borrower on any Business Day during the Commitment Period in such form as may be approved from time to time by the Issuing Bank; provided that the Issuing Bank shall not issue any Letter of Credit if, after giving effect to such issuance, the Aggregate Outstanding Extensions of Credit of the Lenders would exceed the lesser of (i) the Commitments and (ii) the Borrowing Base then in effect; and provided, further, that the Issuing Bank shall not issue any Standby Letter of Credit if, after giving effect to such issuance, the Standby L/C Obligations would exceed the Standby L/C Commitment. On the Closing Date, the Existing Letters of Credit outstanding on the Closing Date shall be deemed

to be Letters of Credit issued and outstanding under this Agreement.

(b) Each Letter of Credit shall (i) (A) be denominated in Dollars, Japanese Yen or any other currency reasonably acceptable to the Issuing Bank and shall be either (x) a documentary letter of credit in respect of the purchase of goods or services by the Borrower in the ordinary course of business (a "Trade Letter of Credit") or (y) a standby letter of credit issued to support obligations of the Borrower, contingent or otherwise, in favor of such beneficiaries as the Borrower may specify from time to time (which shall be reasonably satisfactory to the Issuing Bank) (a "Standby Letter of Credit"), (B) subject to the subsection 3.1(e) hereof, expire no later than, in the case of Trade Letters of Credit, 90 days after the date of issuance and, in the case of Standby Letters of Credit, 360 days after the date of issuance, and in any event no later than the Termination Date and (C) be payable at sight or (ii) be a steamship guarantee (a "Steamship Guarantee") or airway release (an "Airway Release") denominated in Dollars and issued in a form satisfactory to the Issuing Bank for the benefit of a shipper of goods the purchase of which has been financed through the issuance of a Trade Letter of Credit.

(c) Each Letter of Credit shall be subject to the Uniform Customs (except to the extent that any Existing Letter of Credit continues to be subject to the Uniform Customs and Practice for Documentary Credits (1983 Revision), International Chamber of Commerce Publication No. 400, in accordance with its terms), and, to the extent not inconsistent therewith, the laws of the State of New York.

(d) The Issuing Bank shall not at any time issue any Letter of Credit hereunder if such issuance would conflict with, or cause the Issuing Bank or any L/C Participant to exceed any limits imposed by, any applicable Requirement of Law.

(e) Subject to the terms and conditions hereof, the Borrower may request the extension or amendment of any Trade Letter of Credit (including any Existing Letter of Credit) issued hereunder by giving written notice to the Issuing Bank with respect thereto at least five Business Days prior to the then current expiration date of such Letter of Credit, and the Issuing Bank may, in its discretion, grant such extension or amendment and, if such extension or amendment is granted, shall furnish the Agent with a copy of such extended or amended Trade Letter of Credit, provided that no extension or amendment of any Trade Letter of Credit (including any Existing Letter of Credit) shall be granted if (i) such extension or amendment would be for a period of more than 90 days, (ii) prior to such extension or amendment, such Trade Letter of Credit shall have been extended or amended five times, (iii) after giving effect to such extension or amendment, such Letter of Credit would expire later than 360 days after the date of issuance of such Letter of Credit

or later than the Termination Date, (iv) after giving effect to such extension or amendment, the Aggregate Outstanding Extensions of Credit of the Lenders would exceed the lesser of (A) the Commitments or (B) the Borrowing Base then in effect or (v) any Default or Event of Default has occurred and is continuing; provided, further, that (i) after giving effect to such extension or amendment, the Standby L/C Obligations would not exceed the Standby L/C Commitment and (ii) if such amendment (A) increases the face amount of the affected Trade Letter of Credit, the Borrower shall pay to the Agent, for the account of the Issuing Bank and the L/C Participants, a letter of credit commission or fee on the amount of such increase in the face amount of such Letter of Credit determined in accordance with subsection 3.3 as if the affected Trade Letter of Credit was issued on the date of such increase to be shared ratably among the Issuing Bank and the L/C Participants in accordance with their respective Commitment Percentages or (B) extends the maturity of the affected Trade Letter of Credit, the Borrower shall pay to the Agent, for the account of the Issuing Bank and the L/C Participants, a letter of credit commission or fee on the face amount of such Letter of Credit determined in accordance with subsection 3.3 as if the affected Trade Letter of Credit was issued on the date such extension becomes effective to be shared ratably among the Issuing Bank and the L/C Participants in accordance with their respective Commitment Percentages. It is understood and agreed that the Issuing Bank shall be under no obligation to issue any extension or amendment of a Letter of Credit.

(f) The Issuing Bank shall notify each Lender on a monthly basis of the issuance, extension or amendment of Letters of Credit, and any drawings or other payments under Letters of Credit, during such month, provided that the failure to give such notice shall not affect such Lender's obligations in respect of such Letter of Credit.

3.2 Procedure for Issuance, Extension or Amendment of Letters of Credit. The Borrower may from time to time request that the Issuing Bank issue a Letter of Credit by delivering to the Issuing Bank at its address for notices specified herein an Application therefor, including by electronic transmission, completed to the reasonable satisfaction of the Issuing Bank, and such other certificates, documents and other papers and information as the Issuing Bank may reasonably request. Upon receipt of any Application, the Issuing Bank will process such Application and the certificates, documents and other papers and information delivered to it in connection therewith in accordance with its customary procedures and shall promptly issue the Letter of Credit requested thereby (but in no event shall the Issuing Bank be required to issue any Letter of Credit earlier than three Business Days after its receipt of the Application therefor and all such other certificates, documents and other papers and information relating thereto) by issuing the original of such Letter of Credit to the beneficiary thereof or as otherwise may be agreed by the Issuing Bank and the Borrower. The Borrower may

request the extension or amendment of a Trade Letter of Credit in accordance with the provisions of subsection 3.1(e). If the Borrower requests such an extension or amendment, the Issuing Bank shall promptly notify the Borrower as to whether such extension or amendment will be granted (but in no event shall the Issuing Bank be required to give such notice to the Borrower earlier than two Business Days after its receipt of a request therefor). If such extension or amendment is granted, the Issuing Bank shall promptly issue such extension or amendment (but in no event shall the Issuing Bank be required to issue such extension or amendment earlier than three Business Days after its receipt of a request therefor) by issuing the original of such extended or amended Letter of Credit to the beneficiary thereof or as otherwise may be agreed by the Issuing Bank and the Borrower.

3.3 Fees, Commissions and Other Charges. (a) The Borrower shall pay to the Agent, for the account of the Issuing Bank and the L/C Participants, a letter of credit commission with respect to each Trade Letter of Credit in an amount equal to .25% of the face amount of such Trade Letter of Credit to be shared ratably among the Issuing Bank and the L/C Participants in accordance with their respective Commitment Percentages. Such commission shall be payable in advance on the date of issuance of each Trade Letter of Credit and shall be nonrefundable.

(b) The Borrower shall pay to the Agent, for the account of the Issuing Bank and the L/C Participants, a letter of credit fee with respect to each Standby Letter of Credit, computed for the period from the date of issuance to the date of expiration at the rate of 0.875% per annum (or as otherwise agreed from time to time among the Borrower and the Lenders), calculated on the basis of a 360 day year, of the aggregate amount available to be drawn under such Standby Letter of Credit on the date of issuance to be shared ratably among the Issuing Bank and the L/C Participants in accordance with their respective Commitment Percentages. Such commissions shall be payable in advance on the date of issuance of each Standby Letter of Credit and shall be nonrefundable.

(c) The Borrower shall pay to the Issuing Bank, for its own account, on the date of issuance of a Steamship Guarantee or Airway Release such processing fees as shall customarily be charged by the Issuing Bank in connection with issuance of a Steamship Guarantee or Airway Release.

(d) In addition to the foregoing commissions, the Borrower shall pay or reimburse the Issuing Bank for such normal and customary costs and expenses as are incurred or charged by the Issuing Bank in issuing, effecting payment under, amending or otherwise administering any Letter of Credit.

(e) The Agent shall, at the end of each month, distribute to the Issuing Bank and the L/C Participants all

commissions received by the Agent for their respective accounts pursuant to this subsection.

(f) No fees or other commissions shall be payable by any Issuing Bank to any L/C Participant with respect to any Existing Letter of Credit.

3.4 L/C Participations. (a) The Issuing Bank irrevocably agrees to grant and hereby grants to each L/C Participant, and, to induce the Issuing Bank to issue Letters of Credit (including Existing Letters of Credit) hereunder, each L/C Participant irrevocably agrees to accept and purchase and hereby accepts and purchases from the Issuing Bank, on the terms and conditions hereinafter stated, for such L/C Participant's own account and risk, an undivided interest equal to such L/C Participant's Commitment Percentage in the Issuing Bank's obligations and rights under each Letter of Credit issued hereunder and the amount of each draft paid or other payment made by the Issuing Bank thereunder. Each L/C Participant unconditionally and irrevocably agrees with the Issuing Bank that, if a draft is paid or any payment is otherwise made under any Letter of Credit (including any Existing Letter of Credit) for which the Issuing Bank is not reimbursed in full by the Borrower in accordance with the terms of this Agreement or the Application, as the case may be, such L/C Participant shall pay to the Issuing Bank upon demand at the Issuing Bank's address for notices specified herein an amount equal to such L/C Participant's Commitment Percentage of the amount of such draft or payment, or any part thereof, which is not so reimbursed.

(b) If any amount required to be paid by any L/C Participant to the Issuing Bank pursuant to subsection 3.4(a) in respect of any unreimbursed portion of any payment made by the Issuing Bank under any Letter of Credit (including any Existing Letter of Credit) is paid to the Issuing Bank within three Business Days after the date such payment is due, such L/C Participant shall pay to the Issuing Bank on demand an amount equal to the product of (i) such amount, times (ii) the daily average Federal funds rate, as quoted by the Issuing Bank, during the period from and including the date such payment is required to the date on which such payment is immediately available to the Issuing Bank, times (iii) a fraction the numerator of which is the number of days that elapse during such period and the denominator of which is 360. If any such amount required to be paid by any L/C Participant pursuant to subsection 3.4(a) is not in fact made available to the Issuing Bank by such L/C Participant within three Business Days after the date such payment is due, the Issuing Bank shall be entitled to recover from such L/C Participant, on demand, such amount with interest thereon calculated from such due date at the rate per annum applicable to Chemical Rate Loans which are not overdue hereunder. A certificate of the Issuing Bank submitted to any L/C Participant with respect to any amounts owing under this subsection shall be conclusive in the absence of manifest error.

(c) Whenever, at any time after the Issuing Bank has made payment under any Letter of Credit (including any Existing Letter of Credit) and has received from any L/C Participant its pro rata share of such payment in accordance with subsection 3.4(a), the Issuing Bank receives any payment related to such Letter of Credit (whether directly from the Borrower or otherwise, including proceeds of collateral applied thereto by the Issuing Bank), or any payment of interest on account thereof, the Issuing Bank will, within three Business Days after receipt thereof, distribute to such L/C Participant its pro rata share thereof; provided, however, that in the event that any such payment received by the Issuing Bank shall be required to be returned by the Issuing Bank, such L/C Participant shall, within three Business Days, return to the Issuing Bank the portion thereof previously distributed by the Issuing Bank to it. If any amount payable under this paragraph is paid within three Business Days after such payment is due, the Lender which owes such amount shall pay to the Lender to which such amount is owed on demand an amount equal to the product of (i) such amount, times (ii) the daily average Federal funds rate, as quoted by such Lender, during the period from and including the date such payment is required to the date on which such payment is made available to such Lender, times (iii) a fraction the numerator of which is the number of days that elapse during such period and the denominator of which is 360. If any amount required to be paid under this paragraph is not in fact made available to the Lender to which such amount is owed within three Business Days after the date such payment is due, such Lender shall be entitled to recover from the Lender which owes such amount, on demand, such amount with interest thereon calculated from such due date at the rate per annum applicable to Chemical Rate Loans which are not overdue hereunder.

3.5 Obligations Absolute. The Borrower's obligations under this Section 3 and subsection 5.5(a) shall be absolute and unconditional under any and all circumstances and irrespective of any set-off, counterclaim or defense to payment which the Borrower may have or have had against the Issuing Bank or any beneficiary of a Letter of Credit (including any Existing Letter of Credit). The Borrower also agrees with the Issuing Bank that the Issuing Bank shall not be responsible for, and the Borrower's L/C Reimbursement Obligations under subsection 5.5(a) shall not be affected by, among other things, the validity or genuineness of documents or of any endorsements thereon, even though such documents shall in fact prove to be invalid, fraudulent or forged, or any dispute between or among the Borrower and any beneficiary of any Letter of Credit (including any Existing Letter of Credit) or any other party to which such Letter of Credit may be transferred or any claims whatsoever of the Borrower against any beneficiary of such Letter of Credit or any such transferee. The Issuing Bank shall not be liable for any error, omission, interruption or delay in transmission, dispatch or delivery of any message or advice, however transmitted, in connection with any Letter of Credit (including any Existing

Letter of Credit), except for errors or omissions caused by the Issuing Bank's gross negligence or willful misconduct. The Borrower agrees that any action taken or omitted by the Issuing Bank under or in connection with any Letter of Credit (including any Existing Letter of Credit) or the related drafts or documents, if done in the absence of gross negligence or willful misconduct and in accordance with the standards of care specified in the UCC, shall be binding on the Borrower and shall not result in any liability of the Issuing Bank to the Borrower.

3.6 Letter of Credit Payments. If any draft shall be presented for payment or any payment is otherwise demanded under any Letter of Credit (including any Existing Letter of Credit), the Issuing Bank shall promptly notify the Borrower of the date and amount thereof. The responsibility of the Issuing Bank to the Borrower in connection with any draft presented for payment or other payment demanded under any Letter of Credit (including any Existing Letter of Credit) shall, in addition to any payment obligation expressly provided for in such Letter of Credit, be limited to determining that the documents (including each draft) delivered under such Letter of Credit in connection with such presentment are in conformity with such Letter of Credit.

3.7 Application. To the extent that any provision of any Application related to any Letter of Credit (including any Existing Letter of Credit) is inconsistent with any provisions of this Agreement, such provisions of this Agreement shall apply. The Borrower acknowledges and agrees that all rights of the Issuing Bank under any Application shall inure to the benefit of each Participating Bank to the extent of its Commitment Percentage as fully as if such Participating Bank was a party to such Application.

SECTION 4. AMOUNT AND TERMS OF ACCEPTANCES

4.1 Acceptances. (a) Subject to the terms and conditions hereof, the Accepting Bank, in reliance on the agreements of the other Lenders set forth in subsection 4.3(a), agrees to create acceptances ("Acceptances") in respect of Drafts drawn on the Accepting Bank by the Borrower and discounted by the Accepting Bank for the account of the Borrower on any Business Day during the Commitment Period; provided that the Accepting Bank shall not create any Acceptance, if after giving effect to such creation, the Aggregate Outstanding Extensions of Credit of the Lenders would exceed the lesser of (x) the Commitments and (y) the Borrowing Base then in effect; provided, further, that concurrently therewith, the Borrower requests that such Bank discount such Draft pursuant to subsection 4.4. On the Closing Date, the Existing Acceptances outstanding on the Closing Date shall be deemed to be Acceptances created and outstanding under this Agreement.

(b) The Accepting Bank shall not at any time create an Acceptance hereunder if such creation would conflict with, or cause the Accepting Bank or any Acceptance Participant to exceed any limits imposed by, any applicable Requirement of Law or if, for reasons beyond the control of the Accepting Bank, such Acceptance does not comply with applicable requirements of Section 13 of the Federal Reserve Act or the regulations of the Board of Governors of the Federal Reserve System of the United States of America governing the creation and discounting of, and the maintenance of reserves with respect to, bankers' acceptances.

(c) The Accepting Bank shall notify each Lender on a monthly basis of the creation of Acceptances during such month, provided that the failure to give
----
such notice shall not affect such Lender's obligations in respect of such Acceptance.

4.2 Procedure for Creation of Acceptances. (a) The Borrower may
----
from time to time request the creation of Acceptances hereunder by delivering to the Accepting Bank at its address for notices specified herein on the date a draft presented under any Letter of Credit is paid, (i) an Acceptance Request, completed to the reasonable satisfaction of the Accepting Bank and specifying, among other things, the date (which must be a Business Day), maturity and amount of the Draft to be accepted, (ii) to the extent not theretofore supplied to the Accepting Bank in accordance with subsection 4.7, a Draft to be drawn on the Accepting Bank, appropriately completed in accordance with this subsection 4.2 and (iii) such other certificates, documents and other papers and information as the Accepting Bank may reasonably request.

(b) Each Draft submitted by the Borrower for acceptance hereunder shall be denominated in Dollars, shall be dated the date specified in the Acceptance Request with respect thereto and shall be stated to mature on a Business Day which is 30, 60 or 90 days after the date thereof and, in any event, not more than 90 days after the anticipated date of shipment specified in the relevant Acceptance Request. No Acceptance created hereunder shall (i) be created more than 30 days after the date of any shipments of goods to which such Acceptance relates, (ii) have a tenor in excess of the period of time which is usual and reasonably necessary to finance transactions of a similar character, (iii) be in a face amount of less than $250,000 or (iv) be in a face amount which, when taken together with all other Acceptances and other financings relating to the shipment of goods to which such Acceptance relates, exceeds the fair market value of such shipment.

(c) Subject to subsection 4.2(d), not later than the close of business at its address for notices specified herein on the Business Day specified in an Acceptance Request, and upon fulfillment of the applicable conditions set forth in Section 7, the Accepting Bank shall, in accordance with such Acceptance

Request, (i) complete the date, amount and maturity of each Draft presented for acceptance (to the extent not completed by the Borrower), (ii) accept such Drafts and (iii) upon such acceptance, discount such Acceptances in accordance with subsection 4.4.

(d) The acceptance and discounting of Drafts by the Accepting Bank hereunder shall at all times be in the discretion of the Accepting Bank.

4.3 Acceptance Participations. (a) The Accepting Bank irrevocably agrees to grant and hereby grants to each Acceptance Participant, and, to induce the Accepting Bank to create Acceptances (including Existing Acceptances) hereunder, each Acceptance Participant irrevocably agrees to accept and purchase and hereby accepts and purchases from the Accepting Bank, on the terms and conditions hereinafter stated, for such Acceptance Participant's own account and risk, an undivided interest equal to such Acceptance Participant's Commitment Percentage in the Accepting Bank's obligations and rights under each Acceptance created hereunder and the face amount of each Acceptance created by the Accepting Bank. Each Acceptance Participant unconditionally and irrevocably agrees with the Accepting Bank that, if the Accepting Bank is not reimbursed in full by the Borrower for the face amount of any Acceptance in accordance with the terms of this Agreement, such Acceptance Participant shall pay to the Accepting Bank upon demand at the Accepting Bank's address for notices specified herein an amount equal to such Acceptance Participant's Commitment Percentage of the face amount of such Acceptance, or any part thereof, which is not so reimbursed.

(b) If any amount required to be paid by any Acceptance Participant to the Accepting Bank pursuant to subsection 4.3(a) in respect of any unreimbursed portion of any payment made by the Accepting Bank under any Acceptance is paid to the Accepting Bank within three Business Days after the date such payment is due, such Acceptance Participant shall pay to the Accepting Bank on demand an amount equal to the product of (1) such amount, times (2) the daily average Federal funds rate, as quoted by the Accepting Bank, during the period from and including the date such payment is required to the date on which such payment is immediately available to the Accepting Bank, times (3) a fraction the numerator of which is the number of days that elapse during such period and the denominator of which is 360. If any such amount required to be paid by any Acceptance Participant pursuant to subsection 4.3(a) is not in fact made available to the Accepting Bank by such Acceptance Participant within three Business Days after the date such payment is due, the Accepting Bank shall be entitled to recover from such Acceptance Participant, on demand, such amount with interest thereon calculated from such due date at the rate per annum applicable to Chemical Rate Loans which are not overdue hereunder. A certificate of the Accepting Bank submitted to any

Acceptance Participant with respect to any amounts owing under this subsection shall be conclusive in the absence of manifest error.

(c) Whenever, at any time after the Accepting Bank has made payment under any Acceptance and has received from any Acceptance Participant its pro rata share of such payment in accordance with subsection 4.3(a), the Accepting Bank receives any payment related to such Acceptance (whether directly from the Borrower or otherwise, including proceeds of collateral applied thereto by the Accepting Bank), or any payment of interest on account thereof, the Accepting Bank will, within three Business Days after receipt thereof, distribute to such Acceptance Participant its pro rata share thereof; provided, however, that in the event that any such payment received by the Accepting Bank shall be required to be returned by the Accepting Bank, such Acceptance Participant shall, within three Business Days, return to the Accepting Bank the portion thereof previously distributed by the Accepting Bank to it. If any amount payable under this paragraph is paid within three Business Days after such payment is due, the Lender which owes such amount shall pay to the Lender to which such amount is owed on demand an amount equal to the product of (i) such amount, times (ii) the daily average Federal funds rate, as quoted by such Lender, during the period from and including the date such payment is required to the date on which such payment is made available to such Lender, times (iii) a fraction the numerator of which is the number of days that elapse during such period and the denominator of which is 360. If any amount required to be paid under this paragraph is not in fact made available to the Lender to which such amount is owed within three Business Days after the date such payment is due, such Lender shall be entitled to recover from the Lender which owes such amount, on demand, such amount with interest thereon calculated from such due date at the rate per annum applicable to Chemical Rate Loans which are not overdue hereunder.

4.4 Discount of Acceptances. (a) The Accepting Bank agrees, on the terms and conditions of this Agreement, that on any date on which it creates an Acceptance hereunder, the Accepting Bank will discount such Acceptance at the Acceptance Rate, by making available to the Borrower an amount in immediately available funds equal to the face amount of each Acceptance created by the Accepting Bank on such date less such discount and notify the Agent that such Draft has been accepted and discounted by the Accepting Bank. The Accepting Bank will then pay to the Agent for the account of the Borrower an amount equal to the proceeds of such discount.

(b) On the date that any Acceptance is discounted pursuant to subsection 4.4(a), the Accepting Bank shall pay to each Acceptance Participant an amount equal to 2% of such Acceptance Participant's Commitment Percentage of the face amount of such Acceptance.

4.5 Mandatory Prepayment. (a) In the event that (i) there is a determination made by any regulatory body or instrumentality thereof (including, without limitation, any Federal Reserve Bank or any bank examiner), or there is a change in, or change in interpretation of, any applicable law, rule or regulation (such determination or such change, a "Reserve Determination"), in either case to the effect that any bankers' acceptance created hereunder or in connection with a substantially similar facility (whether or not the Borrower or any Bank is directly involved as a party) will be ineligible for reserve-free treatment (or, if already discounted, should have been ineligible for reserve-free treatment) under Section 13 of the Federal Reserve Act or any other regulation or rule of the Board of Governors of the Federal Reserve System of the United States of America, and as a result any Lender is required to maintain, or determines as a matter of prudent banking practice that it is appropriate for it to maintain, additional reserves, or (ii) any restriction is imposed on any Lender (including, without limitation, any change in acceptance limits imposed on any Lender) which would prevent such Lender from creating or participating in bankers' acceptances or otherwise performing its obligations in respect of the Acceptances, then, with the consent of the Required Lenders, the Agent may, or upon the direction of the Required Lenders, the Agent shall, by notice to the Borrower in accordance with subsection 12.2, demand prepayment of all outstanding Acceptances (if such prepayment is required), and the Accepting Bank shall have no further obligation to accept or discount Drafts hereunder. The Borrower agrees that it shall, within two Business Days of its receipt of a notice of mandatory prepayment of the Acceptances, prepay all Acceptance Obligations in accordance with the provisions of subsection 4.5(b) hereof.

(b) Any prepayment of any Acceptance Obligation made pursuant hereto shall be made to the Accepting Bank and shall be in an amount equal to the face amount of such Acceptance minus a prepayment discount calculated by the Accepting Bank in accordance with its customary practice for similar Acceptances and communicated to the Borrower; provided that, in the event that the Borrower fails to make such prepayment as provided in this subsection 4.5(b), such Acceptance Obligation shall be automatically converted into Chemical Rate Loans in the amount of such prepayment. The Borrowing Date with respect to such borrowing shall be the date of such prepayment.

(c) Except as otherwise provided herein, Acceptances may not be prepaid prior to maturity.

4.6 Obligations Absolute. The Borrower's obligations under this Section 4 and subsection 5.5(b) shall be absolute and unconditional under any and all circumstances and irrespective of any set-off, counterclaim or defense to payment which the Borrower may have or have had against the Accepting Bank. The Borrower also agrees with the Accepting Bank that the Accepting Bank shall not be responsible for, and the Borrower's Acceptance

Reimbursement Obligations under subsection 5.5(b) shall not be affected by, among other things, the validity or genuineness of documents or of any endorsements thereon, even though such documents shall in fact prove to be invalid, fraudulent or forged, or any dispute between or among the Borrower or any other party to which such Acceptance may be transferred or any claims whatsoever of the Borrower or any such transferee. The Borrower agrees that any action taken or omitted by the Accepting Bank under or in connection with any Acceptance or the related drafts or documents, if done in the absence of gross negligence or willful misconduct and in accordance with the standards of care specified in the UCC, shall be binding on the Borrower and shall not result in any liability of the Accepting Bank to the Borrower.

4.7 Supply of Drafts. To enable the Accepting Bank to create Acceptances in the manner specified in this Section 4, the Borrower may provide to the Accepting Bank, on the Closing Date and thereafter from time to time upon request of the Agent or the Accepting Bank, such number of blank Drafts conforming to the requirements hereof as the Agent or the Accepting Bank may reasonably request, each duly executed on behalf of the Borrower, and the Accepting Bank shall hold any such documents in safekeeping. The Borrower and the Accepting Bank hereby agree that in the event that any authorized signatory of the Borrower whose signature shall appear on any Draft shall cease to have such authority at the time that an Acceptance is to be created with respect thereto, such signature shall nevertheless be valid and sufficient for all purposes as if such authority had remained in full force and effect at the time of such creation.

4.8 Delivery of Certain Documentation. Upon request by the Agent or the Accepting Bank, the Borrower shall furnish to the Agent or the Accepting Bank (a) a copy of the contract of sale or any bill of lading, warehouse receipt, policy or certificate of insurance or other document covering or otherwise relating to each shipment of goods specified in the Acceptance Request relating to such Acceptance and (b) such other documents or information as the Accepting Bank or the Agent shall reasonably request with respect to the creation of such Acceptance.

4.9 Notice. The Agent shall notify the Federal Reserve Bank of New York of the terms under which Acceptances may be made if requested or required to do so by such institution.

4.10 Use of Proceeds. The proceeds of the Acceptances shall be used solely to finance the payment of an L/C Obligation with respect to any Letter of Credit which relates to the purchase of Inventory of the Borrower in transactions which fulfill the requirements of Section 13 of the Federal Reserve Act or the regulations of the Board of Governors of the Federal Reserve System of the United States of America governing the

creation and discounting of, and the maintenance of reserves with respect to, bankers' acceptances.

SECTION 5. GENERAL PROVISIONS APPLICABLE TO THE LOANS, LETTERS OF CREDIT AND ACCEPTANCES.

5.1 Termination or Reduction of Commitments. (a) The Borrower shall have the right, upon not less than five Business Days' notice to the Agent, to terminate the Commitments or, from time to time, reduce the amount of the Commitments to an amount not less than the sum of (i) the aggregate principal amount of the Loans then outstanding after giving effect to any contemporaneous prepayment thereof, and (ii) the then outstanding L/C Obligations and Acceptance Obligations. Any termination of the Commitments shall be accompanied by the prepayment in full of the Loans, together with accrued interest thereon to the date of such prepayment, the collateralization of the then outstanding L/C Obligations and Acceptance Obligations in accordance with subsection 5.3(a), and the payment of any unpaid commitment fee and any other fees and commissions then accrued hereunder with respect to the Commitments and any other amounts payable hereunder. Any such reduction shall be in an amount of $1,000,000 or a whole multiple of $500,000 in excess thereof and shall reduce permanently pro rata in accordance with subsection 5.11 the amount of the Commitments then in effect.

5.2 Optional Prepayments. The Borrower may on the last day of any Interest Period with respect thereto, in the case of Eurodollar Loans, or at any time and from time to time, in the case of Chemical Rate Loans, prepay the Loans, in whole or in part, without premium or penalty, upon at least four Business Days' irrevocable notice to the Agent, specifying the date and amount of prepayment and whether the prepayment is of Eurodollar Loans, Chemical Rate Loans or a combination thereof, and, if of a combination thereof, the amount allocable to each. Upon receipt of any such notice the Agent shall promptly notify each Lender thereof. If any such notice is given, the amount specified in such notice shall be due and payable on the date specified therein, together with any amounts payable pursuant to subsection 5.13. Partial prepayments shall be in an aggregate principal amount of $1,000,000 or a whole multiple thereof.

5.3 Mandatory Prepayments. (a) The Borrower, without notice or demand, shall immediately prepay the Loans to the extent, if any, that at any time the Aggregate Outstanding Extensions of Credit at such time exceeds the Commitments of all the Lenders then in effect. To the extent that after giving effect to any prepayment of the Loans required by the immediately preceding sentence, the Aggregate Outstanding Extensions of Credit of the Lenders exceed the Commitments of all the Lenders then in effect, the Borrower shall, without notice or demand, immediately deposit in a cash collateral account with the Agent, having terms and conditions substantially the same as the

relevant provisions contained in the Reimbursement and Cash Collateral Agreement and otherwise satisfactory in form and substance to the Agent, as cash collateral security for the liability of the Issuing Bank (whether direct or contingent) under any Letters of Credit (including any Existing Letters of Credit) then outstanding or of the Accepting Bank (whether direct or contingent) under any Acceptances (including any Existing Acceptances) then outstanding, an aggregate amount equal to the amount by which the Aggregate Outstanding Extensions of Credit of the Lenders exceed the Commitments of all the Lenders then in effect.

(b) If, at any time during the Commitment Period, the Aggregate Outstanding Extensions of Credit of the Lenders exceed the Borrowing Base then in effect, the Borrower shall, without notice or demand, immediately prepay the Loans in an aggregate principal amount equal to such excess, together with commitment fees and letter of credit fees accrued to the date of such payment or prepayment. To the extent that after giving effect to any prepayment of the Loans required by the immediately preceding sentence, the Aggregate Outstanding Extensions of Credit of the Lenders exceed the Borrowing Base then in effect, the Borrower shall, without notice or demand, immediately deposit in a cash collateral account with the Agent, having terms and conditions substantially the same as the relevant provisions contained in the Reimbursement and Cash Collateral Agreement and otherwise satisfactory in form and substance to the Agent, as cash collateral security for the liability of the Issuing Bank (whether direct or contingent) under any Letters of Credit (including any Existing Letters of Credit) then outstanding or of the Accepting Bank (whether direct or contingent) under any Acceptances (including any Existing Acceptances) then outstanding, an aggregate amount equal to the amount by which the Aggregate Outstanding Extensions of Credit of the Lenders exceed the Borrowing Base then in effect.

(c) Interest accrued on any Loans prepaid pursuant to this subsection 5.3 to and including the date of such prepayment shall be payable on the next succeeding Interest Payment Date following the date on which such prepayment is made. All prepayments pursuant to this subsection 5.3 shall be subject to the provisions of subsection 5.13.

5.4 Commitment Fee. (a) The Borrower agrees to pay to the Agent for the account of the Lenders a commitment fee for the period from and including the first day of the Commitment Period to and including the Termination Date or such earlier date as the Commitments shall terminate as provided herein, computed at the rate of 0.25% per annum on the Available Commitments during the period for which payment is made, payable quarterly in arrears on the last day of each February, May, August and November and on the Termination Date or such earlier date as the Commitments shall terminate as provided herein, commencing on the first of such dates to occur after the date hereof.

(b) The Borrower agrees to pay to the Agent for the account of the Lenders the fees required to be paid pursuant to the Fee Letter, dated as of May 5, 1995, from the Borrower to the Agent.

(c) The Borrower agrees to pay to the Agent during the period from the first day of the Commitment Period to the Termination Date or such earlier date as the Commitments shall terminate as provided herein, as compensation for its services as Agent hereunder, an administrative fee of $36,000 per year, payable in advance on the Closing Date and on each anniversary of the Closing Date.

5.5 Reimbursement Obligations of the Borrower. (a) The Borrower agrees to reimburse the Issuing Bank on demand on each date on which the Issuing Bank notifies the Borrower of the date and amount of a draft presented or other payment demanded under any Letter of Credit (including any Existing Letter of Credit) and paid by the Issuing Bank for the amount of (i) such draft so paid or payment so made and (ii) any taxes, reasonable fees, charges or other costs or expenses incurred by the Issuing Bank in connection with such payment. Each such payment shall be made to the Issuing Bank at its address for notices specified herein in Dollars and in immediately available funds. Each drawing or other payment under any Letter of Credit shall constitute a request by the Borrower to the Agent for a borrowing pursuant to subsection 2.1 of a Chemical Rate Loan in the amount of such drawing or payment. The Borrowing Date with respect to such borrowing shall be the date of such drawing or other payment if such drawing or payment is made prior to 10:00 A.M. on such date and otherwise the first Business Day following the date of such drawing or payment.

(b) The Borrower shall be obligated, and hereby unconditionally agrees to reimburse the Accepting Bank on demand on the maturity date thereof or on such earlier date as the Acceptance Obligations shall become or shall have been declared due and payable in an amount equal to the face amount of each Acceptance created by the Accepting Bank hereunder (including each Existing Acceptance). Each such payment shall be made to the Accepting Bank at its address for notices specified herein in Dollars and in immediately available funds. Each payment under any Acceptance shall constitute a request by the Borrower to the Agent for a borrowing pursuant to subsection 2.1 of a Chemical Rate Loan in the amount of such payment. The Borrowing Date with respect to such borrowing shall be the date of such payment if such payment is made prior to 10:00 A.M. on such date and otherwise on the first Business Day following the date of such payment.

(c) To the extent that a drawing or payment is not reimbursed pursuant to this subsection on the date such drawing or payment is made, interest shall be payable on such amounts for the Business Day for which such amounts remain unpaid at the rate

applicable to Chemical Rate Loans hereunder. Interest shall be payable on any and all amounts remaining unpaid by the Borrower under this subsection from the date such amounts become payable until payment in full at the rate which would be payable on any outstanding Chemical Rate Loans which were then overdue.

5.6 Interest Rates and Payment Dates. (a) Each Eurodollar Loan shall bear interest for each day during each Interest Period with respect thereto at a rate per annum equal to the Eurodollar Rate determined for such day plus the Applicable Margin.

(b) Each Chemical Rate Loan shall bear interest at a rate per annum equal to the Chemical Rate plus the Applicable Margin.

(c) If all or a portion of (i) the principal amount of any Loan, (ii) any interest payable thereon or (iii) any commitment fee or other amount payable hereunder shall not be paid when due (whether at the stated maturity, by acceleration or otherwise), such overdue amount shall bear interest at a rate per annum which is (x) in the case of overdue principal, the rate that would otherwise be applicable thereto pursuant to the foregoing provisions of this subsection plus 2% or (y) in the case of overdue interest, commitment fee or other amount, the rate described in paragraph (b) of this subsection plus 2%, in each case from the date of such non-payment until such amount is paid in full (as well after as before judgment).

(d) Interest shall be payable in arrears on each Interest Payment Date, provided that interest accruing pursuant to paragraph (c) of this subsection shall be payable from time to time on demand.

5.7 Computation of Interest and Fees. (a) Interest on Loans, commitment fees and letter of credit fees shall be calculated on the basis of a 360 day year for the actual days elapsed. The Agent shall as soon as practicable notify the Borrower and the Lenders of each determination of a Eurodollar Rate. Any change in the interest rate on a Loan resulting from a change in the Chemical Rate or the Eurocurrency Reserve Requirement shall become effective as of the opening of business on the day on which such change in the Chemical Rate or the Eurocurrency Reserve Requirement becomes effective. The Agent shall as soon as practicable notify the Borrower and the Lenders of the effective date and the amount of each such change in interest rate.

(b) Each determination of an interest rate by the Agent pursuant to any provision of this Agreement shall be conclusive and binding on the Borrower and the Lenders in the absence of manifest error.

5.8 Conversion and Continuation Options. (a) The Borrower may elect from time to time to convert Eurodollar Loans to Chemical Rate Loans by giving the Agent at least two Business Days' prior irrevocable notice of such election, provided that any such conversion of Eurodollar Loans may only be made on the last day of an Interest Period with respect thereto. The Borrower may elect from time to time to convert Chemical Rate Loans to Eurodollar Loans by giving the Agent at least three Business Days' prior irrevocable notice of such election. Any such notice of conversion to Eurodollar Loans shall specify the length of the initial Interest Period or Interest Periods therefor. Upon receipt of any such notice the Agent shall promptly notify each Lender thereof. All or any part of outstanding Eurodollar Loans and Chemical Rate Loans may be converted as provided herein, provided that (i) no Loan may be converted into a Eurodollar Loan when any Event of Default has occurred and is continuing and the Agent has or the Required Lenders have determined that such a conversion is not appropriate, (ii) partial conversions to Chemical Rate Loans (except pursuant to paragraph (b) of this subsection) shall be in an aggregate principal amount of $1,000,000 or a whole multiple of $100,000 in excess thereof and partial conversions to Eurodollar Loans shall be in an amount equal to $1,500,000 or a whole multiple of $500,000 in excess thereof and (iii) no Loan may be converted into a Eurodollar Loan after the date that is one month prior to the Termination Date.

(b) Any Eurodollar Loans may be continued as such upon the expiration of the then current Interest Period with respect thereto by the Borrower giving notice to the Agent, in accordance with the applicable provisions contained in the definition of the term "Interest Period" set forth in subsection 1.1, of the length of the next Interest Period to be applicable to such Loans, provided that no Eurodollar Loan may be continued as such (i) when any Event of Default has occurred and is continuing and the Agent has or the Required Lenders have determined that such a continuation is not appropriate or (ii) after the date that is one month prior to the Termination Date and provided, further, that if the Borrower shall fail to give any required notice as described above in this paragraph or if such continuation is not permitted pursuant to the preceding proviso such Loans shall be automatically converted to Chemical Rate Loans on the last day of such then expiring Interest Period.

5.9 Minimum Amounts and Number of Tranches. All borrowings, conversions, payments, prepayments and selection of Interest Periods hereunder in respect of the Loans shall be in such amounts and be made pursuant to such elections so that, after giving effect thereto, (a) the aggregate principal amount of any one Eurodollar Tranche shall not be less than $1,500,000 and (b) there are no more than 3 Eurodollar Tranches outstanding at any time.

5.10 Inability to Determine Interest Rate. If prior to the first day of any Interest Period with respect to (i) Loans that the Borrower has requested be made as Eurodollar Loans, (ii) Eurodollar Loans that will result from the requested conversion of Chemical Rate Loans into Eurodollar Loans or (iii) the continuation of Eurodollar Loans beyond the expiration of the then current Interest Period with respect thereto:

(a) the Agent shall have determined (which determination shall be conclusive and binding upon the Borrower) that, by reason of circumstances affecting the interbank eurodollar market, adequate and reasonable means do not exist for ascertaining the Eurodollar Rate for any requested Interest Period; or

(b) the Agent shall have received notice prior to the first day of such Interest Period from Lenders constituting the Required Lenders that the interest rate determined pursuant to subsection 5.6 for such Interest Period does not accurately reflect the cost to such Lenders (as conclusively certified by such Lenders) of making or maintaining their affected Loans during such Interest Period,

the Agent shall give telecopy or telephonic notice thereof to the Borrower and the Lenders as soon as practicable thereafter. If such notice is given (x) any Eurodollar Loans requested to be made on the first day of such Interest Period shall be made as Chemical Rate Loans, (y) any Loans that were to have been converted on the first day of such Interest Period to Eurodollar Loans shall be converted to or continued as Chemical Rate Loans and (z) any outstanding Eurodollar Loans shall be converted, on the first day of such Interest Period, to Chemical Rate Loans. Until such notice has been withdrawn by the Agent, no further Eurodollar Loans shall be made or continued as such, nor shall the Borrower have the right to convert Loans to Eurodollar Loans.

5.11 Pro Rata Treatment and Payments. (a) Each borrowing by the Borrower from the Lenders hereunder, each conversion or continuation of a Loan, each payment by the Borrower on account of any commitment fee and letter of credit fees hereunder and any reduction of the Commitments of the Lenders shall be made pro rata according to the respective Commitment Percentages of the Lenders. Each payment (including each prepayment) by the Borrower on account of principal of and interest on the Loans shall be made pro rata according to the respective outstanding principal amounts of the Loans then held by the Lenders, subject to Section 5 of the Commitment Transfer Supplement, dated as of the date hereof, among the Transferor Lenders thereto, the Purchasing Lenders thereto and the Agent. All payments (including prepayments) to be made by the Borrower hereunder and under the Notes, whether on account of principal, interest, fees or otherwise, shall be made without set-off or counterclaim and shall be made prior to 12:00 Noon, New York City time, on the due date thereof to the Agent, for the account of

the Lenders, at the Agent's office specified in subsection 12.2, in Dollars and in immediately available funds. The Agent shall distribute such payments to the Lenders promptly upon receipt in like funds as received. If any payment hereunder (other than payments on the Eurodollar Loans) becomes due and payable on a day other than a Business Day, such payment shall be extended to the next succeeding Business Day, and, with respect to payments of principal, interest thereon shall be payable at the then applicable rate during such extension.

(b) Unless the Agent shall have been notified in writing by any Lender at least two days prior to a Borrowing Date that such Lender will not make the amount that would constitute its Commitment Percentage of any borrowing on such date available to the Agent, the Agent may assume that such Lender has made such amount available to the Agent on such Borrowing Date, and the Agent may, in reliance upon such assumption, make available to the Borrower a corresponding amount. If such amount is made available to the Agent on a date after such Borrowing Date, such Lender shall pay to the Agent on demand an amount equal to the product of (i) the daily average Federal funds rate during such period as quoted by the Agent, times (ii) the amount of such Lender's Commitment Percentage of such borrowing, times (iii) a fraction the numerator of which is the number of days that elapse from and including such Borrowing Date to the date on which such Lender's Commitment Percentage of such borrowing shall have become immediately available to the Agent and the denominator of which is 360. A certificate of the Agent submitted to any Lender with respect to any amounts owing under this subsection shall be conclusive in the absence of manifest error. If such Lender's Commitment Percentage of such borrowing is not in fact made available to the Agent by such Lender within three Business Days of such Borrowing Date, the Agent shall be entitled to recover from the Borrower, on demand, such amount with interest thereon at the rate per annum applicable to Chemical Rate Loans which are not overdue hereunder.

5.12 Illegality. Notwithstanding any other provisions herein, if any
---

Requirement of Law or any change therein or in the interpretation or application thereof shall make it unlawful for any Lender to make or maintain Eurodollar Loans as contemplated by this Agreement, (a) the commitment of such Lender hereunder to make Eurodollar Loans or convert Chemical Rate Loans to Eurodollar Loans shall forthwith be cancelled and (b) such Lender's Loans then outstanding as Eurodollar Loans, if any, shall be converted automatically to Chemical Rate Loans on the respective last days of the then current Interest Periods for such Loans or within such earlier period as required by law. If any such prepayment or conversion of a Eurodollar Loan occurs on a day which is not the last day of the current Interest Period with respect thereto, the Borrower shall pay to such Lender such amounts, if any, as may be required pursuant to subsection 5.13.

5.13 Indemnity. The Borrower agrees to indemnify each Lender and to hold each Lender harmless from any loss or expense which such Lender may sustain or incur as a consequence of (a) default by the Borrower in payment when due of the principal amount of or interest on any Eurodollar Loans of such Lender, (b) default by the Borrower in making a borrowing or conversion after the Borrower has given a notice of borrowing or a notice of conversion in accordance with provisions of this Agreement, (c) default by the Borrower in making any prepayment after the Borrower has given a notice in accordance with provisions of this Agreement or (d) the making of a prepayment of a Eurodollar Loan on a day which is not the last day of an Interest Period with respect thereto, including, without limitation, in each case, any such loss or expense arising from the reemployment of funds obtained by it to maintain its Eurodollar Loans hereunder or from fees payable to terminate the deposits from which such funds were obtained. This covenant shall survive termination of this Agreement, payment of the outstanding Notes and all other amounts payable hereunder.

5.14 Requirements of Law. (a) If the adoption of or any change in any Requirement of Law or in the interpretation or application thereof or compliance by any Lender with any request or directive (whether or not having the force of law) from any central bank or other Governmental Authority made subsequent to the date hereof:

(i) shall subject any Lender to any tax of any kind whatsoever with respect to this Agreement, any Note or any Eurodollar Loan made by it, or change the basis of taxation of payments to such Lender in respect thereof (except for Non-Excluded Taxes covered by subsection 5.15 and changes in the rate of tax on the overall net income of such Lender);

(ii) shall impose, modify or hold applicable any reserve, special deposit, compulsory loan or similar requirement against assets held by, deposits or other liabilities in or for the account of, advances, loans or other extensions of credit by, or any other acquisition of funds by, any office of such Lender which is not otherwise included in the determination of the Eurodollar Rate hereunder; or

(iii) shall impose on such Lender any other condition;

and the result of any of the foregoing is to increase the cost to such Lender, by an amount which such Lender deems to be material, of making, converting into, continuing or maintaining Eurodollar Loans or to reduce any amount receivable hereunder in respect thereof, then, in any such case, the Borrower shall promptly pay such Lender, upon its demand, any additional amounts necessary to compensate such Lender for such increased cost or reduced amount receivable. If any Lender becomes entitled to claim any additional amounts pursuant to this subsection, it shall promptly

notify the Borrower, through the Agent, of the event by reason of which it has become so entitled. A certificate as to any additional amounts payable pursuant to this subsection submitted by such Lender, through the Agent, to the Borrower shall be conclusive in the absence of manifest error. This covenant shall survive the termination of this Agreement and the payment of the Notes and all other amounts payable hereunder.

(b) If any Lender shall have determined that the adoption of or any change in any Requirement of Law regarding capital adequacy or in the interpretation or application thereof or compliance by such Lender or any corporation controlling such Lender with any request or directive regarding capital adequacy (whether or not having the force of law) from any Governmental Authority made subsequent to the date hereof does or shall have the effect of reducing the rate of return on such Lender's or such corporation's capital as a consequence of its obligations hereunder to a level below that which such Lender or such corporation could have achieved but for such change or compliance (taking into consideration such Lender's or such corporation's policies with respect to capital adequacy) by an amount deemed by such Lender to be material, then from time to time, after submission by such Lender to the Borrower (with a copy to the Agent) of a written request therefore, the Borrower shall pay to such Lender such additional amount or amounts as will compensate such Lender for such reduction.

5.15 Taxes. (a) All payments made by the Borrower under this Agreement and the Notes shall be made free and clear of, and without deduction or withholding for or on account of, any present or future income, stamp or other taxes, levies, imposts, duties, charges, fees, deductions or withholdings, now or hereafter imposed, levied, collected, withheld or assessed by any Governmental Authority, excluding net income taxes and franchise taxes (imposed in lieu of net income taxes) imposed on the Agent or any Lender as a result of a present or former connection between the Agent or such Lender and the jurisdiction of the Governmental Authority imposing such tax or any political subdivision or taxing authority thereof or therein (other than any such connection arising solely from the Agent or such Lender having executed, delivered or performed its obligations or received a payment under, or enforced, this Agreement or the Notes). If any such non-excluded taxes, levies, imposts, duties, charges, fees deductions or withholdings ("Non-Excluded Taxes") are required to be withheld from any amounts payable to the Agent or any Lender hereunder or under the Notes, the amounts so payable to the Agent or such Lender shall be increased to the extent necessary to yield to the Agent or such Lender (after payment of all Non-Excluded Taxes) interest or any such other amounts payable hereunder at the rates or in the amounts specified in this Agreement and the Notes, provided, however, that the Borrower shall not be required to increase any such amounts payable to any Lender that is not organized under the laws of the United States of America or a state thereof if such

Lender fails to comply with the requirements of paragraph (b) of this subsection. Whenever any Non-Excluded Taxes are payable by the Borrower, as promptly as possible thereafter the Borrower shall send to the Agent for its own account or for the account of such Lender, as the case may be, a certified copy of an original official receipt received by the Borrower showing payment thereof. If the Borrower fails to pay any Non-Excluded Taxes when due to the appropriate taxing authority or fails to remit to the Agent the required receipts or other required documentary evidence, the Borrower shall indemnify the Agent and the Lenders for any incremental taxes, interest or penalties that may become payable by the Agent or any Lender as a result of any such failure. The agreements in this subsection shall survive the termination of this Agreement and the payment of the Notes and all other amounts payable hereunder.

(b) Each Lender that is not incorporated under the laws of the United States of America or a state thereof shall:

(i) deliver to the Borrower and the Agent (A) two duly completed copies of United States Internal Revenue Service Form 1001 or 4224, or successor applicable form, as the case may be, and (B) an Internal Revenue Service Form W-8 or W-9, or successor applicable form, as the case may be;

(ii) deliver to the Borrower and the Agent two further copies of any such form or certification on or before the date that any such form or certification expires or becomes obsolete and after the occurrence of any event requiring a change in the most recent form previously delivered by it to the Borrower; and

(iii) obtain such extensions of time for filing and complete such forms or certifications as may reasonably be requested by the Borrower or the Agent;

unless in any such case an event (including, without limitation, any change in treaty, law or regulation) has occurred prior to the date on which any such delivery would otherwise be required which renders all such forms inapplicable or which would prevent such Lender from duly completing and delivering any such form with respect to it and such Lender so advises the Borrower and the Agent. Such Lender shall certify (i) in the case of a Form 1001 or 4224, that it is entitled to receive payments under this Agreement without deduction or withholding of any United States federal income taxes and (ii) in the case of a Form W-8 or W-9, that it is entitled to an exemption from United States backup withholding tax. Each Person that shall become a Lender or a Participant pursuant to subsection 12.6 shall, upon the effectiveness of the related transfer, be required to provide all of the forms and statements required pursuant to this subsection, provided that in the case of a Participant such Participant shall

furnish all such required forms and statements to the Lender from which the related participation shall have been purchased.

5.16 Foreign Exchange Contracts. The Borrower may enter into foreign exchange contracts ("Foreign Exchange Contracts") which are acceptable in form and substance to the Agent and which are designed to limit the risk and/or exposure of the Borrower to fluctuations in currency exchange rates; provided that the Borrower may only enter into Foreign Exchange Contracts with a Lender or an Affiliate of any Lender; and provided, further, that (a) the Borrower may only enter into Foreign Exchange Contracts in connection with the risk and/or exposure of the Borrower under Letters of Credit denominated in a currency other than Dollars; and (b) the aggregate face or notional amount of all such Foreign Exchange Contracts shall at no time exceed $25,000,000 and the Borrower shall at no time be obligated or have the right to (i) purchase an aggregate amount of the relevant foreign currency greater than the relevant foreign currency equivalent of $25,000,000 or (ii) receive payments with respect to fluctuations in the relevant foreign currency to Dollar exchange rate in respect of an aggregate Dollar amount in excess of $25,000,000. The Borrower and the relevant Lender each agrees to promptly provide to the Agent a copy of any Foreign Exchange Contract to which it may be a party. The Agent shall determine the liabilities (the "Foreign Exchange Liabilities") of the Borrower under all outstanding Foreign Exchange Contracts on a "mark to market" basis at least once during each month and at such other times as the Agent shall determine in its discretion. The Agent shall upon request notify the Borrower and the Lenders of any determination made by it pursuant to the immediately preceding sentence.

SECTION 6. REPRESENTATIONS AND WARRANTIES

To induce the Lenders to enter into this Agreement and to make the Loans, to issue or participate in the Letters of Credit (including Existing Letters of Credit) and to create or participate in the Acceptances (including Existing Acceptances), the Borrower hereby represents and warrants to the Agent and each Lender that:

6.1 Financial Condition. The audited consolidated balance sheets of the Borrower and its Subsidiaries as at November 30, 1993 and November 30, 1994 and the related audited consolidated statements of operations, stockholders' equity and cash flows for the fiscal year ended on such date, reported on by KPMG Peat Marwick, copies of which have heretofore been furnished to each Lender, are complete and correct and present fairly the consolidated financial condition and results of operations of the Borrower and its Subsidiaries as at such dates. All such financial statements, including the related schedules and notes thereto, have been prepared in accordance with GAAP applied consistently throughout the periods involved (except as approved

by such accountants or Responsible Officer, as the case may be, and as disclosed therein). Other than the Foreign Exchange Contracts set forth in Schedule 6.1, neither the Borrower nor any of its Subsidiaries had, at the date of the most recent balance sheet referred to above, any material Guarantee Obligation, contingent liability or liability for taxes, or any long-term lease or unusual forward or long-term commitment, including, without limitation, any interest rate or foreign currency swap or exchange transaction, which is not reflected in the foregoing statements or in the notes thereto. Except as set forth in Schedule 6.1, during the period from November 30, 1994 to and including the date hereof there has been no sale, transfer or other disposition by the Borrower or any of its Subsidiaries of any material part of its business or property and no purchase or other acquisition of any business or property (including any capital stock of any other Person) material in relation to the consolidated financial condition of the Borrower and its Subsidiaries at November 30, 1994.

6.2 No Change. Except as set forth in Schedule 6.2 or as set forth in the financial statements referred to in subsection 6.1, since November 30, 1994 (a) there has been no development or event which has had or could reasonably be expected to have a Material Adverse Effect and (b) no dividends or other distributions have been declared, paid or made upon the Capital Stock of the Borrower nor has any of the Capital Stock of the Borrower been redeemed, retired, purchased or otherwise acquired for value by the Borrower or any of its Subsidiaries.

6.3 Corporate Existence; Compliance with Law. Each of the Borrower and its Subsidiaries (a) is duly organized, validly existing and in good standing under the laws of the jurisdiction of its organization, (b) has the corporate power and authority to own and operate its property, to lease the property it operates as lessee and to conduct the business in which it is currently engaged, (c) is duly qualified as a foreign corporation and in good standing under the laws of each jurisdiction where its ownership, lease or operation of property or the conduct of its business requires such qualification except to the extent that the failure to be so qualified could not, in the aggregate, have a Material Adverse Effect and (d) is in compliance with all Requirements of Law except to the extent that the failure to comply therewith could not, in the aggregate, have a Material Adverse Effect.

6.4 Corporate Power; Authorization; Enforceable Obligations. The Borrower has the corporate power and authority to make, deliver and perform this Agreement, the Notes, the Security Documents to which it is a party, any Application and any Acceptance Request and to borrow hereunder and has taken all necessary corporate action to authorize the borrowings on the terms and conditions of this Agreement and the Notes and to authorize the execution, delivery and performance of this Agreement, the Notes, the Security Documents to which it is a

party, any Application and any Acceptance Request. Each Guarantor has the corporate power and authority, and the legal right to make, deliver and perform the Security Documents to which it is a party and has taken all necessary corporate action to authorize the execution, delivery and performance of the Security Documents to which it is a party. No consent or authorization of, filing with or other act by or in respect of, any Governmental Authority or any other Person is or will be required in respect of the Borrower or any Guarantor in connection with the borrowings hereunder or with the execution, delivery, performance, validity or enforceability of this Agreement, the Notes, the Security Documents, the other Loan Documents, any Application or any Acceptance Request. This Agreement has been, each Note will be, and each Security Document to which it is a party has been or will be, duly executed and delivered on behalf of the Borrower. The Security Documents have been or will be duly executed and delivered on behalf of each Guarantor that is a party thereto. This Agreement constitutes, each Note to which it is a party when executed and delivered, will constitute, and each Security Document to which it is a party constitutes or, when executed and delivered, will constitute, legal, valid and binding obligations of the Borrower, and the Security Documents constitute or, when executed and delivered, will constitute, legal, valid and binding obligations of each Guarantor that is a party thereto, in each case enforceable against the Borrower or such Guarantor, as the case may be, in accordance with its terms, except as enforceability may be limited by applicable bankruptcy, insolvency, reorganization, moratorium or similar laws affecting the enforcement of creditors' rights generally and by general equitable principles (whether enforcement is sought by proceedings in equity or at law).

6.5 No Legal Bar. The execution, delivery and performance of this Agreement, the Notes, the Security Documents, the other Loan Documents, any Application and any Acceptance Request, the borrowings hereunder and the use of the proceeds thereof will not violate any Requirement of Law or Contractual Obligation of the Borrower or of any of its Subsidiaries that is a party to any such document and will not result in, or require, the creation or imposition of any Lien on any of its or their respective properties or revenues pursuant to any such Requirement of Law or Contractual Obligation.

6.6 No Material Litigation. Except as set forth in Schedule 6.6, no litigation, investigation or proceeding of or before any arbitrator or Governmental Authority is pending or, to the knowledge of the Borrower, threatened by or against the Borrower or any of its Subsidiaries or against any of its or their respective properties or revenues (a) with respect to this Agreement, the Notes, the Security Documents or any of the other Loan Documents or any of the transactions contemplated hereby or thereby, or (b) which could reasonably be expected to have a Material Adverse Effect.

6.7 No Default. Neither the Borrower nor any of its Subsidiaries is in default under or with respect to any of its Contractual Obligations in any respect which could reasonably be expected to have a Material Adverse Effect. No Default or Event of Default has occurred and is continuing.

6.8 Ownership of Property; Liens. Each of the Borrower and its Subsidiaries has good record and marketable title in fee simple to, or a valid leasehold interest in, all its real property, and good title to all its other property, and none of such property is subject to any Lien except as permitted by subsection 9.3. Schedule 6.8 (as the same may be updated pursuant to subsection 8.2(g)) sets forth a true and complete list of all leases and warehouse contracts relating to real property upon which any Inventory of the Borrower or any of its Subsidiaries is kept or to which the Borrower or any of its Subsidiaries is a party, in each case identifying the lessor or warehouseman, as the case may be, describing the location of the real property, the size of the real property, the rent and the expiration of such lease or warehouse contract, as the case may be. Schedule 6.8 (as the same may be updated pursuant to subsection 8.2(g)) also sets forth a true and complete list of all leases with Affiliates.

6.9 Intellectual Property. The Company and each of its Subsidiaries owns, or is licensed to use, all trademarks, tradenames, copyrights and patents necessary for the conduct of its business as currently conducted except for those the failure to own or license which could not have a Material Adverse Effect (the "Intellectual Property"). No claim has been asserted and is pending by any Person challenging or questioning the use of any such Intellectual Property or the validity or effectiveness of any such Intellectual Property, nor does the Borrower know of any valid basis for any such claim. The use of such Intellectual Property by the Borrower and its Subsidiaries does not infringe on the rights of any Person, except for such claims and infringements that, in the aggregate, do not have a Material Adverse Effect.

6.10 No Burdensome Restrictions. No Requirement of Law or Contractual Obligation of the Borrower or any of its Subsidiaries has a Material Adverse Effect.

6.11 Taxes. Each of the Borrower and its Subsidiaries has filed or caused to be filed all tax returns which, to the knowledge of the Borrower, are required to be filed and has paid all taxes shown to be due and payable on said returns or on any assessments made against it or any of its property and all other taxes, fees or other charges imposed on it or any of its property by any Governmental Authority (other than any the amount or validity of which are currently being contested in good faith by appropriate proceedings and with respect to which reserves in conformity with GAAP have been provided on the books of the

Borrower or its Subsidiaries, as the case may be); no tax Lien has been filed, and, to the knowledge of the Borrower, no claim is being asserted, with respect to any such tax, fee or other charge.

6.12 Federal Regulations. No part of the proceeds of any Loans, Letters of Credit or Acceptances will be used for "purchasing" or "carrying" any "margin stock" within the respective meanings of each of the quoted terms under Regulation U of the Board of Governors of the Federal Reserve System as now and from time to time hereafter in effect or for any purpose which violates the provisions of the Regulations of such Board of Governors. If requested by any Lender or the Agent, the Borrower will furnish to the Agent and each Lender a statement to the foregoing effect in conformity with the requirements of FR Form U-1 referred to in said Regulation U.

6.13 ERISA. Except as set forth in Schedule 6.13, neither a Reportable Event nor an "accumulated funding deficiency" (within the meaning of Section 412 of the Code or Section 302 of ERISA) has occurred during the five-year period prior to the date on which this representation is made or deemed made with respect to any Plan, and each Plan has complied in all material respects with the applicable provisions of ERISA and the Code. No termination of a Single Employer Plan has occurred, and no Lien in favor of the PBGC or a Plan has arisen, during such five-year period with respect to which any liability or encumbrance remains outstanding or in effect. The present value of all accrued benefits under each Single Employer Plan, if any, (based on those assumptions used to fund such Plans) did not, as of the last annual valuation date prior to the date on which this representation is made or deemed made, exceed the value of the assets of such Plan allocable to such accrued benefits. Neither the Borrower nor any Commonly Controlled Entity has had a complete or partial withdrawal from any Multiemployer Plan, and to the best knowledge of the Borrower, neither the Borrower nor any Commonly Controlled Entity would become subject to any liability under ERISA if the Borrower or any such Commonly Controlled Entity were to withdraw completely from all Multiemployer Plans as of the valuation date most closely preceding the date on which this representation is made or deemed made. To the best knowledge of the Borrower, no such Multiemployer Plan is in Reorganization or Insolvent. The present value (determined using actuarial and other assumptions which are reasonable in respect of the benefits provided and the employees participating) of the liability of the Borrower and each Commonly Controlled Entity for post retirement benefits to be provided to their current and former employees under Plans which are welfare benefit plans (as defined in Section 3(1) of ERISA) does not, as of the valuation date most closely preceding the date on which this representation is made or deemed made, in the aggregate, exceed the value of the assets of all such Plans allocable to such benefits.

6.14 Investment Company Act; Other Regulations. The Borrower is not an "investment company", or a company "controlled" by an "investment company", within the meaning of the Investment Company Act of 1940, as amended. The Borrower is not subject to regulation under any Federal or State statute or regulation which limits its ability to incur Indebtedness.

6.15 Subsidiaries and Joint Ventures. Schedule 6.15 sets forth a true and complete list of all Subsidiaries of the Borrower and the Joint Ventures of the Borrower, in each case setting forth the nature and percentage of the capital stock or other ownership interests which is directly or indirectly owned by the Borrower, the respective jurisdictions of organization of such Subsidiaries and Joint Ventures and whether such Subsidiary is a Material Foreign Subsidiary.

6.16 Purpose of Loans. The proceeds of the Loans, Letters of Credit and Acceptances shall be used by the Borrower for working capital purposes in the ordinary course of business and to pay fees and expenses incurred in connection with transactions contemplated under this Agreement and the other Loan Documents.

6.17 Environmental Matters. Except as set forth in Schedule 6.17:

(a) None of the properties of the Borrower or any of its Subsidiaries contain, and have not previously contained, any Materials of Environmental Concern in amounts or concentrations which (i) constitute or constituted a violation of, or (ii) could reasonably give rise to liability under, Environmental Laws.

(b) The properties of the Borrower and its Subsidiaries and all operations at such properties are in compliance, and have in the last 5 years been in compliance, with all applicable Environmental Laws, and there is no contamination at, under or about such properties, or violation of any Environmental Law with respect to such properties which could interfere with the continued operation of such properties or impair the fair saleable value thereof.

(c) Neither the Borrower nor any of its Subsidiaries has received any notice of violation, alleged violation, non-compliance, liability or potential liability regarding environmental matters or compliance with Environmental Laws with regard to any of their respective properties or businesses, nor does the Borrower have knowledge or reason to believe that any such notice will be received or is being threatened.

(d) Materials of Environmental Concern have not been transported or disposed of from any property of the Borrower

or any of its Subsidiaries in violation of, or in a manner or to a location which could reasonably give rise to liability under, Environmental Laws, nor have any Materials of Environmental Concern been generated, treated, stored or disposed of at, on or under any of such properties in violation of, or in a manner that could reasonably give rise to liability under, any applicable Environmental Laws.

(e) No judicial proceedings or governmental or administrative action is pending, or, to the knowledge of the Borrower, threatened, under any Environmental Law to which the Borrower is or will be named as a party with respect to any of the properties of the Borrower or any of its Subsidiaries nor are there any consent decrees or other decrees, consent orders, administrative orders or other orders, or other administrative or judicial requirements outstanding under any Environmental Law with respect to such properties.

(f) There has been no release or threat of release of Materials of Environmental Concern at or from any of the properties of the Borrower or any of its Subsidiaries, or arising from or related to the operations of the Borrower in connection with such properties, in violation of or in amounts or in a manner that could reasonably give rise to liability under Environmental Laws.

6.18 Security Documents. (a) The Security Documents remain in full force and effect and are enforceable in accordance with their terms except as enforceability may be limited by applicable bankruptcy, insolvency, reorganization, moratorium or similar laws affecting the enforcement of creditors' rights generally and by general equitable principles (whether enforcement is sought by proceedings in equity or at law).

(b) Except as expressly stated therein, each security interest that is purported to be granted under the Security Documents constitutes a perfected first priority security interest in favor of the Collateral Agent for the benefit of the Lenders in the collateral subject thereto and such security interests are continuing, valid and enforceable and are not subject to any defense, counterclaim or setoff.

6.19 Insurance. The Borrower and its Subsidiaries maintain insurance with financially sound and reputable insurance companies on all their properties in such amounts and against such risks (but, including in any event, public liability and product liability) as are usually insured against by companies engaged in the same or a similar business.

6.20 No Change in Credit Criteria or Collection Policies. There has been no material relaxation in credit criteria or collection policies concerning accounts receivable of the Borrower or any of its Subsidiaries since November 30, 1991.

All Accounts from time to time designated as Eligible Accounts of the Borrower and its Subsidiaries satisfy (for so long as such Accounts continue to be designated as Eligible Accounts) all the eligibility criteria set forth in the definition of Eligible Accounts and are not subject to any claims, defenses or set-offs. All Accounts of the Borrower and its Subsidiaries are valid, binding and enforceable obligations of the Account Debtors or obligors on such Accounts, except as enforceability may be limited by applicable bankruptcy, insolvency, reorganization, moratorium or similar laws affecting the enforcement of creditors' rights generally and by general equitable principles (whether enforcement is sought by proceedings in equity or at law).

6.21 Government Contracts. Schedule 6.21 (as the same may be updated pursuant to subsection 8.2(l)) sets forth a true and complete list of all contracts (the "Government Contracts") between the Borrower or any of its Subsidiaries and any Governmental Authority or other government agency.

6.22 Existing Extensions of Credit. The Borrower hereby acknowledges, confirms and agrees that the Existing Extensions of Credit (a) constitute legal, valid, binding and enforceable obligations of the Borrower, except as enforceability may be limited by applicable bankruptcy, insolvency, reorganization, moratorium or similar laws affecting the enforcement of creditors' rights generally and by general equitable principles (whether enforcement is sought by proceedings in equity or at law) and (b) are subject to no defense, offset or counterclaim of any kind whatsoever.

6.23 Licensing. All export and import licenses and exchange control and other approvals required under applicable laws and regulations with respect to the importation of goods or Inventory by the Borrower and its Subsidiaries and the payment of the purchase price and costs related thereto have been obtained and are in full force and effect, except to the extent that the failure to so obtain could not, in the aggregate, have a Material Adverse Effect.

SECTION 7. CONDITIONS

7.1 Conditions to Effectiveness of Agreement. The effectiveness of this Agreement is subject to the satisfaction on or prior to the Closing Date, of the following conditions precedent:

(a) Loan Documents. The Agent shall have received (i) this Agreement duly executed and delivered by a Responsible Officer of the Borrower with a counterpart for each Lender, (ii) for the account of each Lender, a Note conforming to the requirements hereof and executed by a Responsible Officer of the Borrower and (iii) the Consent of Guarantors

duly executed and delivered by each Loan Party party thereto, with a counterpart for the Agent and each Lender.

(b) Corporate Proceedings of the Borrower and each Subsidiary. The Agent shall have received, with a counterpart for each Lender, a copy of the resolutions, in form and substance satisfactory to the Agent, of the Board of Directors of the Borrower and each Subsidiary that is a party to any Loan Document authorizing (i) in the case of the Borrower, (A) the execution, delivery and performance of this Agreement, the Notes, the Security Documents to which it is a party, any Application, any Acceptance Request and any other Loan Document to which it is a party, and (B) the borrowings contemplated hereunder, and (ii) in the case of each such Subsidiary, the execution, delivery and performance of the Security Documents and any other Loan Document to which it is a party, in each case certified by the Secretary or an Assistant Secretary of the Borrower or such Subsidiary, as the case may be, as of the Closing Date, which certificate shall state that the resolutions thereby certified have not been amended, modified, revoked or rescinded and shall be in form and substance satisfactory to the Agent.

(c) Borrowing Certificate. The Agent shall have received, with an executed counterpart for each Lender, a Borrowing Certificate of the Borrower dated the Closing Date, substantially in the form of Exhibit B hereto, executed by a Responsible Officer of the Borrower.

(d) Incumbency Certificate. The Agent shall have received, with an executed counterpart for each Lender, a certificate of the Secretary or an Assistant Secretary of the Borrower and each Subsidiary that is a party to any Loan Document, dated the Closing Date, as to the incumbency and signatures of the officers thereof executing the Loan Documents to which it is a party including, in the case of the Borrower, this Agreement and the Notes, together with evidence of the incumbency of such Secretary or Assistant Secretary.

(e) Corporate Documents. The Agent shall have received, (i) with an executed counterpart for each Lender, true and complete copies of the certificate of incorporation and by-laws of the Borrower and each Subsidiary that is a party to any Loan Document, certified as of the Closing Date as complete and correct copies thereof by the Secretary or an Assistant Secretary of the Borrower or such Subsidiary, as the case may be, and (ii) good standing certificates for the Borrower and each of its Subsidiaries that is a party to any Loan Document from their respective jurisdictions of organization.

(f) No Violation. The consummation of the transactions contemplated hereby shall not contravene, violate or conflict in any material respect with, nor involve the Agent or any Lender in any violation of, any Requirement of Law.

(g) Consents, Licenses and Approvals. The Agent shall have received, with an executed counterpart for each Lender, a certificate of a Responsible Officer of the Borrower (i) attaching copies of all consents, authorizations and filings if any, referred to in subsection 6.4, and (ii) stating that such consents, licenses and filings are in full force and effect, and each such consent, authorization and filing shall be in form and substance reasonably satisfactory to the Agent.

(h) Filings, Registrations and Recordings. Any documents (including, without limitation, financing statements and filings under the Assignment of Claims Act of 1940) required to be filed, and any other actions required to be taken, under or in connection with any of the Security Documents in order to create or confirm, in favor of the Collateral Agent, a perfected security interest in the collateral thereunder shall have been properly filed or taken, as the case may be, and the Collateral Agent shall have received evidence satisfactory to it of each such filing, registration, recordation or other action and satisfactory evidence of the payment of any necessary fee, tax or expense relating thereto.

(i) Fees. The Agent shall have received the fees to be received on the Closing Date referred to in subsection 5.4.

(j) Legal Opinions. The Agent shall have received, with a counterpart for each Lender, the executed legal opinion of (i) Levy & Stopol, special counsel to the Borrower and certain of its Subsidiaries, substantially in the form of Exhibit G-1 hereto and (ii) Simpson Thacher & Bartlett, special counsel to the Agent and the Lenders, substantially in the form of Exhibit G-2 hereto. Such legal opinion shall cover such other matters incident to the transactions contemplated by this Agreement as the Agent may reasonably require.

(k) Borrowing Base Certificate. The Agent shall have received a Borrowing Base Certificate dated the Closing Date executed and delivered by a Responsible Officer of the Borrower setting forth the Borrowing Base as of the Closing Date.

(l) Commitment Transfer Supplement. On the Closing Date, the Lenders shall have entered into a commitment transfer supplement among the Lenders such that each

Lender's share of the Aggregate Outstanding Extensions of Credit on the Closing Date corresponds with such Lender's Commitment Percentage hereunder.

7.2 Conditions to Each Loan, Letter of Credit and Acceptance. The agreement of each Lender to make any Loan requested to be made by it, the agreement of the Issuing Bank to issue any Letter of Credit and the agreement of the Accepting Lender to create any Acceptance, on any date is subject to the satisfaction of the following conditions precedent:

(a) Representations and Warranties. Each of the representations and warranties made by the Borrower or its Subsidiaries in or pursuant to the Loan Documents shall be true and correct in all material respects on and as of such date as if made on and as of such date, except for representations and warranties expressly stated to relate to a specific earlier date, in which case such representations and warranties shall be true and correct as of such earlier date.

(b) No Default. No Default or Event of Default shall have occurred and be continuing on such date or after giving effect to the Loans and/or Letters of Credit and/or Acceptances requested to be made, issued or created, as the case may be, on such date.

(c) Borrowing Base. After giving effect to the Loans and/or Letters of Credit and/or Acceptances requested to be made, issued or created, as the case may be, on such date, the Aggregate Outstanding Extensions of Credit of the Lenders shall not exceed the Borrowing Base then in effect.

Each borrowing by, Letter of Credit issued on behalf of, and Acceptance created by or on behalf of, the Borrower hereunder shall constitute a representation and warranty by the Borrower as of the date of such borrowing, of the issuance of such Letter of Credit or of the creation of such Acceptance that the conditions contained in this subsection 7.2 have been satisfied.

SECTION 8. AFFIRMATIVE COVENANTS

The Borrower hereby agrees that, so long as the Commitments remain in effect, any Note, Letter of Credit (including any Existing Letter of Credit) or Acceptance (including any Existing Acceptance) remains outstanding and unpaid or any other amount is owing to any Lender or the Agent hereunder, the Borrower shall and shall cause each of its Subsidiaries to:

8.1 Financial Statements. Furnish to the Agent and each Lender:

(a) as soon as available, but in any event within 90 days after the end of each fiscal year of the Borrower, a copy of the consolidated balance sheet of the Borrower and its Subsidiaries as at the end of such year and the related consolidated statements of operations, stockholders' equity and cash flows for such year, setting forth in each case in comparative form the figures for the previous year, reported on without a "going concern" or like qualification or exception, or qualification arising out of the scope of the audit, by KPMG Peat Marwick, or other independent certified public accountants of nationally recognized standing acceptable to the Required Lenders; and

(b) as soon as available, but in any event not later than 45 days after the end of each of the first three quarterly periods of each fiscal year of the Borrower, the unaudited consolidated balance sheet of the Borrower and its Subsidiaries as at the end of such quarter and the related unaudited consolidated statements of operations, stockholders' equity and cash flows of the Borrower and its Subsidiaries for such quarter and the portion of the fiscal year through the end of such quarter, setting forth in each case in comparative form the figures for the previous year, certified by a Responsible Officer as being fairly stated in all material respects when considered in relation to the consolidated financial statements of the Borrower and its Subsidiaries;

all such financial statements to be complete and correct in all material respects and to be prepared in reasonable detail and in accordance with GAAP applied consistently throughout the periods reflected therein and with prior periods (except as approved by such accountants or officer, as the case may be, and disclosed therein).

8.2 Certificates; Other Information. Furnish to the Agent and each Lender:

(a) concurrently with the delivery of the financial statements referred to in subsection 8.1(a), a certificate of the independent certified public accountants reporting on such financial statements stating that in making the examination necessary therefor no knowledge was obtained of any Default or Event of Default under subsection 9.1 hereof, except as specified in such certificate;

(b) concurrently with the delivery of (i) the financial statements referred to in subsections 8.1(a) and 8.1(b), a certificate of a Responsible Officer (A) stating that, to the best of such Responsible Officer's knowledge, the Borrower and each of its Subsidiaries during such period

has observed or performed all of its covenants and other agreements, and satisfied every condition, contained in this Agreement and in the Notes and the other Loan Documents to which it is a party to be observed, performed or satisfied by it, and that such Responsible Officer has obtained no knowledge of any Default or Event of Default except as specified in such certificate and (B) showing in detail calculations supporting such statement in respect of subsections 9.1, 9.8, 9.9 and 9.10 and (ii) the financial statements referred to in subsections 8.1(a), a certificate of a Responsible Officer showing in detail the calculations required to determine if any Subsidiary is a Material Foreign Subsidiary;

(c) not later than 45 days after the end of each fiscal year of the Borrower, a copy of the projections by the Borrower of the operating budget and cash flow budget of the Borrower and its Subsidiaries for the next fiscal year;

(d) within ten days after the same are sent, copies of all financial statements and reports which the Borrower sends to its stockholders, and within five days after the same are filed, copies of all financial statements and reports which the Borrower may make to, or file with, the Securities and Exchange Commission or any successor or analogous Governmental Authority;

(e) concurrently with the delivery of any financial statements and business plans required to be delivered to the Existing Noteholders under the Debenture Exchange Agreement or to the holders of the Subordinated Debentures under the Subordinated Debenture Indenture, a copy of such financial statements or business plans;

(f) at any time at the request of the Agent and at the Borrower's expense, an audit of the Accounts, Inventory and books and records of the Borrower and its Subsidiaries by the Agent, in form and substance satisfactory to the Agent;

(g) within 15 days after the last day of each calendar month, a Borrowing Base Certificate setting forth the Borrowing Base as of such last day, which shall contain among other things a list of any lease or warehouse contract entered into by the Borrower or any of its Subsidiaries and a list of each contract entered into by the Borrower or any of its Subsidiaries with any Governmental Authority or other government agency after the date hereof and in each case still in effect at such time; Schedule 6.8 and Schedule 6.21 shall be deemed to be amended to include any
---
such lease, warehouse contract or government contract on the date such list is provided;

(h) within 15 days after the last day of each month, monthly schedules, in form and substance satisfactory to the

Agent, current as of the close of business on the last Business Day of such month, certified by a Responsible Officer, (i) of all Accounts of the Borrower and its Subsidiaries, showing separately those which are more than 30 days, 60 days, 90 days and 120 days old together with a reconciliation of such Accounts and (ii) setting forth such information as to accounts payable as the Agent shall request;

(i) within 15 days after the last day of each month, a certification of Inventory, in the form of Exhibit C-3 or such other form as the Agent
----
shall from time to time request, setting forth a breakdown of the type and nature of Inventory of the Borrower and its Subsidiaries and the location thereof;

(j) promptly after receipt thereof, a copy of all management letters from the Borrower's independent certified public accountants;

(k) a copy of any notice received from the trustee or any holder of Subordinated Debentures under the Subordinated Debt Indenture; and

(l) promptly, such additional financial and other information and copies of such documents and instruments as the Agent or any Lender may from time to time reasonably request, including, without limitation, a copy of any material debt instrument, security agreement or other material contract to which the Borrower or any Subsidiary may be a party.

8.3 Payment of Obligations. Pay, discharge or otherwise satisfy at
----
or before maturity or before they become delinquent, as the case may be, all its material obligations of whatever nature, except where the amount or validity thereof is currently being contested in good faith, including by appropriate proceedings, if any are required in the good faith judgment of the Borrower, and reserves in conformity with GAAP with respect thereto have been provided on the books of the Borrower or its Subsidiaries, as the case may be.

8.4 Conduct of Business and Maintenance of Existence. Continue to
----
engage in business of the same general type as now conducted by it and preserve, renew and keep in full force and effect its corporate existence and take all reasonable action to maintain all rights, privileges and franchises necessary or desirable in the normal conduct of its business except as otherwise permitted pursuant to subsection 9.5; and comply with all Contractual Obligations and Requirements of Law except to the extent that failure to comply therewith could not, in the aggregate, have a Material Adverse Effect.

8.5 Maintenance of Property; Insurance. Keep all material property useful and necessary in its business in good working order and condition; maintain with financially sound and reputable insurance companies insurance on all its property in such amounts and against such risks (but including in any event public liability and product liability) as are usually insured against in the same general area by companies engaged in the same or a similar business; and furnish to each Lender, upon written request, full information as to the insurance carried.

8.6 Inspection of Property; Books and Records; Discussions; Audits. Keep proper books of records and account in which full, true and correct entries in conformity with GAAP and all Requirements of Law shall be made in all material respects of all dealings and transactions in relation to its business and activities; permit representatives of the Agent and any Lender to visit and inspect any of its properties and examine and make abstracts from any of its books and records at any reasonable time and as often as may reasonably be required, including, without limitation, any such visit, inspection or examination by the Agent and any Lender in connection with any audit conducted by the Agent, and at which a representative of any Lender may be present, of the Accounts, Inventory and books and records of the Borrower and its Subsidiaries from time to time at the Agent's discretion, and to discuss the business, operations, properties and financial and other condition of the Borrower and its Subsidiaries with officers and employees of the Borrower and its Subsidiaries and with its independent certified public accountants. Without limiting the Agent's rights under this subsection and without creating any obligations on the part of the Agent, the Agent currently intends that audits of the Borrower will be conducted on an approximately yearly basis.

8.7 New Subsidiaries. Within 30 days after the creation of any direct or indirect Domestic Subsidiary or any Subsidiary which is a Material Foreign Subsidiary or within 30 days after any Subsidiary becomes a Material Foreign Subsidiary after the date hereof, at its own cost and expense, (a) in the case of a Domestic Subsidiary, cause such Subsidiary to grant a security interest in its assets (to the same extent that it would grant such a security interest if it were a party to the Subsidiaries Security Agreement) to the Collateral Agent, for the benefit of the Lenders, as collateral security for the Obligations (as defined in the Subsidiaries Guarantee) and to guarantee such Obligations, in each case pursuant to security

documents which are in form and substance reasonably satisfactory to the Collateral Agent and (b) in the case of any Material Foreign Subsidiary, (i) cause such Material Foreign Subsidiary to grant a security interest in its assets (to the same extent that it would grant such a security interest if it were a party to the Subsidiaries Security Agreement) to the Collateral Agent, for the benefit of the Lenders, as collateral security for the Obligations (as defined in the Subsidiaries Guarantee) and to guarantee such Obligations, in each case pursuant to security documents which are in form and substance reasonably satisfactory to the Collateral Agent or (ii) pledge the stock of such Material Foreign Subsidiary or provide such other collateral security as shall be satisfactory to the Collateral Agent and pursuant to such documents as shall be in form and substance reasonably satisfactory to the Collateral Agent. Schedule 6.15 shall be deemed to be amended to include any Subsidiary created after the date hereof, provided that the terms and provisions of this subsection 8.7, subsection 9.9 and any other applicable subsections of this Agreement are complied with in connection with the creation of any such Subsidiary.

8.8 Consignment of Title Documents. At any time at the request of the Agent or the Required Lenders, deliver or cause to be delivered to the Collateral Agent for the benefit of the Lenders any title or similar documents (including, without limitation, warehouse receipts) in respect of goods covered or originally covered by a Letter of Credit (including any Existing Letter of Credit) or Acceptance (including any Existing Acceptance).

8.9 Notices. Promptly give notice to the Agent and each Lender of:

(a) the occurrence of any Default or Event of Default;

(b) any (i) default or event of default under any Contractual Obligation of the Borrower or any of its Subsidiaries or (ii) litigation, investigation or proceeding which may exist at any time between the Borrower or any of its Subsidiaries and any Governmental Authority, which in either case, if not cured or if adversely determined, as the case may be, could have a Material Adverse Effect;

(c) any litigation or proceeding affecting the Borrower or any of its Subsidiaries in which the amount involved is $500,000 or more and which is not covered by insurance or in which injunctive or similar relief is sought which, if granted, could have a Material Adverse Effect;

(d) the following events, as soon as possible and in any event within 30 days after the Borrower knows or has reason to know thereof: (i) the occurrence or expected occurrence of any Reportable Event with respect to any Plan, or any withdrawal from, or the termination, Reorganization or Insolvency of any Multiemployer Plan or (ii) the institution of proceedings or the taking of any other action by the PBGC or the Borrower or any Commonly Controlled Entity or any Multiemployer Plan with respect to the withdrawal from, or the terminating, Reorganization or Insolvency of, any Plan;

(e) the occurrence of a default under the Debenture Exchange Agreement or the Subordinated Debenture Indenture; and

(f) the occurrence of a development or event which has had or could reasonably be expected to have a Material Adverse Effect.

Each notice pursuant to this subsection shall be accompanied by a statement of a Responsible Officer setting forth details of the occurrence referred to therein and stating what action the Borrower or any of its Subsidiaries proposes to take with respect thereto.

8.10 Environmental Laws. (a) Comply with, and ensure compliance by all tenants and subtenants of any real property owned or leased by the Borrower, if any, with, all applicable Environmental Laws and obtain and comply with and maintain, and ensure that all such tenants and subtenants obtain and comply with and maintain, any and all licenses, approvals, notifications, registrations or permits required by applicable Environmental Laws except to the extent that failure to do so could not be reasonably expected to have a Material Adverse Effect.

(b) Conduct and complete all investigations, studies, sampling and testing, and all remedial, removal and other actions required under Environmental Laws and promptly comply with all lawful orders and directives of all Governmental Authorities regarding Environmental Laws except to the extent that the same are being contested in good faith by appropriate proceedings and the pendency of such proceedings could not be reasonably expected to have a Material Adverse Effect.

(c) Defend, indemnify and hold harmless the Agent and the Lenders, and their respective parents, subsidiaries, affiliates, employees, agents, officers and directors, from and against any claims, demands, penalties, fines, liabilities, settlements, damages, costs and expenses of whatever kind or nature known or unknown, contingent or otherwise, arising out of, or in any way relating to the violation of, noncompliance with or liability under any Environmental Laws applicable to the operations or properties of the Borrower or any of its Subsidiaries, or any orders, requirements or demands of Governmental Authorities related thereto, including, without limitation, attorney's and consultant's fees, investigation and laboratory fees, response costs, court costs and litigation expenses, except to the extent that any of the foregoing arise out of the gross negligence or willful misconduct of the party seeking indemnification therefor. If any claim, action or other proceeding is brought against the Agent or any Lender or their respective parents, subsidiaries, affiliates, employees, agents, officers or directors with respect to which the Agent or such Lender would be entitled to seek indemnification under this

paragraph, the Borrower shall be entitled to assume the defense thereof with counsel satisfactory to the Agent or such Lender, as the case may be. The Agent or such Lender, as the case may be, shall be entitled, at the Borrower's expense, to retain counsel in connection with any such claim, action or other proceeding, provided, that the Agent and the Lenders shall agree upon and retain
----
one counsel to represent them in connection with any single claim, action or other proceeding unless, the retention of one counsel would be prejudicial to the interests of the Agent or any Lender in their sole discretion. The Borrower shall not without the prior written consent of the Agent or any affected Lender effect any settlement of any pending or threatened proceeding, claim or action against the Agent or such Lender in respect of which the Agent or such Lender or their respective parents, subsidiaries, affiliates, employees, agents, officers or directors is a party or would be entitled to seek indemnification under this paragraph, unless such settlement includes an unconditional release of the Agent or such Lender and their respective parents, subsidiaries, affiliates, employees, agents, officers or directors from all liability on claims that are the subject matter of such claim, action or other proceeding and is otherwise acceptable to the Agent or such Lender and their respective counsel, in their sole discretion. This indemnity shall continue in full force and effect regardless of the termination of this Agreement.

8.11 Further Assurances. Execute any and all further documents, and
----
take all further action which the Required Lenders or the Agent may reasonably request in order to effectuate the transactions contemplated by the Loan Documents. Without limiting the generality of the foregoing, such further documents and actions shall include the execution of agreements and instruments, and filing Uniform Commercial Code financing statements, in order to effectuate the transactions contemplated by this Agreement and in order to grant, preserve, protect and perfect the validity and priority of the security interests created or intended to be created by the Security Documents.

SECTION 9. NEGATIVE COVENANTS

The Borrower hereby agrees that, so long as the Commitments remain in effect, any Note, Letter of Credit (including any Existing Letter of Credit) or Acceptance (including any Existing Acceptance) remains outstanding and unpaid or any other amount is owing to any Lender, the Agent or the Collateral Agent hereunder or under any other Loan Document, the Borrower shall not, and shall not permit any Subsidiary to, directly or indirectly:

9.1 Financial Condition Covenants.

(a) Maintenance of Net Income. Permit Consolidated Net Income for
----
any fiscal year to be less than $2,500,000.

(b) Maintenance of Net Worth. Permit Consolidated Net Worth at the end of any fiscal quarter ending on any date set forth below to be less than the sum of (a) one-half of the aggregate pre-tax gain recognized in respect of sales of securities of a Person (other than a Subsidiary) since the Closing Date and (b) the amount set forth opposite such date below:

Period	Amount
Closing Date through and including 11/29/95	$90,000,000
11/30/95 through and including 11/29/96	$92,500,000
11/30/96 and thereafter	$95,000,000

(c) Total Liabilities to Net Worth Ratio. Permit the ratio of Consolidated Total Liabilities to Consolidated Net Worth at the end of any fiscal quarter to be greater than 2.0 to 1.

(d) Maintenance of Working Capital. Permit Consolidated Working Capital at the end of any fiscal quarter to be less than $125,000,000.

9.2 Limitation on Indebtedness. Create, incur, assume or suffer to exist any Indebtedness, except:

(a) Indebtedness in respect of the Loans, the Notes, the Letters of Credit (including Existing Letters of Credit), the Acceptances (including Existing Acceptances) and other obligations of the Borrower under this Agreement;

(b) Indebtedness of the Borrower to any Subsidiary and any Domestic Subsidiary to the Borrower or any other Subsidiary;

(c) Indebtedness of any Subsidiary (other than a Domestic Subsidiary) to finance the working capital requirements of such Subsidiary not to exceed, taken together with all Indebtedness of all other Subsidiaries (other than Domestic Subsidiaries) outstanding under this paragraph, $5,000,000 in the aggregate at any time;

(d) Indebtedness of the Borrower or any Subsidiary incurred to finance the acquisition of fixed or capital assets (whether pursuant to a loan, a Financing Lease or otherwise) permitted under subsection 9.8;

(e) Indebtedness of the Borrower under (i) the Subordinated Debenture Indenture and the Subordinated

Debentures and (ii) the Debenture Exchange Agreement and the Exchange Debentures;

(f) Indebtedness of the Borrower in respect of Foreign Exchange Contracts permitted under subsection 5.16;

(g) Indebtedness of the Borrower which is subordinated and junior in right of payment to the Obligations (as defined in the Borrower Security Agreement) on terms and conditions satisfactory to the Agent and the Lenders (including, without limitation, Indebtedness of the Borrower under the Talk Note);

(h) Indebtedness of the Borrower in respect of the Chemical Standby Letters of Credit; and

(i) other Indebtedness in an aggregate principal amount not to exceed $500,000 at any one time outstanding, provided that such Indebtedness shall
----
not represent Indebtedness for money borrowed but shall only represent liabilities, other than Indebtedness for money borrowed, secured by a Lien on the property of the Borrower or any of its Subsidiaries permitted under subsection 9.3(j).

9.3 Limitation on Liens. Create, incur, assume or suffer to exist
----
any Lien upon any of its property, assets (including, without limitation, the capital stock of any Subsidiary) or revenues, whether now owned or hereafter acquired, except for:

(a) Liens for taxes not yet due or which are being contested in good faith by appropriate proceedings, if any are required in the good faith judgment of the Borrower, provided that adequate reserves with respect
----
thereto are maintained on the books of the Borrower or its Subsidiaries, as the case may be, in conformity with GAAP (or, in the case of Subsidiaries organized under the laws of a foreign country, generally accepted accounting principles in effect from time to time in their respective jurisdictions of organization);

(b) carriers', warehousemen's, mechanics', materialmen's, repairmen's or other like Liens arising in the ordinary course of business which are not overdue for a period of more than 60 days or which are being contested in good faith by appropriate proceedings;

(c) pledges or deposits in connection with workers' compensation, unemployment insurance and other social security legislation;

(d) deposits to secure the performance of bids, trade contracts (other than for borrowed money), leases, statutory obligations, surety and appeal bonds, performance bonds and

other obligations of a like nature incurred in the ordinary course of business;

(e) easements, rights-of-way, restrictions and other similar encumbrances which, in the aggregate, are not substantial in amount and which do not in any case materially detract from the value of the property subject thereto or materially interfere with the ordinary conduct of the business of the Borrower or any of its Subsidiaries;

(f) Liens securing Indebtedness of the Borrower and its Subsidiaries permitted by subsection 9.2(d) incurred to finance the acquisition of fixed or capital assets, provided that (i) such Liens shall be created
----
substantially simultaneously with the acquisition of such fixed or capital assets, (ii) such Liens do not at any time encumber any property other than the property financed by such Indebtedness, (iii) the amount of Indebtedness secured thereby is not increased at any time and (iv) the principal amount of Indebtedness secured by any such Lien shall at no time exceed 100% of the original purchase price of such property at the time it was acquired;

(g) Liens in favor of the Collateral Agent created pursuant to the Security Documents and any liens created pursuant to subsection 8.7;

(h) Liens securing the Borrower's obligations in respect of the Chemical Standby Letters of Credit granted pursuant to the Reimbursement and Cash Collateral Agreement;

(i) Liens on the Capital Stock of Talk Corporation owned by the Borrower to secure repayment of Indebtedness under the Talk Note; and

(j) Liens securing any Indebtedness permitted under subsection 9.2(i), provided that any such Liens shall not cover any Accounts (as
----
defined in the Borrower Security Agreement) or Inventory of the Borrower or any of its Subsidiaries.

In no event shall the Borrower create, incur, assume or suffer to exist any Lien upon the Capital Stock of CellStar now owned or hereafter acquired by the Borrower, other than Liens in favor of the Collateral Agent created pursuant to clause (g) above.

9.4 Limitation on Guarantee Obligations. Create, incur, assume or
---
suffer to exist any Guarantee Obligation except (a) Guarantee Obligations under the Subsidiaries Guarantee, (b) any Guarantee Obligations created pursuant to subsection 8.7, (c) any Guarantee Obligations in respect of the Chemical Standby Letters of Credit and (d) Guarantee Obligations of the Borrower in respect of obligations of any wholly-owned Guarantor in an aggregate amount not to exceed $5,000,000 at any time.

9.5 Limitations on Fundamental Changes. Enter into any merger, consolidation or amalgamation, or liquidate, wind up or dissolve itself (or suffer any liquidation or dissolution), or convey, sell, lease, assign, transfer or otherwise dispose of, all or substantially all of its property, business or assets, except that any Subsidiary of the Borrower may be merged or consolidated with or into the Borrower (provided that (i) the Borrower shall be the continuing or surviving corporation and (ii) the security interests created under the Security Documents in favor of the Collateral Agent, and the rights and remedies under such Security Documents, are not otherwise adversely affected) or with or into any one or more Domestic Subsidiaries (provided that (i) a Domestic Subsidiary shall be the continuing or surviving corporation and (ii) the security interests created under the Security Documents in favor of the Collateral Agent, and the rights and remedies under such Security Documents, are not otherwise adversely affected) and any Domestic Subsidiary of the Borrower may sell or distribute all or substantially all of its assets to the Borrower or any other Domestic Subsidiary.

9.6 Limitation on Sale of Assets. Except as required hereunder, convey, sell, lease, assign, transfer or otherwise dispose of any of its property, business or assets (including, without limitation, receivables and leasehold interests), whether now owned or hereafter acquired, except:

(a) obsolete or worn out property disposed of in the ordinary course of business or other items of property (other than Accounts (as defined in the Borrower Security Agreement) or Inventory) disposed of in the ordinary course of business which, individually or in the aggregate, are of nonmaterial economic value to the Borrower or any of its Subsidiaries disposing of such item of property;

(b) the sale of Inventory in the ordinary course of business;

(c) the liquidation of investments in Cash Equivalents permitted under subsection 9.9(b);

(d) the transfer of the stock or other ownership interests in any Joint Venture by the Borrower or any of its Subsidiaries to Audiovox Holding Corp., provided that Audiovox Holding Corp. (i) does not engage in any business other than the ownership of such stock or other ownership interests, (ii) does not incur any indebtedness for borrowed money or issue any Guarantee Obligation or (iii) does not acquire or own any assets other than such stock or other ownership interests;

(e) the sale of any CellStar stock owned by the Borrower or Audiovox Holding Corp. pursuant to the CellStar Option Agreements or otherwise, provided that, with respect to sales other than pursuant to the CellStar Option

Agreements, no Event of Default has occurred and is continuing at the time of such sale;

(f) the sale of assets (other than Accounts (as defined in the Borrower Security Agreement) or Inventory) in an aggregate amount not exceeding $500,000 in the aggregate after the date hereof;

(g) the disposition of all or a portion of the Capital Stock of Talk Corporation owned by the Borrower in satisfaction of all of the Indebtedness under the Talk Note; and

(h) as permitted by subsection 9.5.

9.7 Limitation on Dividends; Stock Repurchases. Declare or pay any dividend (other than dividends payable solely in common stock of the Borrower) on, or make any payment on account of, or set apart assets for a sinking or other analogous fund for, the purchase, redemption, defeasance, retirement or other acquisition of, any shares of any class of Capital Stock of the Borrower, including, without limitation, any payments under Section 10 of the Registration Rights Agreement, whether now or hereafter outstanding, or make any other distribution in respect thereof, either directly or indirectly, whether in cash or property or in obligations of the Borrower or any Subsidiary.

9.8 Limitation on Capital Expenditures. Make or commit to make (by way of the acquisition of securities of a Person or otherwise) any expenditure in respect of the purchase or other acquisition of fixed or capital assets (excluding any such asset acquired in connection with normal replacement and maintenance programs properly charged to current operations) except for expenditures not exceeding, in the aggregate for the Borrower and its Subsidiaries, $3,000,000 during any fiscal year.

9.9 Limitation on Investments, Loans and Advances. Make any advance, loan, extension of credit or capital contribution to, or purchase any stock, bonds, notes, debentures or other securities of or any assets constituting a business unit of, or make any other investment in, any Person (an "Investment"), except:

(a) extensions of trade credit in the ordinary course of business;

(b) Investments in Cash Equivalents or as otherwise permitted under the Reimbursement and Cash Collateral Agreement;

(c) loans and advances to officers, directors and employees of the Borrower or any of its Subsidiaries in the ordinary course of business for travel and entertainment expenses not exceeding $100,000 in the aggregate at any time;

(d) Investments arising as a result of the compromise or settlement of Accounts (other than Eligible Accounts) in the ordinary course of business as generally conducted over a period of time;

(e) Investments in (i) Domestic Subsidiaries and (ii) Joint Ventures and Subsidiaries (other than Domestic Subsidiaries) outstanding on the date hereof and described in Schedule 9.9(e); and
---

(f) (i) Investments by the Borrower and its Subsidiaries in (A) any newly formed Joint Venture or Subsidiary (other than a Domestic Subsidiary) and (B) any existing Joint Venture or Subsidiary (other than a Domestic Subsidiary) made after the date hereof, not to exceed $1,250,000 with respect to any single such investment and (ii) acquisitions of all the capital stock or all or substantially all of the assets of any Person, provided that (x) the aggregate amount of all such Investments and
---
acquisitions after the date hereof shall not exceed $10,000,000 in the aggregate, (y) to the extent that any such Subsidiary in which an Investment is made is or becomes a Material Foreign Subsidiary, the Borrower and such Material Foreign Subsidiary comply with the provisions of subsection 8.7 and (z) to the extent that any acquisition pursuant to clause (ii) above results in the acquisition or creation of a Subsidiary, the Borrower and such Subsidiary comply with the provisions of subsection 8.7.

9.10 Limitation on Payments on the Subordinated Debentures, the Talk
---
Note and the Exchange Debentures. (a) Make any optional prepayment, optional
- ---
redemption, optional defeasance or optional purchase of the principal of the Subordinated Debentures, the or the Talk Note or (b) make any payment on account of or in connection with the Exchange Debentures other than as required or contemplated by the Debenture Exchange Agreement as in effect on the date hereof.

9.11 Limitation on Modifications to Subordinated Debenture Indenture
---
and the Talk Note. Amend, modify or supplement any provision of (a) the
- ---
Subordinated Debenture Indenture or the Subordinated Debentures, other than amendments pursuant to Section 901(5) of the Subordinated Debenture Indenture to cure any ambiguity in the Subordinated Debenture Indenture, provided that such
---
amendment does not adversely affect the interests of the Lenders or (b) amend, modify or waive any provision of the Talk Note.

9.12 Transactions with Affiliates. Except as set forth on Schedule
---
9.12, enter into any transaction, including, without limitation, any purchase,
- ----
sale, lease or exchange of property or the rendering of any service, with any Affiliate, unless such transaction is in the ordinary course of, and pursuant to the reasonable requirements of, the Borrower's or

such Subsidiary's business, is in good faith and is upon fair and reasonable terms no less favorable to the Borrower or such Subsidiary, as the case may be, than it would obtain in a comparable arm's length transaction with a Person not an Affiliate and, with respect to a transaction between the Borrower or any Subsidiary, on the one hand, and a Joint Venture, on the other hand, is upon such terms that are (a) commercially reasonable based upon the volume of business transacted between the Borrower or such Subsidiary, on the one hand, and such Joint Venture, on the other hand, and (b) with respect to transfers of Inventory, at a price not less than the lowest price charged to the Borrower's other Joint Ventures and in no event less than the price for a sale of such Inventory in effect with such Joint Venture on the Closing Date. Accounts owed by any Joint Venture to the Borrower or any Subsidiary shall be promptly invoiced (and, in any event, shall be invoiced within five days after the shipment of goods relating thereto), shall be payable not later than 90 days after the date of creation of original invoices related thereto, and the time for payment on any such Account shall not be extended, nor shall any such Account be compromised, compounded or settled for less than the full amount thereof.

9.13 Sale and Leaseback. Enter into any arrangement with any Person providing for the leasing by the Borrower or any Subsidiary of real or personal property which has been or is to be sold or transferred by the Borrower or such Subsidiary to such Person or to any other Person to whom funds have been or are to be advanced by such Person on the security of such property or rental obligations of the Borrower or such Subsidiary.

9.14 Fiscal Year. Permit the fiscal year of the Borrower or any of its Subsidiaries to end on a day other than November 30.

9.15 Limitation on Negative Pledge Clauses. Enter into any agreement or Financing Leases permitted by this Agreement (in which cases, any prohibition or limitation shall only be effective against the assets financed thereby), with any Person other than the Lenders pursuant hereto which prohibits or limits the ability of the Borrower or any of its Subsidiaries to create, incur, assume or suffer to exist any Lien upon any of its property, assets or revenues, whether now owned or hereafter acquired.

9.16 Compromise of Receivables. Except other than in the ordinary course of business as generally conducted over a period of time, grant any extension of the time of payment of any of the Accounts, compromise, compound or settle the same for less than the full amount thereof, release, wholly or partially, any Person liable for the payment thereof, or allow any credit or discount whatsoever thereon.

9.17 Accounting Policies and Procedures. Except as set forth in Schedule 9.17, permit any material change in the
- -------------

accounting policies or procedures of the Borrower or any of its subsidiaries, other than as required by GAAP (or, in the case of Subsidiaries organized under the laws of a foreign country, generally accepted accounting principles in effect from time to time in their respective jurisdictions of organization), without the prior written consent of the Agent.

9.18 Consignment of Title Documents. Deliver any title or other similar documents in respect of Inventory as collateral security to any Person other than the Collateral Agent.

9.19 Limitation on Restrictions on Intercompany Payments. Enter into any agreement which restricts in any way, or has the effect of restricting, the payment of dividends, distributions or other amounts to the Borrower by any Subsidiary or amend the terms of any existing agreement so as to impose or increase any restrictions on the payment of dividends, distributions or other amounts to the Borrower by any Subsidiary or Joint Venture in a manner that is more onerous than any such restrictions in effect on the Closing Date.

9.20 Limitation on Foreign Exchange Contracts. Enter into a Foreign Exchange Contract if the aggregate amount of Foreign Exchange Liabilities of the Borrower at such time, as most recently determined prior to such time by the Agent pursuant to this subsection 5.16 and after giving effect to such Foreign Exchange Contract, exceed $3,000,000.

SECTION 10. EVENTS OF DEFAULT

If any of the following events shall occur and be continuing:

(a) The Borrower shall fail to pay any principal of or interest on any Note or any L/C Obligation or Acceptance Obligation or any fee or other amount payable hereunder when due in accordance with the terms thereof or hereof; or

(b) Any representation or warranty made or deemed made by the Borrower herein, in any Security Document or in any other Loan Document or which is contained in any certificate, document or financial or other statement furnished at any time under or in connection with this Agreement or any Security Document or other Loan Document shall prove to have been incorrect in any material respect on or as of the date made or deemed made; or

(c) The Borrower shall default in the observance or performance of any agreement contained in Section 9 or Section 5(h), 5(i), 5(j) or 5(k) of the Borrower Security Agreement or the Subsidiaries Security Agreement; or

(d) The Borrower shall default in the observance or performance of any other agreement contained in this Agreement, any Security Document or any of the other Loan Documents (other than as provided in paragraphs (a) through (c) of this Section), and such default shall continue unremedied (i) in the case of the agreements contained in subsection 8.1, for a period of 14 days and (ii) in the case of all other agreements, for a period of 30 days; or

(e) (i) an Event of Default (as defined in the Debenture Exchange Agreement) or an event which with notice or lapse of time or both would become an Event of Default under and as defined in the Debenture Exchange Agreement shall occur and be continuing under the Debenture Exchange Agreement or (ii) an Event of Default (as defined in the Subordinated Debenture Indenture) shall occur and be continuing under the Subordinated Debenture Indenture; or

(f) The Borrower or any of its Subsidiaries shall (i) default in any payment of principal of or interest on any Indebtedness (other than the Exchange Debentures and the Subordinated Debentures), or in the payment of any Guarantee Obligation (provided that the principal amount of such Indebtedness or Guarantee Obligation exceeds, individually, or in the aggregate, $500,000), provided in the instrument or agreement under which such Indebtedness or Guarantee Obligation was created; or (ii) default in the observance or performance of any other agreement or condition relating to any such Indebtedness or Guarantee Obligation (provided that the principal amount of such Indebtedness or Guarantee Obligation exceeds, individually, or in the aggregate, $500,000) or contained in any instrument or agreement evidencing, securing or relating thereto, or any other event shall occur or condition exist, the effect of which default or other event or condition is to cause, or to permit the holder or holders of such Indebtedness or beneficiary or beneficiaries of such Guarantee Obligation (or a trustee or agent on behalf of such holder or holders or beneficiary or beneficiaries) to cause, with the giving of notice if required, such Indebtedness to become due prior to its stated maturity or such Guarantee Obligation to become payable; or

(g) (i) The Borrower or any of its Subsidiaries shall commence any case, proceeding or other action (A) under any existing or future law of any jurisdiction, domestic or foreign, relating to bankruptcy, insolvency, reorganization or relief of debtors, seeking to have an order for relief entered with respect to it, or seeking to adjudicate it a bankrupt or insolvent, or seeking reorganization, arrangement, adjustment, winding-up, liquidation, dissolution, composition or other relief with respect to it or its debts, or (B) seeking appointment of a receiver, trustee, custodian or other similar official for it or for

all or any substantial part of its assets, or the Borrower or any of its Subsidiaries shall make a general assignment for the benefit of its creditors; or (ii) there shall be commenced against the Borrower or any of its Subsidiaries any case, proceeding or other action of a nature referred to in clause (i) above which (A) results in the entry of an order for relief or any such adjudication or appointment or (B) remains undismissed, undischarged or unbonded for a period of 60 days; or (iii) there shall be commenced against the Borrower or any of its Subsidiaries any case, proceeding or other action seeking issuance of a warrant of attachment, execution, distraint or similar process against all or any substantial part of its assets which results in the entry of an order for any such relief which shall not have been vacated, discharged, or stayed or bonded pending appeal within 60 days from the entry thereof; or (iv) the Borrower or any of its Subsidiaries shall take any action in furtherance of, or indicating its consent to, approval of, or acquiescence in, any of the acts set forth in clause (i), (ii), or (iii) above; or (v) the Borrower or any of its Subsidiaries shall generally not, or shall be unable to, or shall admit in writing its inability to, pay its debts as they become due; or

(h) (i) Any Person shall engage in any "prohibited transaction" (as defined in Section 406 of ERISA or Section 4975 of the Code) involving any Plan, (ii) any "accumulated funding deficiency" (as defined in Section 302 of ERISA), whether or not waived, shall exist with respect to any Plan, (iii) a Reportable Event shall occur with respect to, or proceedings shall commence to have a trustee appointed, or a trustee shall be appointed, to administer or to terminate, any Single Employer Plan, which Reportable Event or commencement of proceedings or appointment of a trustee is, in the reasonable opinion of the Required Lenders, likely to result in the termination of such Plan for purposes of Title IV of ERISA, (iv) any Single Employer Plan shall terminate for purposes of Title IV of ERISA, (v) the Borrower or any Commonly Controlled Entity shall, or in the reasonable opinion of the Required Lenders is likely to, incur any liability in connection with a withdrawal from, or the Insolvency or Reorganization of, a Multiemployer Plan or (vi) any other event or condition shall occur or exist, with respect to a Plan; and in each case in clauses (i) through (vi) above, such event or condition, together with all other such events or conditions, if any, could, in the reasonable judgment of the Borrower or the Required Lenders, subject the Borrower or any Commonly Controlled Entity to any tax, penalty or other liabilities that in the aggregate could reasonably be expected to have a Material Adverse Effect; or

(i) One or more judgments or decrees shall be entered against the Borrower or any of its Subsidiaries involving in the aggregate a liability (not paid or fully covered by

insurance) of $500,000 or more and (i) all such judgments or decrees shall not have been vacated, discharged, stayed or bonded pending appeal within 60 days from the entry thereof or (ii) the judgement creditors with respect to such judgments or their successors or assigns shall have commenced enforcement proceedings, which enforcement proceedings shall have remained unstayed for 10 consecutive days; or

(j) Any Security Document shall cease for any reason to be in full force and effect, or the Borrower shall so assert or the security interests created by any such Document shall cease for any reason, other than a release by the Lenders, to be enforceable and of the same effect and priority purported to be created thereby; or

(k) Any Risk Event (as defined in the Subordinated Debenture Indenture) or Redemption Event (as defined in the Subordinated Debenture Indenture) shall occur under the Subordinated Debenture Indenture;

then, and in any such event, (A) if such event is an Event of Default specified in clause (i) or (ii) of paragraph (g) above with respect to the Borrower, automatically the Commitments shall immediately terminate and the Loans hereunder (with accrued interest thereon) and all other amounts owing under this Agreement (including, without limitation, all amounts of L/C Obligations, whether or not the beneficiaries of the then outstanding Letters of Credit shall have presented the documents required thereunder and all amounts of Acceptance Obligations, whether or not the Acceptances related thereto have matured) and the Notes shall immediately become due and payable, and (B) if such event is any other Event of Default, either or both of the following actions may be taken: (i) with the consent of the Required Lenders, the Agent may, or upon the request of the Required Lenders, the Agent shall, by notice to the Borrower declare the Commitments to be terminated forthwith, whereupon the Commitments shall immediately terminate; and (ii) with the consent of the Required Lenders, the Agent may, or upon the request of the Required Lenders, the Agent shall, by notice of default to the Borrower, declare the Loans hereunder (with accrued interest thereon) and all other amounts owing under this Agreement (including, without limitation, all amounts of L/C Obligations, whether or not the beneficiaries of the then outstanding Letters of Credit shall have presented the documents required thereunder and all amounts of Acceptance Obligations, whether or not the Acceptances related thereto have matured) and the Notes to be due and payable forthwith, whereupon the same shall immediately become due and payable.

With respect to all Letters of Credit (including Existing Letters of Credit) with respect to which presentment for honor shall not have occurred at the time of an acceleration pursuant to the preceding paragraph, the Borrower shall at such

time deposit in a cash collateral account opened by the Agent an amount equal to the aggregate then undrawn and unexpired amount of such Letters of Credit. Amounts held in such cash collateral account shall be applied by the Agent to the payment of drafts drawn under such Letters of Credit, and the unused portion thereof after all such Letters of Credit shall have expired or been fully drawn upon and, if any, shall be applied to repay other Obligations of the Borrower hereunder and under the Notes. After all such Letters of Credit shall have expired or been fully drawn upon, all L/C Obligations shall have been satisfied and all other Obligations of the Borrower hereunder and under the Notes shall have been paid in full, the balance, if any, in such cash collateral account shall be returned to the Borrower.

Except as expressly provided above in this Section, presentment, demand, protest and all other notices of any kind are hereby expressly waived.

SECTION 11. THE AGENT

11.1 Appointment. Each Lender hereby irrevocably designates and appoints Chemical as the Agent of such Lender under this Agreement, the Security Documents and the other Loan Documents, and each such Lender irrevocably authorizes Chemical, as the Agent for such Lender, to take such action on its behalf under the provisions of this Agreement, the Security Documents and the other Loan Documents and to exercise such powers and perform such duties as are expressly delegated to the Agent by the terms of this Agreement, the Security Documents and the other Loan Documents, together with such other powers as are reasonably incidental thereto. Notwithstanding any provision to the contrary elsewhere in this Agreement, the Agent shall not have any duties or responsibilities, except those expressly set forth herein, or any fiduciary relationship with any Lender, and no implied covenants, functions, responsibilities, duties, obligations or liabilities shall be read into this Agreement, the Security Documents or any other Loan Document or otherwise exist against the Agent.

11.2 Delegation of Duties. The Agent may execute any of its duties under this Agreement, the Security Documents and the other Loan Documents by or through agents or attorneys-in-fact and shall be entitled to advice of counsel concerning all matters pertaining to such duties. The Agent shall not be responsible for the negligence or misconduct of any agents or attorneys in-fact selected by it with reasonable care.

11.3 Exculpatory Provisions. Neither the Agent nor any of its officers, directors, employees, agents, attorneys-in-fact or Affiliates shall be (i) liable for any action lawfully taken or omitted to be taken by it or such Person under or in connection with this Agreement, the Security Documents or any other Loan Document (except for its or such

Person's own gross negligence or willful misconduct) or (ii) responsible in any manner to any of the Lenders for any recitals, statements, representations or warranties made by the Borrower or any officer thereof contained in this Agreement, the Security Documents or any other Loan Document or in any certificate, report, statement or other document referred to or provided for in, or received by the Agent under or in connection with, this Agreement, the Security Documents or any other Loan Document or for the value, validity, effectiveness, genuineness, enforceability or sufficiency of this Agreement, the Notes, the Security Documents or any other Loan Document or for any failure of the Borrower to perform its obligations hereunder or thereunder. The Agent shall not be under any obligation to any Lender to ascertain or to inquire as to the observance or performance of any of the agreements contained in, or conditions of, this Agreement, the Security Documents or any other Loan Document, or to inspect the properties, books or records of the Borrower.

11.4 Reliance by Agent. The Agent shall be entitled to rely, and shall be fully protected in relying, upon any Note, writing, resolution, notice, consent, certificate, affidavit, letter, cablegram, telegram, telecopy, telex or teletype message, statement, order or other document or conversation believed by it to be genuine and correct and to have been signed, sent or made by the proper Person or Persons and upon advice and statements of legal counsel (including, without limitation, counsel to the Borrower), independent accountants and other experts selected by the Agent. The Agent may deem and treat the payee of any Note as the owner thereof for all purposes unless a written notice of assignment, negotiation or transfer thereof shall have been filed with the Agent. The Agent shall be fully justified in failing or refusing to take any action under this Agreement, the Security Documents or any other Loan Document unless it shall first receive such advice or concurrence of the Required Lenders as it deems appropriate or it shall first be indemnified to its satisfaction by the Lenders against any and all liability and expense which may be incurred by it by reason of taking or continuing to take any such action. The Agent shall in all cases be fully protected in acting, or in refraining from acting, under this Agreement, the Notes, the Security Documents and the other Loan Documents in accordance with a request of the Required Lenders, and such request and any action taken or failure to act pursuant thereto shall be binding upon all the Lenders and all future holders of the Notes.

11.5 Notice of Default. The Agent shall not be deemed to have knowledge or notice of the occurrence of any Default or Event of Default hereunder unless the Agent has received notice from a Lender or the Borrower referring to this Agreement, describing such Default or Event of Default and stating that such notice is a "notice of default". In the event that the Agent receives such a notice, the Agent shall give notice thereof to the Lenders. The Agent shall take such action with respect to

such Default or Event of Default as shall be reasonably directed by the Required Lenders, including any action under the Security Documents; provided that unless
----
and until the Agent shall have received such directions, the Agent may (but shall not be obligated to) take such action, or refrain from taking such action, with respect to such Default or Event of Default as it shall deem advisable in the best interests of the Lenders. Any knowledge of any Default or Event of Default which the Agent has or acquires in its capacity as a Lender shall be deemed to be notice to the Agent of such Default or Event of Default.

11.6 Non-Reliance on Agent and Other Lenders. Each Lender expressly
---
acknowledges that neither the Agent nor any of its officers, directors, employees, agents, attorneys-in-fact or Affiliates has made any representations or warranties to it and that no act by the Agent hereinafter taken, including any review of the affairs of the Borrower, shall be deemed to constitute any representation or warranty by the Agent to any Lender. Each Lender represents to the Agent that it has, independently and without reliance upon the Agent or any other Lender, and based on such documents and information as it has deemed appropriate, made its own appraisal of and investigation into the business, operations, property, financial and other condition and creditworthiness of the Borrower and made its own decision to make its Loans and/or issue or participate in Letters of Credit (including Existing Letters of Credit) and/or create or participate in Acceptances (including Existing Acceptances) hereunder and enter into this Agreement. Each Lender also represents that it will, independently and without reliance upon the Agent or any other Lender, and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit analysis, appraisals and decisions in taking or not taking action under this Agreement and the other Loan Documents, and to make such investigation as it deems necessary to inform itself as to the business, operations, property, financial and other condition and creditworthiness of the Borrower. Except for notices, reports and other documents expressly required to be furnished to the Lenders by the Agent hereunder, the Agent shall not have any duty or responsibility to provide any Lender with any credit or other information concerning the business, operations, property, condition (financial or otherwise), prospects or creditworthiness of the Borrower which may come into the possession of the Agent or any of its officers, directors, employees, agents, attorneys-in-fact or Affiliates.

11.7 Indemnification. The Lenders agree to indemnify the Agent in
---
its capacity as such (to the extent not reimbursed by the Borrower and without limiting the obligation of the Borrower to do so), ratably according to their original Commitment Percentages, from and against any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements of any kind whatsoever which may at any time (including, without limitation, at any time

following the payment of the Notes) be imposed on, incurred by or asserted against the Agent in its capacity as such in any way relating to or arising out of this Agreement, the Security Documents, any of the other Loan Documents or any documents contemplated by or referred to herein or therein or the transactions contemplated hereby or thereby or any action taken or omitted by the Agent under or in connection with any of the foregoing; provided that no Lender shall be liable for the payment of any portion of such liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements resulting solely from the Agent's gross negligence or willful misconduct. The agreements in this subsection shall survive the payment of the Notes and all other amounts payable hereunder.

11.8 Agent in Its Individual Capacity. The Agent and its Affiliates may make loans to, accept deposits from and generally engage in any kind of business with the Borrower as though the Agent were not the Agent hereunder, the Security Documents and the other Loan Documents. With respect to Loans made or renewed by it and any Note issued to it and with respect to any Letter of Credit issued or participated in by it or any Acceptance created or participated in by it, the Agent shall have the same rights and powers under this Agreement, the Security Documents and the other Loan Documents as any Lender and may exercise the same as though it were not the Agent, and the terms "Lender" and "Lenders" shall include the Agent in its individual capacity.

11.9 Successor Agent. The Agent may resign as Agent upon 10 days' notice to the Lenders. If the Agent shall resign as Agent under this Agreement then the Required Lenders shall appoint from among the Lenders a successor agent for the Lenders, which successor agent shall be approved by the Borrower, whereupon such successor agent shall succeed to the rights, powers and duties of the Agent, and the term "Agent" shall mean such successor agent effective upon its appointment, and the former Agent's rights, powers and duties as Agent shall be terminated, without any other or further act or deed on the part of such former Agent or any of the parties to this Agreement or any holders of the Notes. After any retiring Agent's resignation as Agent, the provisions of this subsection shall inure to its benefit as to any actions taken or omitted to be taken by it while it was Agent under this Agreement.

11.10 Issuing Bank and Accepting Bank. The provisions of this Section 11 shall apply mutatis mutandis to the Issuing Bank and the Accepting Bank in their respective capacities as such to the same extent that such provisions apply to the Agent.

SECTION 12. MISCELLANEOUS

12.1 Amendments and Waivers. Neither this Agreement, any Note, Security Document or other Loan Document, nor any terms hereof or thereof may be amended, supplemented or modified except in accordance with the provisions of this subsection. With the prior written consent of the Required Lenders, the Agent and the Borrower may, from time to time, enter into written amendments, supplements or modifications hereto and to the Notes, the Security Documents and the other Loan Documents for the purpose of adding any provisions to this Agreement, the Notes, the Security Documents or the other Loan Documents or changing in any manner the rights of the Lenders or of the Borrower hereunder or thereunder or waiving, on such terms and conditions as the Agent may specify in such instrument, any of the requirements of this Agreement, the Notes, the Security Documents or the other Loan Documents or any Default or Event of Default and its consequences; provided, however, that no such waiver and no such amendment, supplement or modification shall (a) increase the Commitments, reduce the amount or extend the maturity of any Note or any installment thereof, or reduce the rate or extend the time of payment of interest thereon, or reduce any fee payable to any Lender hereunder, or change the amount of any Lender's Commitment, in each case without the consent of all the Lenders affected directly or indirectly thereby, or (b) amend, modify or waive any provision of this subsection or reduce the percentage specified in the definition of Required Lenders, or increase the advance rates specified in the definition of Borrowing Base, or consent to the assignment or transfer by the Borrower of any of its rights and obligations under this Agreement or the other Loan Documents or consent to the release of all or a substantial part of the collateral upon which Liens have been created pursuant to the Security Documents or consent to the release of any Guarantee Obligations under the Security Documents, in each case without the prior written consent of all the Lenders, or (c) amend, modify or waive any provision of Section 3 without the prior written consent of the Issuing Bank, (d) amend, modify or waive any provision of Section 4 without the prior written consent of the Accepting Bank or (e) amend, modify or waive any provision of Section 11 without the prior written consent of the then Agent. Any such waiver and any such amendment, supplement or modification shall apply equally to each of the Lenders and shall be binding upon the Borrower, the Lenders, the Agent and all future holders of the Notes. In the case of any waiver, the Borrower, the Lenders and the Agent shall be restored to their former position and rights hereunder and under the outstanding Notes and any other Loan Documents, and any Default or Event of Default waived shall be deemed to be cured and not continuing; but no such waiver shall extend to any subsequent or other Default or Event of Default, or impair any right consequent thereon.

12.2 Notices. All notices, requests and demands to or upon the respective parties hereto to be effective shall be in

writing (including by telecopy or nationally recognized courier service), and, unless otherwise expressly provided herein, shall be deemed to have been duly given or made when delivered by hand, or, in the case of telecopy notice, when received, or, in the case of a nationally recognized courier service, one Business Day after delivery to such courier service, addressed as follows in the case of the Borrower and the Agent, and as set forth in Schedule 12.2 in the
---
case of the other parties hereto, or to such other address as may be hereafter notified by the respective parties hereto and any future holders of the Notes:

The Borrower:	Audiovox Corporation 150 Marcus Boulevard Hauppauge, New York 11788 Attention: Charles M. Stoehr Telecopy: (516) 273-6922 Telephone: (516) 231-7750
The Agent and the Collateral Agent (and Chemical, in its capacity as Issuing Bank and Accepting Bank):	Chemical Bank 7600 Jericho Turnpike Woodbury, New York 11797 Attention: Roland Driscoll Telecopy: (516) 364-3307 Telephone: (516) 364-3300

provided that any notice, request or demand to or upon the Agent or the Lenders
- --------
pursuant to subsection 2.3, 5.1, 5.3 or 5.8 shall not be effective until received.

12.3 No Waiver; Cumulative Remedies. No failure to exercise and no
---
delay in exercising, on the part of the Agent or any Lender, any right, remedy, power or privilege hereunder shall operate as a waiver thereof; nor shall any single or partial exercise of any right, remedy, power or privilege hereunder preclude any other or further exercise thereof or the exercise of any other right, remedy, power or privilege. The rights, remedies, powers and privileges herein provided are cumulative and not exclusive of any rights, remedies, powers and privileges provided by law.

12.4 Survival of Representations and Warranties. All representations
---
and warranties made hereunder or under any other Loan Document and in any document, certificate or statement delivered pursuant hereto or in connection herewith shall survive the execution and delivery of this Agreement and the Notes.

12.5 Payment of Expenses and Taxes. The Borrower agrees (a) to pay
---
or reimburse the Agent and each Lender for all its out-of-pocket costs and expenses incurred in connection with

the development, preparation and execution of, and any amendment, supplement or modification to, this Agreement, the Notes, the Security Documents and the other Loan Documents and any other documents prepared in connection herewith or therewith, and the consummation and administration of the transactions contemplated hereby and thereby, including, without limitation, the reasonable fees and disbursements of counsel to the Agent, (b) to pay or reimburse each Lender and the Agent for all its costs and expenses incurred in connection with the enforcement or preservation of any rights under this Agreement, the Notes, the Security Documents, the other Loan Documents and any such other documents, including, without limitation, fees and disbursements of counsel to the Agent and to the several Lenders, (c) to pay, indemnify, and hold each Lender and the Agent harmless from, any and all recording and filing fees and any and all liabilities with respect to, or resulting from any delay in paying, stamp, excise and other taxes, if any, which may be payable or determined to be payable in connection with the execution and delivery of, or consummation or administration of any of the transactions contemplated by, or any amendment, supplement or modification of, or any waiver or consent under or in respect of, this Agreement, the Notes, the Security Documents, the other Loan Documents and any such other documents, and (d) to pay, indemnify, and hold each Lender and the Agent harmless from and against any and all other liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements of any kind or nature whatsoever with respect to the execution, delivery, enforcement, performance and administration of this Agreement, the Notes, the Security Documents, the other Loan Documents, and any such other documents (all the foregoing, collectively, the "indemnified liabilities"), provided, that the Borrower shall have no obligation hereunder to the Agent or
- --------
any Lender, as the case may be, with respect to indemnified liabilities arising from (i) the gross negligence or willful misconduct of the Agent or any such Lender, as the case may be, (ii) legal proceedings commenced against the Agent or any such Lender by any security holder or creditor thereof arising out of and based upon rights afforded any such security holder or creditor solely in its capacity as such, or (iii) legal proceedings commenced against the Agent or any such Lender by any other Lender or by any Transferee (as defined in subsection 12.6). The agreements in this subsection shall survive repayment of the Notes and all other amounts payable hereunder.

12.6 Successors and Assigns; Participations; Purchasing Lenders.

(a) This Agreement shall be binding upon and inure to the benefit of the Borrower, the Lenders, the Agent, all future holders of the Notes and their respective successors and assigns, except that the Borrower may not assign or transfer any of its rights or obligations under this Agreement without the prior written consent of each Lender.

(b) Any Lender may, in the ordinary course of its commercial banking business and in accordance with applicable law, at any time sell to one or more banks or other entities ("Participants") participating interests in any Loan owing to such Lender, any Note held by such Lender, any Commitment of such Lender or any other interest of such Lender hereunder and under the other Loan Documents. In the event of any such sale by a Lender of participating interests to a Participant, such Lender's obligations under this Agreement to the other parties to this Agreement shall remain unchanged, such Lender shall remain solely responsible for the performance thereof, such Lender shall remain the holder of any such Note for all purposes under this Agreement and the other Loan Documents, and the Borrower and the Agent shall continue to deal solely and directly with such Lender in connection with such Lender's rights and obligations under this Agreement and the other Loan Documents. The Borrower agrees that if amounts outstanding under this Agreement and the Notes are due or unpaid, or shall have been declared or shall have become due and payable upon the occurrence of an Event of Default, each Participant shall be deemed to have the right of set-off in respect of its participating interest in amounts owing under this Agreement and any Note to the same extent as if the amount of its participating interest were owing directly to it as a Lender under this Agreement or any Note, provided that such Participant shall only be entitled to such right of set-off if it shall have agreed in the agreement pursuant to which it shall have acquired its participating interest to share with the Lenders the proceeds thereof as provided in subsection 12.7. The Borrower also agrees that each Participant shall be entitled to the benefits of subsections 5.12, 5.13, 5.14, 5.15 and 12.5 with respect to its participation in the Commitments and the Loans outstanding from time to time; provided, that no Participant shall be entitled to receive any greater amount pursuant to such subsections than the transferor Lender would have been entitled to receive in respect of the amount of the participation transferred by such transferor Lender to such Participant had no such transfer occurred.

(c) Any Lender may, in the ordinary course of its commercial banking business and in accordance with applicable law, at any time sell to any Lender or any affiliate thereof and, with the consent of the Borrower and the Agent (which in each case shall not be unreasonably withheld), to one or more additional banks or financial institutions ("Purchasing Lenders") all or any part of its rights and obligations under this Agreement and the Notes pursuant to a Commitment Transfer Supplement, substantially in the form of Exhibit D, executed by such Purchasing Lender, such transferor Lender (and, in the case of a Purchasing Lender that is not then a Lender or an affiliate thereof, by the Borrower and the Agent) and delivered to the

Agent for its acceptance and recording in the Register (as defined in subsection 12.6(d)); provided that if an Event of Default has occurred under paragraph (a) of Section 10 and is continuing, the consent or approval of the Borrower shall not be required in connection with any sale by a Lender under this paragraph. Upon such execution, delivery, acceptance and recording, from and after the Transfer Effective Date determined pursuant to such Commitment Transfer Supplement, (x) the Purchasing Lender thereunder shall be a party hereto and, to the extent provided in such Commitment Transfer Supplement, have the rights and obligations of a Lender hereunder with a Commitment as set forth therein, and (y) the transferor Lender thereunder shall, to the extent provided in such Commitment Transfer Supplement, be released from its obligations under this Agreement (and, in the case of a Commitment Transfer Supplement covering all or the remaining portion of a transferor Lender's rights and obligations under this Agreement, such transferor Lender shall cease to be a party hereto). Such Commitment Transfer Supplement shall be deemed to amend this Agreement to the extent, and only to the extent, necessary to reflect the addition of such Purchasing Lender and the resulting adjustment of Commitment Percentages arising from the purchase by such Purchasing Lender of all or a portion of the rights and obligations of such transferor Lender under this Agreement and the Notes. On or prior to the Transfer Effective Date determined pursuant to such Commitment Transfer Supplement, the Borrower, at its own expense, shall execute and deliver to the Agent in exchange for the surrendered Note a new Note to the order of such Purchasing Lender in an amount equal to the Commitment assumed by it pursuant to such Commitment Transfer Supplement and, if the transferor Lender has retained a Commitment hereunder, a new Note to the order of the transferor Lender in an amount equal to the Commitment retained by it hereunder. Such new Notes shall be dated the Closing Date and shall otherwise be in the form of the Notes replaced thereby. The Notes surrendered by the transferor Lender shall be returned by the Agent to the Borrower marked "cancelled".

(d) The Agent shall maintain at its address referred to in subsection 12.2 a copy of each Commitment Transfer Supplement delivered to it and a register (the "Register") for the recordation of the names and addresses of the Lenders and the Commitment of, and principal amount of the Loans owing to, each Lender from time to time. The entries in the Register shall be conclusive, in the absence of manifest error, and the Borrower, the Agent and the Lenders may treat each Person whose name is recorded in the Register as the owner of the Loan recorded therein for all purposes of this Agreement. The Register shall be available for inspection by the Borrower or any Lender at any reasonable time and from time to time upon reasonable prior notice.

(e) Upon its receipt of a Commitment Transfer Supplement executed by a transferor Lender and Purchasing Lender (and, in the case of a Purchasing Lender that is not then a Lender or an affiliate thereof, by the Borrower and the Agent) together with payment to the Agent of a registration and processing fee of $500, the Agent shall (i) promptly accept such Commitment Transfer Supplement and (ii) on the Transfer Effective Date determined pursuant thereto record the information contained therein in the Register and give notice of such acceptance and recordation to the Lenders and the Borrower.

(f) The Borrower authorizes each Lender to disclose to any Participant or Purchasing Lender (each, a "Transferee") and any prospective Transferee any and all financial information in such Lender's possession concerning the Borrower and its affiliates which has been delivered to such Lender by or on behalf of the Borrower pursuant to this Agreement or which has been delivered to such Lender by or on behalf of the Borrower in connection with such Lender's credit evaluation of the Borrower and its affiliates prior to becoming a party to this Agreement, provided that any prospective Transferee shall have agreed to be bound by subsection 12.8 or shall have executed a confidentiality agreement to substantially the same effect.

(g) If, pursuant to this subsection, any interest in this Agreement or any Note is transferred to any Transferee which is organized under the laws of any jurisdiction other than the United States of America or any state thereof, the transferor Lender shall cause such Transferee, concurrently with the effectiveness of such transfer, (i) to represent to the transferor Lender (for the benefit of the transferor Lender, the Agent and the Borrower) that under applicable law and treaties no taxes will be required to be withheld by the Agent, the Borrower or the transferor Lender with respect to any payments to be made to such Transferee in respect of the Loans, (ii) to furnish to the transferor Lender (and, in the case of any Purchasing Lender registered in the Register, the Agent and the Borrower) either U.S. Internal Revenue Service Form 4224 or U.S. Internal Revenue Service Form 1001 (wherein such Transferee claims entitlement to complete exemption from U.S. federal withholding tax on all interest payments hereunder) and (iii) to agree (for the benefit of the transferor Lender, the Agent and the Borrower) to provide the transferor Lender (and, in the case of any Purchasing Lender registered in the Register, the Agent and the Borrower) a new Form 4224 or Form 1001 upon the expiration or obsolescence of any previously delivered form and comparable statements in accordance with applicable laws of the United States of America and regulations and amendments duly executed and completed by such Transferee, and to comply from time to

time with all applicable U.S. laws and regulations with regard to such withholding tax exemption.

(h) Nothing herein shall prohibit any Lender from pledging or assigning any Note to any Federal Reserve Lender in accordance with applicable law.

12.7 Adjustments; Set-off.

(a) If any Lender (a "benefitted Lender") shall at any time receive any payment of all or part of its Loans or the Reimbursement Obligations owing to it, or interest thereon, or receive any collateral in respect thereof (whether voluntarily or involuntarily, by set-off, pursuant to events or proceedings of the nature referred to in Section 10(g), or otherwise), in a greater proportion than any such payment to or collateral received by any other Lender, if any, in respect of such other Lender's Loans, or interest thereon, such benefitted Lender shall purchase for cash from the other Lenders such portion of each such other Lender's Loan, or shall provide such other Lenders with the benefits of any such collateral, or the proceeds thereof, as shall be necessary to cause such benefitted Lender to share the excess payment or benefits of such collateral or proceeds ratably with each of the Lenders; provided, however, that if all or any portion of such excess payment or benefits is thereafter recovered from such benefitted Lender, such purchase shall be rescinded, and the purchase price and benefits returned, to the extent of such recovery, but without interest. The Borrower agrees that each Lender so purchasing a portion of another Lender's Loan may exercise all rights of payment (including, without limitation, rights of set-off) with respect to such portion as fully as if such Lender were the direct holder of such portion.

(b) In addition to any rights and remedies of the Lenders provided by law, each Lender shall have the right, without prior notice to the Borrower, any such notice being expressly waived by the Borrower to the extent permitted by applicable law, upon any amount becoming due and payable by the Borrower hereunder or under the Notes (whether at the stated maturity, by acceleration or otherwise) to set-off and appropriate and apply against such amount any and all deposits (general or special, time or demand, provisional or final), in any currency, and any other credits, indebtedness or claims, in any currency, in each case whether direct or indirect, absolute or contingent, matured or unmatured, at any time held or owing by such Lender or any branch or agency thereof to or for the credit or the account of the Borrower. Each Lender agrees promptly to notify the Borrower and the Agent after any such set-off and application made by such Lender, provided that the failure to give such notice shall not affect the validity of such set-off and application.

12.8 Confidentiality. Each Lender agrees that all non-public information provided to such Lender (or any officer or employee of such Lender) under this Agreement is confidential and proprietary to the Borrower and that the Lender will not disclose (other than to the directors, officers, employees, affiliates and agents of the Lender who require such information in connection with the Lender's administration and enforcement of this Agreement and who have been directed to treat such information as confidential and proprietary to the Borrower or to outside advisors or auditors of the Lender, provided that such advisors or auditors have agreed to treat such information as confidential and proprietary to the Borrower or to bank examiners or other similar officials) any such information (excluding information which becomes (i) generally available to the public other than as a result of the disclosure thereof by the Lender or its representatives or (ii) available to the Lender on a non-confidential basis from a source other than Borrower or any of its Subsidiaries or any of their respective directors, officers, employees, agents or representatives, provided such source is not bound by a confidentiality agreement with the Borrower), except to the extent the Lender is required by law or requested or required by any Governmental Authority to disclose such information.

12.9 Return of CellStar Stock. Upon the execution of this Agreement, the Collateral Agent shall return to Audiovox Holding Corp. the shares of common stock of CellStar delivered to the Collateral Agent pursuant to the Pledge Agreement, dated as of March 30, 1995, made by Audiovox Holding Corp. in favor of the Collateral Agent for the Lenders.

12.10 Counterparts. This Agreement may be executed by one or more of the parties to this Agreement on any number of separate counterparts, and all of said counterparts taken together shall be deemed to constitute one and the same instrument. A set of the copies of this Agreement signed by all the parties shall be lodged with the Borrower and the Agent.

12.11 Severability. Any provision of this Agreement which is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof, and any such prohibition or unenforceability in any jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction.

12.12 Integration. This Agreement represents the agreement of the Borrower, the Agent and the Lenders with respect to the subject matter hereof, and there are no promises, undertakings, representations or warranties by the Agent or any Lender relative to subject matter hereof not expressly set forth or referred to herein or in the other Loan Documents.

12.13 GOVERNING LAW. THIS AGREEMENT AND THE NOTES AND THE RIGHTS AND OBLIGATIONS OF THE PARTIES UNDER THIS AGREEMENT AND THE NOTES SHALL BE GOVERNED BY, AND CONSTRUED AND INTERPRETED IN ACCORDANCE WITH, THE LAW OF THE STATE OF NEW YORK.

12.14 Submission To Jurisdiction; Waivers. The Borrower hereby irrevocably and unconditionally:

(a) submits for itself and its property in any legal action or proceeding relating to this Agreement and the other Loan Documents to which it is a party, or for recognition and enforcement of any judgement in respect thereof, to the non-exclusive general jurisdiction of the Courts of the State of New York, the courts of the United States of America for the Southern District of New York, and appellate courts from any thereof;

(b) consents that any such action or proceeding may be brought in such courts and waives any objection that it may now or hereafter have to the venue of any such action or proceeding in any such court or that such action or proceeding was brought in an inconvenient court and agrees not to plead or claim the same;

(c) agrees that service of process in any such action or proceeding may be effected by mailing a copy thereof by registered or certified mail (or any substantially similar form of mail), postage prepaid, to the Borrower at its address set forth in subsection 12.2 or at such other address of which the Agent shall have been notified pursuant thereto;

(d) agrees that nothing herein shall affect the right to effect service of process in any other manner permitted by law or shall limit the right to sue in any other jurisdiction; and

(e) waives, to the maximum extent not prohibited by law, any right it may have to claim or recover in any legal action or proceeding referred to in this subsection any special, exemplary, punitive or consequential damages.

12.15 Acknowledgements. The Borrower hereby acknowledges that:

(a) it has been advised by counsel in the negotiation, execution and delivery of this Agreement, the Notes and the other Loan Documents;

(b) neither the Agent nor any Lender has any fiduciary relationship to the Borrower, and the relationship between Agent and Lenders, on one hand, and the Borrower, on the other hand, is solely that of debtor and creditor; and

(c) no joint venture exists among the Lenders or among the Borrower and the Lenders.

12.16 WAIVERS OF JURY TRIAL. THE BORROWER THE AGENT AND THE LENDERS HEREBY IRREVOCABLY AND UNCONDITIONALLY WAIVE TRIAL BY JURY IN ANY LEGAL ACTION OR PROCEEDING RELATING TO THIS AGREEMENT OR THE NOTES OR ANY OTHER LOAN DOCUMENT AND FOR ANY COUNTERCLAIM THEREIN.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed and delivered in New York, New York by their proper and duly authorized officers as of the day and year first above written.

AUDIOVOX CORPORATION

By: /s/ Charles M. Stoehr

Name: Charles M. Stoehr
Title: Senior Vice President

CHEMICAL BANK, as Agent and as a Lender

By: /s/ Richard Grabowski

Name: Richard Grabowski
Title: Vice President

NATWEST BANK N.A., as a Lender

By: /s/ Christine G. Dekajlo

Name: Christine G. Dekajlo
Title: Vice President

THE CHASE MANHATTAN BANK, N.A., as
a Lender

By: /s/ Salvatore Trifiletti

Name: Salvatore Trifiletti
Title: Vice President

THE FIRST NATIONAL BANK OF BOSTON,
as a Lender

By: /s/ Peter L. Griswold

Name: Peter L. Griswold
Title: Director

EUROPEAN AMERICAN BANK,
as a Lender

By: /s/ Stuart N. Berman

Name: Stuart N. Berman
Title: Vice President

Schedule I

COMMITMENTS

Lender	Commitment	Commitment Percentage
Chemical Bank	$35,000,000	36.84%
Natwest Bank N.A.	25,000,000	26.32%
The Chase Manhattan Bank, N.A.	15,000,000	15.78%
European American Bank	10,000,000	10.53%
The First National Bank of Boston	10,000,000	10.53%
TOTAL	$95,000,000	100.00%

Exhibit 2

OFFERING MEMORANDUM

CONFIDENTIAL
NO. _____

[LOGO]

AUDIOVOX CORPORATION

1,365,000 WARRANTS TO PURCHASE ONE SHARE OF CLASS A COMMON STOCK

Each Warrant entitles the holder thereof to purchase one share of Class A Common Stock, par value $.01 per share (the "Class A Common Stock"), of Audiovox Corporation (the "Company"). The exercise price of each Warrant will be $7 7/8 per share unless the closing price of the Class A Common Stock on the AMEX (as defined) is greater than $7 1/8 per share of Class A Common Stock as of 5:00 p.m. (New York City time) on the date of the closing of the offering, in which case the exercise price of the Warrant will be 110% of the closing price of the Class A Common Stock on the AMEX as of such time. The Warrant exercise price must be at least 110% of the current market price of the Class A Common Stock on the date of the closing in order for the Warrant to be eligible to be traded under Rule 144A under the Securities Act of 1933, as amended (the "Securities Act"). The Warrants will not be exercisable until one year after the closing of this Offering and unless a registration statement with respect to the issuance of Class A Common Stock upon exercise of the Warrants has been filed and declared effective by the Securities and Exchange Commission under the Securities Act. Unless exercised, the Warrants will automatically expire at 5:00 p.m. (New York City time) on March 15, 2001. If less than 5% of the Warrants initially issued remain outstanding, the Company may elect, by written notice to each holder of Warrants, that the Warrants will expire on the 30th day after delivery of such notice. See "Description of the Warrants."

Each beneficial holder of the Company's 6 1/4% Convertible Subordinated Debentures due 2001 (the "Debentures") as of June 3, 1994 is being offered the opportunity to acquire 21 Warrants per $1,000 principal amount of Debentures beneficially held as of such date in consideration for the delivery by such person of a Release (as defined herein) which releases the Company, the Initial Purchasers (as defined herein), and their respective directors, officers, partners, employees and agents, from liability for any and all potential claims, if any, such beneficial holder may have against such persons in connection with such purchaser's investment in the Debentures and the offering of the Debentures. See "The Offering-- Release of Potential Claims."

THE OFFERING EXPIRES 5:00 P.M. NEW YORK CITY TIME ON MAY 1, 1995, UNLESS EXTENDED.

The Warrants are expected to be eligible for trading in the Private Offerings, Resales and Trading through Automated Linkages ("PORTAL") Market. Pursuant to a registration rights agreement, the Company will agree to file with the Securities and Exchange Commission (the "SEC") a registration statement with respect to the Class A Common Stock underlying the Warrants and use its reasonable best efforts to have such registration statement declared effective within one year after the consummation of the offering contemplated hereby. If the Warrants are approved for listing on a national securities exchange or approved for quotation on the automated quotation system of a national securities association, the Company will also be required to file, and use its reasonable best efforts to have declared effective, a registration statement with respect to the Warrants. The Company anticipates applying to have those Warrants purchased by certain non-U.S. persons accepted for clearance through CEDEL, S.A. For a description of certain income tax consequences to persons who acquire Warrants, see "Certain Federal Income Tax Considerations."

SEE "RISK FACTORS" FOR A DISCUSSION OF CERTAIN FACTORS THAT SHOULD BE CAREFULLY CONSIDERED IN CONNECTION WITH AN INVESTMENT IN THE WARRANTS.

THE WARRANTS HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR STATE SECURITIES LAWS, AND MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES OR TO U.S. PERSONS (AS SUCH TERMS ARE DEFINED UNDER THE SECURITIES ACT OR THE RULES PROMULGATED PURSUANT THERETO) EXCEPT PURSUANT TO AN EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT. ACCORDINGLY, THE WARRANTS ARE BEING OFFERED HEREBY IN THE UNITED STATES ONLY TO PERSONS WHO ARE ACCREDITED INVESTORS (AS SUCH TERM IS DEFINED IN RULE 501(A)(1), (2), (3) OR (7) PROMULGATED UNDER THE SECURITIES ACT) AND WHO EXECUTE AND DELIVER A SUBSCRIPTION AGREEMENT CONTAINING CERTAIN REPRESENTATIONS AND AGREEMENTS REGARDING SUCH OFFEREE, AND OUTSIDE THE UNITED STATES IN OFFSHORE TRANSACTIONS IN RELIANCE ON AND IN COMPLIANCE WITH REGULATION S PROMULGATED UNDER THE SECURITIES ACT. SUBJECT TO LIMITED EXCEPTIONS, WARRANTS SOLD IN RELIANCE ON REGULATION S MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES OR TO U.S. PERSONS. FOR CERTAIN RESTRICTIONS ON RESALE, SEE "NOTICE TO INVESTORS."

The date of this Offering Memorandum is April 12, 1995.

THE OFFERING IS BEING MADE IN RELIANCE UPON AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT FOR AN OFFER AND SALE OF SECURITIES WHICH DOES NOT INVOLVE A PUBLIC OFFERING. EACH PURCHASER OF WARRANTS OFFERED HEREBY IN MAKING ITS INVESTMENT WILL BE DEEMED TO HAVE MADE CERTAIN ACKNOWLEDGMENTS, REPRESENTATIONS AND AGREEMENTS AS SET FORTH IN A SUBSCRIPTION AGREEMENT AND UNDER "NOTICE TO INVESTORS." THE SECURITIES HAVE NOT BEEN REGISTERED UNDER THE

SECURITIES ACT OR ANY STATE SECURITIES LAWS AND, UNLESS SO REGISTERED, MAY NOT BE OFFERED OR SOLD EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND APPLICABLE STATE SECURITIES LAWS. CERTIFICATES FOR THE WARRANTS WILL BEAR A LEGEND TO THAT EFFECT. INVESTORS SHOULD BE AWARE THAT THEY WILL BE REQUIRED TO BEAR THE FINANCIAL RISKS OF THIS INVESTMENT FOR AN INDEFINITE PERIOD OF TIME.

THE OFFERING MEMORANDUM IS SUBMITTED TO YOU AND A LIMITED NUMBER OF OTHER INVESTORS ON A CONFIDENTIAL BASIS FOR USE SOLELY IN CONNECTION WITH YOUR AND THEIR CONSIDERATION OF AN INVESTMENT IN THE WARRANTS. THE RECEIPT OF THIS OFFERING MEMORANDUM CONSTITUTES THE AGREEMENT ON THE PART OF THE RECIPIENT HEREOF AND OF ITS REPRESENTATIVES TO MAINTAIN THE CONFIDENTIALITY OF THE INFORMATION CONTAINED HEREIN AND NOT TO RELEASE THIS DOCUMENT OR DISCUSS THE INFORMATION CONTAINED HEREIN OR MAKE REPRODUCTIONS OF OR USE THIS MEMORANDUM FOR ANY PURPOSE OTHER THAN EVALUATING A POTENTIAL INVESTMENT IN THE WARRANTS. DELIVERY OF THIS OFFERING MEMORANDUM TO ANYONE OTHER THAN SUCH OFFEREE IS UNAUTHORIZED, AND ANY REPRODUCTION OF THIS OFFERING MEMORANDUM, IN WHOLE OR IN PART, WITHOUT THE PRIOR WRITTEN CONSENT OF THE COMPANY IS PROHIBITED. BY ACCEPTING DELIVERY OF THIS OFFERING MEMORANDUM, THE OFFEREE AGREES TO RETURN IT AND ANY OTHER DOCUMENTS FURNISHED TO IT TO THE COMPANY IF NO INVESTMENT IN THE WARRANTS IS MADE.

IN MAKING AN INVESTMENT DECISION, INVESTORS MUST RELY ON THEIR OWN EXAMINATION OF THE COMPANY AND THE TERMS OF THE OFFERING, INCLUDING THE MERITS AND RISKS INVOLVED AND THE TERMS OF THE RELEASE. THE CONTENTS OF THIS OFFERING MEMORANDUM ARE NOT TO BE CONSTRUED AS LEGAL, BUSINESS OR TAX ADVICE. EACH PROSPECTIVE INVESTOR SHOULD CONSULT ITS OWN ATTORNEY, BUSINESS ADVISOR AND TAX ADVISOR AS TO LEGAL, BUSINESS OR TAX ADVICE.

ALL INQUIRIES RELATING TO THE OFFERING MEMORANDUM AND THE OFFERING SHOULD BE DIRECTED TO THE COMPANY. PROSPECTIVE INVESTORS MAY CONTACT C. MICHAEL STOEHR, CHIEF FINANCIAL OFFICER OF THE COMPANY, TO OBTAIN ANY ADDITIONAL INFORMATION WHICH THEY MAY REASONABLY REQUIRE IN CONNECTION WITH THE DECISION TO INVEST IN THE WARRANTS. IN ADDITION, ANY PROSPECTIVE INVESTOR SHALL HAVE ACCESS TO ANY INFORMATION WHICH WOULD BE INCLUDED IF THE COMPANY HAD FILED AN ISSUER STATEMENT WITH THE NEW YORK DEPARTMENT OF LAW UPON REQUEST TO THE COMPANY.

THE WARRANTS HAVE NOT BEEN RECOMMENDED, APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION OR ANY OTHER FEDERAL OR STATE SECURITIES COMMISSION OR REGULATORY AUTHORITY. FURTHERMORE, THE FOREGOING AUTHORITIES HAVE NOT PASSED UPON THE ACCURACY OR ADEQUACY OF THIS OFFERING MEMORANDUM. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

ANY RESALE OF THE SECURITIES OFFERED HEREBY WILL BE SUBJECT TO CERTAIN RESTRICTIONS UNLESS SUCH SECURITIES ARE REGISTERED UNDER THE SECURITIES ACT, OR AN EXEMPTION FROM REGISTRATION IS AVAILABLE. ALL INVESTORS WILL BE REQUIRED TO UNDERTAKE THAT THEY WILL NOT TRANSFER SUCH SECURITIES EXCEPT PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT OR AN EXEMPTION FROM REGISTRATION. CERTIFICATES FOR THE SECURITIES OFFERED HEREBY WILL BEAR A LEGEND TO THAT EFFECT. ANY SUCH SALES MUST ALSO COMPLY WITH ANY APPLICABLE STATE SECURITIES REQUIREMENTS.

THIS MEMORANDUM DOES NOT PURPORT TO BE ALL INCLUSIVE OR TO CONTAIN ALL THE INFORMATION THAT A PROSPECTIVE INVESTOR MAY DESIRE IN INVESTIGATING THE COMPANY. EACH INVESTOR MUST CONDUCT AND RELY ON ITS OWN EVALUATION OF THE COMPANY AND THE TERMS OF THE OFFERING, INCLUDING THE MERITS AND RISKS INVOLVED IN MAKING AN INVESTMENT DECISION WITH RESPECT TO THE WARRANTS AND IN DELIVERING THE RELEASE TO THE COMPANY.

THE SECURITIES OFFERED HEREBY WILL BE SOLD ONLY TO CERTAIN PERSONS WHO QUALIFY AS ACCREDITED INVESTORS UNDER REGULATION D PROMULGATED UNDER THE SECURITIES ACT AND WHO ARE SOPHISTICATED IN BUSINESS AND FINANCIAL MATTERS, HAVE THE KNOWLEDGE AND EXPERIENCE TO EVALUATE THE MERITS AND RISKS OF THE INVESTMENT, HAVE SUFFICIENT FINANCIAL RESOURCES, AND HAVE NO NEED FOR LIQUIDITY WITH RESPECT TO THEIR INVESTMENT AND, OUTSIDE THE UNITED STATES, TO CERTAIN PERSONS IN OFFSHORE TRANSACTIONS IN RELIANCE ON AND IN COMPLIANCE WITH REGULATION S PROMULGATED UNDER THE SECURITIES ACT. PRIOR TO THEIR PURCHASE OF WARRANTS, SUCH ACCREDITED INVESTORS WILL DELIVER TO THE COMPANY A SUBSCRIPTION AGREEMENT CONTAINING CERTAIN ACKNOWLEDGMENTS, REPRESENTATIONS AND AGREEMENTS AS DISCUSSED UNDER "NOTICE TO INVESTORS." ANY SALES OR OTHER TRANSFERS OF THE SECURITIES OFFERED HEREBY BY ANY SUBSEQUENT PURCHASER THEREOF MAY BE MADE, SUBJECT TO CERTAIN RESTRICTIONS DESCRIBED HEREIN, ONLY TO ACCREDITED INVESTORS, TO QUALIFIED INSTITUTIONAL BUYERS AS DEFINED IN RULE 144A PROMULGATED UNDER THE SECURITIES ACT OR AS MAY OTHERWISE BE PERMITTED UNDER THE SECURITIES ACT AND THE RULES AND REGULATIONS PROMULGATED THEREUNDER.

EXCEPT AS PROVIDED BELOW, THE WARRANTS WILL BE AVAILABLE INITIALLY ONLY IN BOOK-ENTRY FORM. THE COMPANY EXPECTS THAT THE WARRANTS SOLD PURSUANT HERETO WILL BE ISSUED IN THE FORM OF ONE OR MORE FULLY REGISTERED GLOBAL SECURITY OR SECURITIES. THE GLOBAL SECURITY OR SECURITIES WILL BE DEPOSITED WITH, OR ON BEHALF OF, THE DEPOSITORY TRUST COMPANY ("DTC") AND REGISTERED IN ITS NAME, OR IN THE NAME OF CEDE & CO., ITS NOMINEE. BENEFICIAL INTERESTS IN THE GLOBAL SECURITY OR SECURITIES REPRESENTING THE WARRANTS UNDERLYING THE GLOBAL SECURITY WILL BE SHOWN ON, AND TRANSFERS THEREOF WILL BE EFFECTED ONLY THROUGH, RECORDS MAINTAINED BY DTC AND ITS PARTICIPANTS. NOTWITHSTANDING THE FOREGOING, ANY U.S. HOLDER THAT IS NOT A "QUALIFIED INSTITUTIONAL BUYER," AS SUCH TERM IS DEFINED IN RULE 144A PROMULGATED UNDER THE SECURITIES ACT, WILL RECEIVE THE SECURITIES IN CERTIFICATED FORM AND WILL NOT BE ABLE TO TRADE SUCH WARRANTS THROUGH DTC UNTIL THE WARRANTS ARE RESOLD TO A "QUALIFIED INSTITUTIONAL BUYER" OR PURSUANT TO REGULATION S PROMULGATED UNDER THE SECURITIES ACT. AFTER THE INITIAL ISSUANCE OF THE GLOBAL SECURITY OR SECURITIES TO DTC AT THE CLOSING, WARRANTS IN CERTIFICATED FORM WILL BE ISSUED IN EXCHANGE FOR A BENEFICIAL INTEREST IN THE GLOBAL SECURITY OR SECURITIES ONLY AS SET

FORTH IN THE WARRANT AGREEMENT UNDER WHICH THE WARRANTS WILL BE ISSUED. SEE "DESCRIPTION OF WARRANTS--BOOK ENTRY; DELIVERY AND FORM."

NOTWITHSTANDING THE FOREGOING, SECURITIES SOLD OUTSIDE THE UNITED STATES PURSUANT TO REGULATION S WILL BE DEPOSITED WITH CEDEL IN THE FORM OF AN OFFSHORE GLOBAL SECURITY. BENEFICIAL INTERESTS IN THE OFFSHORE GLOBAL SECURITY OR SECURITIES REPRESENTING THE WARRANTS UNDERLYING THE OFFSHORE GLOBAL SECURITY WILL BE SHOWN ON, AND TRANSFERS THEREOF WILL BE EFFECTED ONLY THROUGH, RECORDS MAINTAINED BY CEDEL AND ITS PARTICIPANTS.

NO PERSON HAS BEEN AUTHORIZED TO GIVE ANY INFORMATION OR TO MAKE ANY REPRESENTATION NOT CONTAINED HEREIN AND, IF GIVEN OR MADE, SUCH OTHER INFORMATION OR REPRESENTATION MUST NOT BE RELIED UPON AS HAVING BEEN AUTHORIZED BY THE COMPANY. THE INFORMATION CONTAINED HEREIN IS AS OF THE DATE HEREOF. NEITHER THE DELIVERY OF THIS OFFERING MEMORANDUM AT ANY TIME NOR ANY SALE MADE HEREUNDER SHALL, UNDER ANY CIRCUMSTANCES, CREATE ANY IMPLICATION THAT THERE HAS BEEN NO CHANGE IN THE INFORMATION SET FORTH HEREIN OR IN THE AFFAIRS OF THE COMPANY SINCE THE DATE HEREOF. THE COMPANY SPECIFICALLY DISCLAIMS ANY RESPONSIBILITY TO UPDATE ANY OF THE INFORMATION CONTAINED HEREIN AFTER THE DATE HEREOF.

THIS OFFERING MEMORANDUM CONTAINS SUMMARIES, BELIEVED TO BE ACCURATE, OF CERTAIN TERMS OF CERTAIN DOCUMENTS, BUT REFERENCE IS MADE TO THE ACTUAL DOCUMENTS, COPIES OF WHICH WILL BE MADE AVAILABLE UPON REQUEST, FOR THE COMPLETE INFORMATION CONTAINED THEREIN. ALL SUCH SUMMARIES ARE QUALIFIED IN THEIR ENTIRETY BY THIS REFERENCE.

THIS OFFERING MEMORANDUM DOES NOT CONSTITUTE AN OFFER TO SELL, OR A SOLICITATION OF AN OFFER TO BUY, ANY OF THE SECURITIES OFFERED HEREBY IN ANY JURISDICTION WHERE, OR TO ANY PERSON TO WHOM, IT WAS UNLAWFUL TO MAKE ANY SUCH OFFER OR SOLICITATION.

FOR FLORIDA RESIDENTS ONLY:

IN THE EVENT THAT SALES ARE MADE TO FIVE (5) OR MORE PERSONS IN THE STATE OF FLORIDA PURSUANT TO THE EXEMPTION FOR LIMITED OFFERS OR SALES OF SECURITIES SET FORTH IN SECTION 517.061(11)(A) OF THE FLORIDA SECURITIES AND INVESTOR PROTECTION ACT, ANY SALE IN FLORIDA MADE PURSUANT TO SUCH SECTION IS VOIDABLE BY THE PURCHASER IN SUCH SALE EITHER WITHIN THREE (3) DAYS AFTER THE FIRST TENDER OF CONSIDERATION IS MADE BY SUCH PURCHASER TO THE ISSUER, AN AGENT OF THE ISSUER, OR AN ESCROW AGENT OR WITHIN THREE (3) DAYS AFTER THE AVAILABILITY OF THAT PRIVILEGE IS COMMUNICATED TO SUCH PURCHASER, WHICHEVER OCCURS LATER.

FOR NEW HAMPSHIRE RESIDENTS ONLY:

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENSE HAS BEEN FILED WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE

THAT ANY DOCUMENT FILED UNDER RSA 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR TRANSACTION MEANS THAT THE SECRETARY OF STATE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY, OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER OR CLIENT, ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

FOR NEW JERSEY RESIDENTS ONLY:

THE ATTORNEY GENERAL OF THE STATE OF NEW JERSEY HAS NOT PASSED ON OR ENDORSED THE MERITS OF THIS OFFERING. ANY FILING OF THE WITHIN OFFERING WITH THE BUREAU OF SECURITIES OF THE STATE OF NEW JERSEY DOES NOT CONSTITUTE APPROVAL OF THE ISSUE OR THE SALE THEREOF BY THE BUREAU OF SECURITIES OR THE DEPARTMENT OF LAW AND PUBLIC SAFETY OF THE STATE OF NEW JERSEY. ANY REPRESENTATION TO THE CONTRARY IS UNLAWFUL.

FOR NEW MEXICO RESIDENTS ONLY:

OFFERS OF THE SECURITIES DESCRIBED HEREIN ARE MADE IN NEW MEXICO ONLY TO, AND MAY ONLY BE ACCEPTED BY, DEPOSITORY INSTITUTIONS, INSURANCE COMPANIES OR SEPARATE ACCOUNTS OF AN INSURANCE COMPANY, INVESTMENT COMPANIES AS DEFINED IN THE INVESTMENT COMPANY ACT OF 1940, EMPLOYEE PENSION, PROFIT-SHARING OR BENEFIT PLANS HAVING TOTAL ASSETS IN EXCESS OF $5,000,000, BUSINESS DEVELOPMENT COMPANIES, SMALL BUSINESS INVESTMENT COMPANIES, OR OTHER FINANCIAL OR INSTITUTIONAL INVESTORS DESIGNATED BY RULE OR ORDER OF THE DIRECTOR OF THE NEW MEXICO SECURITIES DIVISION. IF THE RECIPIENT OF THIS CONFIDENTIAL OFFERING MEMORANDUM IS NOT SUCH AN INSTITUTION, AND SUCH RECIPIENT WISHES TO SUBSCRIBE FOR THESE SECURITIES, PLEASE CALL C. MICHAEL STOEHR, AT THE COMPANY.

FOR NEW YORK RESIDENTS ONLY:

THIS PRIVATE PLACEMENT MEMORANDUM HAS NOT BEEN REVIEWED BY THE ATTORNEY GENERAL OF THE STATE OF NEW YORK PRIOR TO ITS ISSUANCE AND USE.

THE ATTORNEY GENERAL OF THE STATE OF NEW YORK HAS NOT PASSED UPON OR ENDORSED THE MERITS OF THIS OFFERING. ANY REPRESENTATION TO THE CONTRARY IS UNLAWFUL.

THESE SECURITIES HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR THE NEW YORK FRAUDULENT PRACTICES ("MARTIN") ACT, BY REASON OF SPECIFIC EXEMPTIONS THEREUNDER RELATING TO THE LIMITED AVAILABILITY OF THIS OFFERING. THESE SECURITIES CANNOT BE SOLD, TRANSFERRED OR OTHERWISE DISPOSED OF TO ANY PERSON OR ENTITY UNLESS SUBSEQUENTLY REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR THE NEW YORK FRAUDULENT PRACTICES ("MARTIN") ACT, IF SUCH REGISTRATION IS REQUIRED.

FOR VERMONT RESIDENTS ONLY:

OFFERS OF THE SECURITIES DESCRIBED HEREIN ARE MADE IN VERMONT ONLY TO, AND MAY ONLY BE ACCEPTED BY, DEPOSITORY INSTITUTIONS, INSURANCE COMPANIES OR SEPARATE ACCOUNTS OF AN INSURANCE COMPANY, INVESTMENT COMPANIES AS DEFINED IN THE INVESTMENT COMPANY ACT OF 1940, EMPLOYEE PENSION, PROFIT SHARING OR BENEFIT PLANS IF EITHER (I) THE PLAN HAS TOTAL ASSETS IN EXCESS OF $5,000,000, OR (II) INVESTMENT DECISIONS ARE MADE BY A NAMED FIDUCIARY, AS DEFINED IN THE EMPLOYEE RETIREMENT INCOME SECURITY ACT OF 1974, THAT IS EITHER A BROKER-DEALER REGISTERED UNDER THE SECURITIES EXCHANGE ACT OF 1934, AN INVESTMENT ADVISOR REGISTERED OR EXEMPT FROM REGISTRATION UNDER THE INVESTMENT ADVISORS ACT OF 1940, A DEPOSITORY INSTITUTION OR AN INSURANCE COMPANY, ANY OTHER FINANCIAL OR INSTITUTIONAL BUYERS WHICH QUALIFY AS ACCREDITED INVESTORS UNDER THE PROVISIONS OF REGULATION D AS PROMULGATED UNDER THE SECURITIES ACT OF 1933, OR ANY INSTITUTIONAL BUYERS DESIGNATED BY THE COMMISSIONER OF BANKING, INSURANCE AND SECURITIES OF VERMONT. IF THE RECIPIENT OF THIS CONFIDENTIAL OFFERING MEMORANDUM IS NOT SUCH AN INSTITUTION, PLEASE BE INFORMED THAT YOU MAY NOT PURCHASE THESE SECURITIES.

NO PERSON HAS BEEN AUTHORIZED TO GIVE ANY INFORMATION OR TO MAKE ANY REPRESENTATIONS IN CONNECTION WITH THIS OFFERING OTHER THAN THOSE CONTAINED IN THIS OFFERING MEMORANDUM. IF GIVEN OR MADE, SUCH INFORMATION OR REPRESENTATIONS SHOULD NOT BE RELIED UPON AS HAVING BEEN AUTHORIZED BY THE COMPANY. NEITHER THE DELIVERY OF THIS OFFERING MEMORANDUM NOR ANY SALE MADE HEREUNDER SHALL, UNDER ANY CIRCUMSTANCES, CREATE ANY IMPLICATION THAT THERE HAS BEEN NO CHANGE IN THE AFFAIRS OF THE COMPANY SINCE THE RESPECTIVE DATES AS OF WHICH INFORMATION IS GIVEN HEREIN.

* * *

Questions and requests for assistance or for additional copies of this Offering Memorandum and copies of other documents referred to herein may be directed to the Company, at the address and telephone number set forth below.

AUDIOVOX CORPORATION
150 Marcus Boulevard
Hauppauge, New York 11788
Attention: C. Michael Stoehr
Telephone (516) 231-7750

* * *

THE WARRANT AGENT IS:

CONTINENTAL STOCK TRANSFER & TRUST COMPANY
Two Broadway
New York, New York 10004
Attention: William Seegraber
Telephone (212) 509-4000

OFFERING MEMORANDUM SUMMARY

The following is a summary of certain information included in this Offering Memorandum or in documents referred to herein. It is not intended to be complete and is qualified in its entirety by the more detailed information found elsewhere in this Offering Memorandum or in such documents, which should be read with care. As used herein, the term "Offering Memorandum" shall mean this Offering Memorandum and all Appendices and Exhibits hereto, as the same may be amended, supplemented, restated or otherwise modified from time to time. The term "Offering" shall mean the offering contemplated hereby. References to the Company's fiscal year shall refer to the calendar year in which the Company's fiscal year ends (e.g., fiscal year 1994 refers to the Company's fiscal year ended November 30, 1994).

THE COMPANY

Audiovox Corporation (together with its subsidiaries, the "Company" or "Audiovox") designs and markets cellular telephones and accessories, automotive aftermarket sound and security equipment, other automotive aftermarket accessories, and certain other products. Over the past thirty years, the Company has grown from a supplier of automotive sound equipment to a leading supplier of cellular telephones to the Regional Bell Operating Companies ("RBOCs"), other cellular carriers and their respective agents in the United States. The Company has ranked among the top four in terms of cellular telephone market share in the United States for each of the six calendar quarters ending December 31, 1993. As of February 28, 1995, the Company also operated 91 administrative and retail outlets, licensed its tradename to, or entered into concessionaire arrangements with, 21 additional retail outlets in selected markets in the United States, and had two mobile vans. These outlets focus on the sale and servicing of cellular telephones. Each of the Company's retail outlets acts as a licensed agent for one of the two cellular carriers operating in its geographic area. In addition to generating product revenue from the sale of cellular telephone products, the Company's retail outlets, as agents for cellular carriers, are typically paid activation commissions and residual fees from such carriers. Through its international distribution network, the Company also sells cellular telephones in Canada, Europe, Latin America, Asia, the Middle East and Australia. In fiscal 1992, fiscal 1993, fiscal 1994 and the first quarter of fiscal 1995, net sales of cellular telephone products and related fees and commissions represented 57%, 60%, 63% and 70%, respectively, of the Company's total net sales.

The Company's automotive aftermarket sound, security and accessory products include stereo cassette radios, compact disc players and changers, amplifiers and speakers; key based and remote control security systems; and cruise controls, door and trunk locks and rear window defoggers. In fiscal 1994, the Company introduced a satellite based security system to its product line. These products are marketed through mass merchandise chain stores, specialty automotive accessory installers, distributors and automobile dealers.

Cellular phone service was developed as a mobile alternative to conventional landline systems. Since its inception over ten years ago, the industry has grown rapidly. From approximately one million subscribers in the United States in 1987, the industry has grown to more than 25 million subscribers as of year end 1994. In 1994, the number of cellular subscribers in the United States grew by approximately nine million, representing a 56% increase in the number of cellular subscribers from the end of 1993. Cellular phone service is now available in geographic areas that include a substantial majority of the United States population. In recent years, as retail prices for cellular telephones have declined, sales of cellular telephones for personal use have grown more rapidly than sales for business use. The United States Department of Commerce estimates that as of mid-1994, approximately 7.4% of the U.S. population owned a cellular telephone. According to statistics published by the U.S. Department of Commerce, the number of worldwide cellular subscribers grew by approximately eight million in the

first six months of 1994 to a total of approximately 41 million at June 30, 1994, representing a 24% increase in the number of cellular subscribers from the end of 1993.

The Company believes that its greatest opportunity for business expansion is in its cellular product line. Thus, the Company plans to seek to capitalize on the increased demand for cellular telephone products, on both the wholesale and retail levels. In addition, the Company intends to continue to respond to consumer demand for sophisticated automotive sound and security products.

A key component of the Company's operating strategy has been to bring to market quality products under its own brand names, in response to established consumer demand, while limiting its investment in fixed plant and, accordingly, its capital risk exposure. The Company seeks to accomplish this by controlling the design of its products through its in-house engineering and design staff, while having such products produced by contract manufacturers.

The Company sells its products under several brand names it owns or licenses, including Audiovox(R), SPS(R), Prestige(R), Pursuit(R), MinivoxTM, Minivox Lite(R), The Protector(R), American Radio(R) and Quintex(R). The Company uses several techniques to promote Company brand awareness, including trade and customer advertising, attendance at trade shows, and use of a variety of sales promotional material including brochures and other literature and point-of-sale displays.

The Company employs a value added marketing approach in connection with its wholesale sales. In this regard, the Company typically participates with its wholesale customers in joint marketing and promotional programs such as sales contests and cooperative advertising campaigns. The Company also typically offers its customers customized sales and product training, inventory management assistance, telemarketing assistance (including the scripting of telemarketing presentations) and Company-created advertising materials. In addition, the Company maintains several Company-operated warranty repair centers to assist its network of authorized warranty service stations in technical training and parts procurement. The Company intends to expand the breadth of its product line (for example, by introducing a line of moderately priced cellular telephone products) in order to enable its customers to conveniently obtain a broad line of products from only one supplier.

The Company has formed a majority-owned subsidiary with its local distributor in Malaysia as a minority owner and is considering forming ventures with its distributors in Greece and Thailand. By joining with an established local business with an existing customer base, the Company believes that it can enter a new market more quickly and with minimum capital expenditures. The Company also believes that its relationships with North American cellular carriers may aid the Company's expansion into international markets as such markets are developed by those carriers.

In August 1994, the Company formed a new joint venture (known as "Talk Corporation") with Shintom Co., Ltd. ("Shintom") and others for the purpose of developing, manufacturing and distributing cellular telephone and other consumer electronic products. In connection with the formation of the joint venture, the Company was granted certain exclusive distribution rights with respect to cellular products manufactured by Shintom. Talk Corporation commenced operations in October 1994. See "Management's Discussion and Analysis of Financial Condition and Results of Operations --Results of Operations."

The Company intends to open additional retail outlets in North America, both in metropolitan areas with perceived retail potential and in areas where it seeks to increase sales on a wholesale level to cellular carriers. The Company believes that the ability of its retail outlets to deliver a significant number of activations to cellular carriers provides the Company with a competitive advantage in its wholesale marketing of cellular telephones to cellular carriers.

Historically, the Company has been dependent on foreign suppliers, particularly Japan and China, for a majority of its products. In 1994 and 1995, the United States government announced proposed

trade sanctions on cellular products imported from foreign countries, particularly Japan and China. Although the United States government has not implemented such proposed trade sanctions, as the Company sources a majority of its cellular products from Japan and China, if such trade sanctions (or trade sanctions on other of the Company's products) were to be imposed, there is no assurance that the Company would be able to obtain alternatives to its supply sources. The Company is considering sourcing products from several other countries. Such purchases would be subject to the risks of purchasing products from foreign suppliers. See "Risk Factors--United States Trade Sanctions Could Limit the Company's Sources of Supply," "--No Assurance of Alternative Supply Sources," "--Dependence on Foreign Suppliers," and "--Dependence on Toshiba."

The Company was incorporated in Delaware on April 10, 1987 as a successor to the business of Audiovox Corp., a New York corporation founded in 1960 by John J. Shalam, the Company's President, Chief Executive Officer and controlling stockholder. The Company's corporate headquarters is located at 150 Marcus Boulevard, Hauppauge, New York 11788, and its telephone number at that address is 516-231-7750.

THE OFFERING

The following is a summary of certain information contained in this Offering Memorandum and is qualified in its entirety by reference to the detailed information and financial statements appearing elsewhere in this Offering Memorandum. See "The Offering" for a more detailed description of the background, the terms and other aspects of this Offering.

Securities Offered	1,365,000 warrants (the "Warrants"), each Warrant entitling the holder thereof to purchase one share of Class A Common Stock, par value $.01 per share (the "Class A Common Stock), of the Company at any time on or prior to March 15, 2001 except in certain circumstances described under "--Warrant Exercise Period" below (the "Expiration Date"). The exercise price of each Warrant (the "Warrant Exercise Price") will be $7 7/8 per share unless the closing price of the Class A Common Stock on the American Stock Exchange Inc. (the "AMEX") is greater than $7 1/8 per share of Class A Common Stock as of 5:00 p.m. (New York City time) on the date of the closing of the offering, in which case the exercise price of the Warrant will be 110% of the closing price of the Class A Common Stock on the AMEX as of such time. The Warrant Exercise Price must be at least 110% of the current market price of the Class A Common Stock on the date of the closing in order for the Warrant to be eligible to be traded under Rule 144A under the Securities Act. The Warrant Exercise Price and the number of shares of Class A Common Stock acquirable upon exercise of a Warrant is subject to adjustment in certain limited circumstances.
Offer to Beneficial Holders of Debentures	Each beneficial holder of the Company's 6 1/4% Convertible Subordinated Debentures due 2001 (the "Debentures") as of June 3, 1994 will be entitled to acquire 21 Warrants per $1,000 principal amount of Debentures beneficially owned as of such date in consideration for the delivery by such person of a Release (as defined below).
Termination or Amendment of Offering	The Company reserves the right (a) to terminate the Offering at any time before consummation of the Offering and (b) at any time or from time to time, to amend the Offering in any respect; provided that the Company does not intend to close the Offering unless it receives subscriptions and Releases from at least the beneficial holders of a majority of the principal amount of the Debentures outstanding as of June 3, 1994.
Expiration of Offering	The Offering expires 5:00 p.m. New York City time on May 1, 1995, unless extended.
Warrant Exercise Period	The Warrants may not be exercised (a) until the later of (x) one year after issuance and (y) the date a registration statement with respect to the Class A Common Stock issuable upon exercise of the Warrants has been filed and declared effective by the Securities and Exchange Commission (the "SEC") or (b) after the Expiration Date. The Warrants will expire on the Expiration Date; provided that if less than 5% of the Warrants initially issued remain outstanding, the Company may elect, by

	written notice to each holder of Warrants, that the Warrants will expire on the 30th day after delivery of such notice.
Registration Rights for Class A Common Stock; Reduction in Exercise Price for Failure to Register Class A Common Stock	The Company has agreed to file with the SEC within 300 days of the closing of the offering (the "Closing Date") and use its reasonable best efforts to cause to become effective within 365 days of the Closing Date, a shelf registration statement or statements with respect to the issuance of the Class A Common Stock underlying the Warrants upon exercise thereof. If the registration statement with respect to the Common Stock is not filed within such 300-day period or declared effective within such 365-day period, the exercise price of the Warrants will decrease by $ 1/8 per share of Class A Common Stock; subject to additional decreases of $ 1/8 per share for each additional six-month period for which such registration statement is not filed or declared effective, as the case may be. In addition, if such registration is declared effective, the Warrant Exercise Price will also decrease by $ 1/8 per share of Class A Common Stock if such registration statement ceases to be effective for more than 90 days (180 days in certain circumstances) in any 365-day period, subject to additional decreases of $ 1/8 per share of Class A Common Stock for each additional six-month period for which such registration statement ceases to be effective. Notwithstanding the foregoing, the maximum number of $ 1/8 per share decreases shall be 10 and there shall be no more than one such decrease in any six-month period. (Each of such events which results in a decrease in the Warrant Exercise Price being referred to herein as a "Registration Default"). The reduction in the Warrant Exercise Price upon a Registration Default is subject to adjustment in certain limited circumstances. The Company will be obligated to use its reasonable best efforts to cause the registration statement relating to the Class A Common Stock to remain effective until the Expiration Date. The Company will not be obligated to register Class A Common Stock underlying any Warrants (a) which the holder does not seek to register or (b) as to which the Company determines that it is not advisable or appropriate to register (based on discussions with the SEC, advice of counsel or otherwise) such shares of Class A Common Stock underlying such Warrants. In any such event (a) or (b), the Warrant Exercise Price underlying such Warrants will not decrease upon the failure to register with the SEC such underlying shares of Class A Common Stock if the SEC has declared effective a registration statement with respect to other shares of Class A Common Stock. See "Description of the Warrants--Registration Rights."
Mandatory Redemption	If a registration statement relating to the Class A Common Stock underlying the Warrants has not been effective at any time on or prior to the Expiration Date of the Warrants, the Company will be required to redeem all of the outstanding Warrants for $2.20 per Warrant (the "Redemption Price"). The Redemption Price is subject to adjustment in certain limited circumstances.
Listing of Warrants; Registration of Warrants	The Company intends to seek to list the Warrants on a national securities exchange or to seek quotation of the Warrants on the

automated quotation system of a national securities association (as such terms are defined in the Securities Act) within 365 days of the Closing Date and to simultaneously register the Warrants under the Securities Act. The Company intends to seek to obtain such listing on the the AMEX (the exchange on which the Class A Common Stock is listed) or to obtain quotation of the Warrants on the National Association of Securities Dealers Automated Quotation System ("NASDAQ") Small Capitalization Market ("NASDAQ Small Cap"). However, AMEX and NASDAQ Small Cap require a minimum number of holders of Warrants prior to listing or quotation, as the case may be, without a waiver. Since the Offering is being made to a limited number of persons in a private placement transaction, the AMEX or NASDAQ Small Cap may not agree to list or quote the Warrants, as the case may be. In such case, the Company intends to seek to list the Warrants on one of the Boston Stock Exchange, Midwest Stock Exchange, Pacific Stock Exchange or Philadelphia Stock Exchange. However, there can be no assurance that any of such stock exchanges will agree to list the Warrants since such exchanges also have minimum holder requirements for listing. If any of the above exchanges agree to list the Warrants or the Warrants have been approved for quotation on NASDAQ Small Cap (a "Listing Approval"), the Company will file a shelf registration statement relating to the Warrants upon the later of (a) 300 days after the Closing Date and (b) the date approval of such listing or quotation is obtained (the "Approval Date") and will use its reasonable best efforts to cause such registration statement to become effective upon the later of (a) 365 days after the Closing Date and (b) 60 days after the Listing Approval Date. Once effective, the Company will be obligated to use reasonable best efforts to cause the registration statement relating to the Warrants to remain effective until the date three years following the Closing Date.

Shalam Option

John J. Shalam, Chief Executive Officer of the Company, has agreed to grant the Company an option (the "Shalam Option") to purchase a number of shares of Class A Common Stock equal to the number of shares purchasable under the Warrants on the Closing Date. The purchase price per share of Class A Common Stock (the "Shalam Option Price") will be equal to the sum of (a) the Warrant Exercise Price (without giving effect to any decreases of such price as a result of a Registration Default) plus (b) an additional amount (the "Tax Amount") intended to reimburse Mr. Shalam for any additional taxes per share required to be paid by Mr. Shalam as a result of the payment of the Shalam Option Price being treated for federal, state and local income tax purposes as the distribution to Mr. Shalam of a dividend (taxed at ordinary income rates without consideration of Mr. Shalam's basis), rather than as a payment to Mr. Shalam for the sale of his Class A Common Stock to the Company (taxed at the capital gains rate with consideration of Mr. Shalam's basis and considering any stepped up basis to Mr. Shalam's heirs, successors or assigns (a "Successor")) pursuant to the Shalam Option. The shares of Class A Common Stock

	underlying the Shalam Option will be legended with a description of the Shalam Option. Any Successor acquiring the shares of Class A Common Stock underlying the Shalam Option (whether by sale, transfer or upon Mr. Shalam's death) will acquire such shares subject to the terms of the Shalam Option. Mr. Shalam and any Successor will be entitled to the Tax Amount upon delivery of a satisfactory notice to the Company that the payment of a Tax Amount is required to reimburse such person for such additional taxes. The operative terms of the Shalam Option (other than the exercise price) are similar to those of the Warrants, however, the Shalam Option Price per share for the Shalam Option will not decrease in the event of a Registration Default. The Shalam Option will be exercisable in the sole discretion of the then-independent members of the Board of Directors (which shall in no event include Mr. Shalam). The Company will be able to exercise the Shalam Option in whole or in part only if the Warrants are exercised and then only for the same number of shares of Class A Common Stock as are purchased under the Warrants. The Shalam Option may limit the dilutive effect of the Warrants on the earnings per share or the book value per share of the Company, if the Company elects to exercise the Shalam Option. The Company has also agreed to indemnify Mr. Shalam from any liabilities arising from the Offering, including liabilities under any federal or state securities laws. See "The Offering--Shalam Option."
Offerees' Waiver of Any Potential Cause of Action Against the Company and Certain other Persons	The Warrants are being offered to the beneficial holders of the Debentures as of June 3, 1994. Each purchaser of Warrants will be required as consideration therefor to execute a release (a "Release") which releases the Company and Oppenheimer & Co., Inc., Chemical Securities Inc., and Furman Selz Incorporated (the "Initial Purchasers") and their respective directors, officers, partners, employees and agents, from liability for any and all potential claims, if any, such beneficial holder may have against such persons in connection with such purchaser's investment in the Debentures through the date of the Release and the offering of the Debentures which was completed on March 15, 1994. See "The Offering--Release of Potential Claims."
Use of Proceeds	The Company will not receive any cash proceeds from the sale of the Warrants. The proceeds received by the Company upon exercise of the Warrants will be used toward the purchase of shares of Class A Common Stock upon exercise of the Shalam Option or, if the Board of Directors determines not to exercise the Shalam Option, as, when and if received by the Company, to purchase inventory and for other working capital or general corporate needs.
Warrant Agent	Continental Stock Transfer & Trust Company Two Broadway New York, New York 10004 Attention: William Seegraber Telephone (212) 509-4000.

Tax Consequences to Subscribers	Subscribers who hold Debentures should not, in the taxable period in which the Warrants are received, recognize gain or loss or be required to include any amount in income as the result of the receipt of the Warrants in exchange for providing the Release. Generally, subscribers who no longer hold the Debentures with respect to which the Warrants are acquired should recognize gain equal to the fair market value of the Warrants acquired. For a more detailed discussion of the U.S. federal income tax consequences of receipt, exercise and disposition of the Warrants, see "CERTAIN FEDERAL INCOME TAX CONSEQUENCES" below.
Notice to Investors	The Warrants and the underlying Class A Common Stock may be sold or transferred to employee benefit plans only under certain circumstances. In addition, transfers of Warrants will be subject to certain restrictions. See "Notice to Investors" and "ERISA Considerations."

RISK FACTORS

SEE "RISK FACTORS" FOR A DISCUSSION OF CERTAIN FACTORS THAT SHOULD BE CAREFULLY CONSIDERED BY PROSPECTIVE INVESTORS IN THE WARRANTS.

SUMMARY CONSOLIDATED FINANCIAL DATA

The summary consolidated financial data set forth below for the fiscal years ended November 30, 1991, 1992, 1993 and 1994 have been derived from the audited financial statements of the Company for such periods. The data for the first quarter ended February 28, 1994 and February 28, 1995 is unaudited. The data should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the Company's consolidated financial statements, and related notes thereto, and other financial information included elsewhere in this Offering Memorandum. Certain reclassifications have been made to the data for periods prior to fiscal 1994 in order to conform to the fiscal 1994 presentation.

In December, 1993, CellStar Corporation ("CellStar") completed the initial public offering (the "CellStar Offering") of 7,935,000 shares of CellStar common stock, par value $.01 per share ("CellStar Common Stock"). CellStar (the successor to National Auto Center, Inc. and Audiomex Export Corp.) was formed by the Company, as a 50% owned joint venture. CellStar markets and distributes cellular telephones and related products. Prior to the CellStar Offering, the Company recorded income from CellStar from two sources: (i) management fees accrued by the Company in exchange for certain management services and (ii) the Company's share of CellStar's net income as a 50% owner of CellStar. In connection with the CellStar Offering, the Company sold 2,875,000 of its 6,750,000 shares of CellStar Common Stock at the initial public offering price (net of applicable underwriting discount) of $10.695 per share, and received aggregate net proceeds of approximately $29,433,000. As a result of the CellStar Offering, the Company owns 20.88% of the issued and outstanding CellStar Common Stock. The Company recorded a pre-tax gain of approximately $27,783,000 on the sale of its shares of CellStar Common Stock. Taxes on such gain amounted to approximately $12,231,000, which amount was paid on May 15, 1994. The Company also recorded a pre-tax gain of approximately $10,565,000 on the increase in the carrying value of its remaining shares of CellStar Common Stock due to the CellStar Offering. In addition, CellStar utilized approximately $13,656,000 of the net proceeds it received in the CellStar Offering to pay certain accounts receivable and all management fees owed by CellStar to the Company. The Company has also entered into certain agreements in connection with the CellStar Offering regarding purchase and voting rights relating to certain of its remaining shares of CellStar Common Stock. See "Risk Factors--Impact of Elimination of Management Fees from and Reduction in Equity in CellStar; Sale of CellStar Common Stock" and "Certain Transactions-- CellStar."

	FISCAL YEARS ENDED NOVEMBER 30,				(UNAUDITED) THREE MONTHS ENDED FEBRUARY 28,	
	1991	1992	1993	1994	1994	1995
	(DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)					
STATEMENT OF OPERATIONS DATA:						
Net sales	$327,966	$343,905	$389,038	$486,448	$115,337	$131,391
Gross profit	48,232	59,001	74,920	84,911	22,178	22,586
Operating income (loss)	(12,229)(1)	8,753	15,154	10,486	5,228	1,863
Interest and bank charges	(7,406)	(6,686)	(6,504)	(6,535)	(1,523)	(2,050)
Other, net (2)	4,537	6,247	6,592	4,235	587	1,270
Gain on sale of equity investment	--	--	--	27,783	27,783	--
Gain on public offering of equity investment	--	--	--	10,565	10,565	--
Income (loss) before provision for (recovery of) income taxes, extraordinary item and cumulative effect of change in accounting principle	(15,098)	8,314	15,242	46,534	42,640	1,083
Income (loss) before extraordinary item and cumulative effect of change in accounting principle	(14,658)	5,819	10,051	26,206	24,163	536
Extraordinary item	--	1,851(3)	2,173(3)	--	--	--
Cumulative effect of change in accounting for income taxes	--	--	--	(178)(5)	(178)(5)	--
Net income (loss)	$(14,658)(1)	$7,670	$ 12,224	$ 26,028	$ 23,985	$ 536
PER SHARE OF COMMON STOCK (4):						
Income (loss) before extraordinary item and cumulative effect of change in accounting principle-primary	$ (1.63)	$ 0.64	$ 1.11	$ 2.88	$ 2.63	$ 0.06
Income before extraordinary item and cumulative effect of change in accounting principle-fully diluted	--	--	$ 1.03	$ 2.21	$ 2.38	$ 0.06

	NOVEMBER 30, 1994	FEBRUARY 28, 1995
		(UNAUDITED)
BALANCE SHEET DATA:		
Cash and cash equivalents	$ 5,495	$ 3,547
Total current assets	191,479	196,430
Total assets	239,098	245,098
Short term debt and current maturities of long term debt	1,243	33,455
Total current liabilities	36,228	75,832
Long term debt	75,653	70,327
Other liabilities and minority interests	35,183	6,279
Stockholders' equity:		
Preferred Stock	2,500	2,500
Class A Common Stock	68	68
Class B Common Stock	22	22
Total stockholders' equity	92,034	92,660

- ------------

(1) The Company reported an operating loss of approximately $12,229,000 and a net loss of approximately $14,658,000 for the fiscal year ended November 30, 1991. Substantially all of these losses were attributable to (i) charges incurred in connection with the restructuring of the Company's operations, (ii) the cessation of operations and operating losses attributable to two unsuccessful ventures, Hermes Telecommunications, Inc. ("Hermes") (a subsidiary corporation formed to market and distribute moderately priced cellular telephone equipment) and Park Plus Corp. ("Park Plus") (a 50% owned joint venture formed to market and distribute mechanical automobile parking equipment) and (iii) the Company's operating losses. Such charges under clause (i) included costs incurred in the closing of certain sales and distribution facilities, write-downs of assets associated with the Hermes and Park Plus product lines, employee termination expenses and certain other charges.

(2) Other income consists principally of management fees and equity in income of equity investments.

(3) Relates to tax benefits of $1,851,000 and $2,173,000, for the fiscal years ended November 30, 1992 and 1993, respectively, resulting from the utilization of net operating loss carryforwards which were fully utilized as of November 30, 1993.

(4) See "Selected Consolidated Financial Data" and Note 1(g) of Notes to Consolidated Financial Statements.

(5) Relates to adoption of Statement of Financial Accounting Standards No. 109 "Accounting for Income Taxes."

RISK FACTORS

The following factors should be carefully considered, together with the other information in this Offering Memorandum, in evaluating an investment in the Warrants.

HISTORY OF LOSSES. The Company reported net losses of approximately $1,554,000, $3,192,000, and $14,658,000 for the fiscal years ended November 30, 1989, 1990 and 1991, respectively. These losses were primarily attributable to both operating losses and to charges incurred in connection with the restructuring of the Company's operations and the cessation of operations of two unsuccessful ventures, Hermes Telecommunications, Inc. ("Hermes") (a wholly-owned subsidiary) and Park Plus Corp. ("Park Plus") (a 50% owned joint venture). Such charges included costs incurred in the closing of certain sales and distribution facilities, write-downs of assets associated with the Hermes and Park Plus product lines, employee termination expenses and certain other charges. During the fiscal years ended November 30, 1989, 1990 and 1991, earnings were insufficient to cover fixed charges by approximately $2,642,000, $4,792,000 and $15,098,000 respectively. Although the Company was profitable for the fiscal years ended November 30, 1992, 1993 and 1994 and the fiscal quarter ended February 28, 1995, there can be no assurance that it will continue to operate profitably, or have earnings or cash flow sufficient to cover its fixed charges. See "Selected Consolidated Financial Data" and "Management's Discussion and Analysis of Financial Condition and Results of Operations."

UNITED STATES TRADE SANCTIONS COULD LIMIT THE COMPANY'S SOURCES OF SUPPLY. The Company has historically been dependent on foreign sources, particularly Japan and China, for a majority of its products. The U.S. government historically has sought and is continuing to seek greater access to Japanese markets for U.S. goods. As a result, the U.S. government has threatened to impose trade sanctions on products imported from Japan if it does not succeed in obtaining greater access for U.S. goods. The United States government on February 15, 1994 announced its intention to publish by March 17, 1994 a list of products imported from Japan on which it might impose trade sanctions, in connection with Motorola, Inc.'s inability to obtain "comparable" access in Japan for its cellular products. Motorola, Inc. announced on March 12, 1994 an agreement with the Japanese government, and the list was not published as announced. However, no assurance can be given that the United States government will not, in the future, publish a list of products imported from Japan upon which it may impose trade sanctions, which could include cellular products. Such products could also include products produced outside of Japan made from Japanese components. More recently, the U.S. government has held discussions with China concerning violations of certain U.S. copyrights and trademarks. The U.S. government proposed sanctions on Chinese products if a satisfactory solution was not reached. Included within the proposed sanctions were cellular products. Subsequently, China and the United States reached an agreement and those sanctions were not imposed. There can be no assurance that the U.S. government will not, in the future, propose a list of products imported from Japan or China (or other countries) on which it may impose trade sanctions that include cellular products. Such products could also include products produced outside of the sanctioned country with components made in the sanctioned country. In fiscal 1992, 1993 and 1994 and the first quarter of fiscal 1995, the Company purchased 94.6%, 89.7%, 91.8% and 81.7%, respectively, of its total dollar amount of cellular product purchases from Japanese suppliers, and revenues from cellular products from Japanese suppliers comprised 46.6%, 46.3%, 47.8% and 55.7%, respectively, of the total revenues of the Company during those periods.

If imposed, such sanctions may include, among other things, tariffs, duties, import restrictions or other measures. The imposition of such sanctions would have a material adverse effect on the Company's financial condition and results of operations, which would include reduced margins due to the Company's inability to access alternative cellular products at a competitive cost, and could also include loss of market share to competitors that are less dependent on Japanese and Chinese suppliers and/or loss of revenue due to unavailability of product. See "Management's Discussion and Analysis

of Financial Condition and Results of Operations--Overview," "Business--Suppliers" and "--Competition."

NO ASSURANCE OF ALTERNATIVE SUPPLY SOURCES. If trade sanctions similar to those referenced above are imposed, there is no assurance that the Company will be able to obtain adequate alternatives to its Japanese and Chinese supply sources. There is no assurance that, if obtained, alternatively sourced products or components would be delivered on a timely basis, of satisfactory quality, competitively priced, comparably featured or acceptable to the Company's customers. The Company believes that it could experience supply shortages as early as 60 days after such trade sanctions are introduced. Additionally, it is likely that the Company would experience interruptions in its supply of mobile and transportable cellular products and significant interruptions in its higher margin portable cellular products before any alternative products could be obtained. Any such supply interruptions would have a material adverse effect on the Company's operating and earnings per share performance. See "Management's Discussion and Analysis of Financial Condition and Results of Operations--Overview" and "Business--Suppliers."

In addition, as a result of conditions in China, there has been, and may be in the future, opposition to the extension of "most favored nation" trade status for China. Loss of China's "most favored nation" trade status would materially increase the cost of the products purchased from Chinese manufacturers, as such products would then become subject to substantially higher rates of duty.

RISKS OF CURRENCY FLUCTUATIONS. 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 determined by, among other things, market, trade and political factors. Because the Company historically has been dependent on Japanese suppliers for its cellular products, the yen to dollar relationship has been the most significant to the Company. The value of the United States dollar as of April 11, 1995 was 83.65 yen; over the five years preceding that date the value of the United States dollar ranged from 159.85 yen to 80.15 yen.

A decrease in the value of the United States dollar relative to a foreign currency increases the cost in United States dollars of products which the Company purchases from foreign manufacturers. This increase could reduce the Company's margins or make the Company's products less price competitive. No assurance is given that, if the value of the United States dollar continues to decrease relative to the yen, because of potential trade sanctions or otherwise, the Company will be able to competitively obtain or market the products it purchases from Japanese sources. See "Management's Discussion and Analysis of Financial Condition and Results of Operations--Currency Fluctuations."

DEPENDENCE ON FOREIGN SUPPLIERS. The Company's business is dependent upon its suppliers' continuing to provide it with adequate quantities of salable product on a timely basis and on competitive pricing terms. Substantially all of the Company's products are imported from suppliers in the Pacific Rim. There are no agreements in effect that require any manufacturer to supply the Company with product. Accordingly, there can be no assurance that the Company's relationships with its suppliers will continue as presently in effect. The loss of any significant supplier, substantial price increases imposed by any such supplier or the inability to obtain sufficient quantities of product on a timely basis, could have a material adverse effect on the Company's financial condition and results of operations. During the fiscal quarter ended May 31, 1994, the Company experienced supply shortages as a result of the shifting by one of its major suppliers of manufacturing operations from Japan to China. See "Management's Discussion and Analysis of Financial Condition and Results of Operations--Results of Operations--Fiscal 1994 Compared to Fiscal 1993."

The Company's arrangements with its suppliers are subject to the risks of purchasing products from foreign suppliers, including risks associated with economic and/or political instability in countries in which such suppliers are located, and risks associated with potential import restrictions, currency fluctuations, foreign tax laws, import/export regulations, tariff, duty and freight rates and work

stoppages. These risks may be increased in the Company's case by the concentration of its purchases of cellular products from suppliers in Japan. In addition, the Company may be subject to risks associated with the availability of and time required for the transportation of products from foreign countries. Because of the Company's dependence on such foreign suppliers, the Company is required to order products further in advance of customers' orders than would be the case if its products were manufactured domestically. See "Business--Suppliers," and Note 5 of Notes to Consolidated Financial Statements.

DEPENDENCE ON TOSHIBA. Since 1984, Toshiba has been the principal supplier of cellular telephone products to the Company, accounting for approximately 86.4%, 83.7%, 83.7% and 78.0% of the total dollar amount of the Company's cellular product purchases and approximately 48.0%, 46.9%, 45.5% and 56.2% of the total dollar amount of all product purchases by the Company in fiscal 1992, fiscal 1993, fiscal 1994 and the first quarter of fiscal 1995, respectively. During fiscal 1992 and 1993, the Company was the sole distributor of Toshiba cellular telephone products in the United States. In 1994, Toshiba began to compete directly with the Company in the United States by marketing cellular telephone products through Toshiba's United States distribution subsidiary. The Company anticipates that Toshiba will continue to sell products to the Company as an original equipment customer; moreover, there is no agreement in effect that requires Toshiba to supply the Company with products, and there can be no assurance that Toshiba will continue to supply products to the Company or that any products supplied will be competitive with others in the market. In that regard, products that Toshiba develops for its distribution subsidiary may be similar or superior to those which it sells to the Company. Such direct competition from Toshiba could have a material adverse effect on the Company's financial condition and results of operations. See "Business--Suppliers" and Note 5 of Notes to Consolidated Financial Statements.

DEPENDENCE ON CELLULAR CARRIERS. The success of the Company's retail cellular telephone business is dependent upon the Company's relationship with certain cellular carriers. As a practical matter, the Company does not believe that it can operate at the retail level on a profitable basis without agency agreements with cellular carriers. The Company's agency agreements with cellular carriers are subject to cancellation by the carriers and give the carriers the right to unilaterally restructure or revise activation commissions and residual fees, which they have done from time-to-time. The agreements also provide that, for specified periods of time following the expiration or termination of a specific agreement, generally ranging from three months to one year, the Company cannot sell, solicit or refer cellular or wireless communication network services of the kind provided by the cellular carriers to other competing carriers in particular geographic areas. The cancellation or loss of one or more of these agreements could have a material adverse effect on the Company's financial condition and results of operations. See "Business--Distribution and Marketing."

IMPACT OF ELIMINATION OF MANAGEMENT FEES FROM AND REDUCTION IN EQUITY IN CELLSTAR; SALE OF CELLSTAR COMMON STOCK. For the fiscal years ended November 30, 1989, 1990, 1991, 1992 and 1993, approximately $1,237,000, $3,354,000, $4,825,000, $5,124,000 and $5,147,000, respectively, of the Company's income was generated by management fees and equity in undistributed earnings from the operations of CellStar. In contemplation of the CellStar Offering, the Company stopped accruing such management fees in July, 1993; however, the Company will be entitled to its portion of the income from the equity in undistributed earnings of CellStar, if any, for such time as the Company continues to own at least 20% of CellStar's outstanding common stock. As of March 31, 1995, the Company owned approximately 20.88% of CellStar Common Stock. If the CellStar Offering had occurred on November 30, 1992, this accounting treatment would have resulted in net earnings being reduced by approximately $1,692,000 for the fiscal year ended November 30, 1993. There can be no assurance that income from other sources will offset the loss of this income from CellStar. See "Summary Consolidated Financial Data," "Certain Transactions--CellStar" and Note 12 of Notes to Consolidated Financial Statements.

On March 23, 1995, CellStar filed a registration statement relating to a public offering for approximately 3.5 to 4 million shares of common stock to be issued by CellStar and for 1,075,000 shares of its common stock which may be sold by the Company pursuant to its piggyback registration rights contained in its registration rights agreement with CellStar. No assurance can be given that such public offering will be consummated or at what price such public offering will be consummated and that, if consummated, Audiovox will elect to sell its shares in such public offering. See "Certain Transactions-- CellStar."

If the Company's ownership percentage in CellStar is reduced below 20% as a result of such public offering or otherwise, the Company would be required to account for CellStar using the cost method instead of the equity method. Accordingly, on a pro forma basis, this change would have decreased pre-tax earnings for fiscal 1994 and the three months ended February 28, 1995 by approximately $3,393,000 and $972,000, respectively.

COMPETITION. The Company operates in a highly competitive environment and believes that such competition will intensify in the future. Many of the Company's competitors are larger and have greater capital and management resources than the Company. Competition often is based on price, and therefore wholesale distributors and retailers, including the Company, generally operate with low gross margins. The Company also is affected by competition between cellular carriers. Increased price competition relating not only to cellular telephone products, but also to services provided by the Company to retail customers on behalf of cellular carriers, may result in downward pressure on the Company's gross margins (including that resulting from the loss of residual fees attributable to customers who change cellular carriers) and could have a material adverse effect on the Company's business, financial condition and results of operations. The Company's cellular products compete principally with cellular telephones supplied by Motorola, Inc., Nokia Mobile Phones, Inc., Technophone Corp., Fujitsu Network Transmission Systems, Inc., Oki Electric Industry Co., Nippon Electric Corp. and Toshiba. The Company's non-cellular products compete with other suppliers including Matsushita Electric Corp., Sony Corp. of America, Directed Electronics, Inc. and Code Alarm, Inc., as well as divisions of well-known automobile manufacturers. In February 1995, Motorola Inc. announced its cellular inventory build-up was "several weeks above normal levels." See "Management's Discussion and Analysis of Financial Condition and Results of Operation--Results of Operations--First Quarter Fiscal 1995 vs. First Quarter Fiscal 1994" and "Business--Competition."

RISK OF INVENTORY OBSOLESCENCE AND TECHNOLOGICAL CHANGE. The markets in which the Company competes are characterized by rapid technological change, frequent new product introductions, declining prices and intense competition. The Company's success depends in large part upon its ability to identify and obtain products necessary to meet the demands of the marketplace. There can be no assurance that the Company will be able to identify and offer products necessary to remain competitive. The Company maintains a significant investment in its product inventory and, therefore, is subject to the risk of inventory obsolescence. If a significant amount of inventory is rendered obsolete, the Company's business and operating results would be materially and adversely affected. Alternative technologies to cellular, including enhanced specialized mobile radio ("ESMR") and personal communications service ("PCS"), may reduce the demand for cellular telephone products. The implementation of communications systems based upon any of these or other technologies could materially change the types of products sold by the Company and the service providers with whom the Company presently does business. Competing communications technologies also may result in price competition which could result in lower activation commission or residual fee rates payable to the Company and could have a material adverse effect on the financial condition and results of operations of the Company. From time to time, cellular carriers' technological limitations may result in a shortage of available cellular phone numbers, which could have the effect of inhibiting sales of the Company's cellular products.

POSSIBLE HEALTH RISKS FROM CELLULAR TELEPHONES. There have been lawsuits filed (including one such lawsuit against the Company and others) in which claims have been made alleging a link between the non-thermal electromagnetic field emitted by portable cellular telephones and the development of

cancer, including brain cancer. To date, there have been relatively few medical studies relating to cellular telephones and the effects of non-thermal electromagnetic fields on health, nor are there any widely accepted theories regarding how exposure to a non-thermal electromagnetic field, such as the type emitted by a portable cellular telephone, could affect living cells or threaten health. The scientific community is divided on whether there is any risk associated with the use of portable cellular telephones and the magnitude of any such risk. There can be no assurance that medical studies or other findings, or continued litigation in this area, will not have a material adverse impact upon the financial condition and results of operations of the cellular telephone industry and the Company.

RISKS ATTRIBUTABLE TO FOREIGN SALES. For the fiscal years ended November 30, 1992, 1993 and 1994 and the fiscal quarter ended February 28, 1995 approximately 12.4%, 12.6%, 13.8% and 17.8%, respectively, of the Company's net sales were generated from sales in Canada, Europe, Latin America, Asia, the Middle East and Australia. Foreign sales are subject to political and economic risks, including political instability, currency controls, exchange rate fluctuations, increased credit risks, foreign tax laws, changes in import/export regulations and tariff and freight rates. Political and other factors beyond the control of the Company, including trade disputes among nations or internal instability in any nation where the Company sells products, could have a material adverse effect on the financial condition and results of operations of the Company.

RISK ATTRIBUTABLE TO RETAIL SALES. 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 negatively impacted by fluctuations in automotive sales. Certain of the Company's significant customers are also believed by the Company to be highly leveraged. Accordingly, a downturn in the retail economy could have a material adverse effect on the financial condition and results of operations of the Company.

LEVERAGE AND DEBT SERVICE. As of February 28, 1995, the Company had outstanding total interest bearing indebtedness of approximately $104 million and a total debt-to-total capital ratio of .53 to 1. Although a portion of the net proceeds from the sale of the Debentures and the CellStar Offering was used to retire a significant portion of the Company's existing indebtedness, the Company continues to have substantial annual fixed debt service requirements including those attributable to the Company's Series AA 10.80% Convertible Debentures due February 9, 1996 (the "Series AA Convertible Debentures") and Series BB 11.00% Convertible Debentures due February 9, 1996 (the "Series BB Convertible Debentures"), the Debentures and the Amended and Restated Credit Agreement (as herein defined). See "Management's Discussion and Analysis of Financial Condition and Results of Operation--Liquidity and Capital Resources." The ability of the Company to make principal and interest payments under the Company's long-term indebtedness and bank loans will be dependent upon the Company's future performance, which is subject to financial, economic and other factors affecting the Company, some of which are beyond its control. There can be no assurance that the Company will be able to meet its fixed charges as such charges become due. See "Summary Consolidated Financial Data" and "--History of Losses."

RESTRICTIVE COVENANTS. The Amended and Restated Credit Agreement (as defined herein) contains certain restrictive covenants which impose prohibitions or limitations on the Company with respect to, among other things, (i) the ability to make payments of principal, interest or premium on, subordinated indebtedness of the Company, (ii) the incurrence of indebtedness, (iii) capital expenditures, (iv) the creation or incurrence of liens, (v) the declaration or payment of dividends or other distributions on, or the acquisition, redemption or retirement of, any shares of capital stock of the Company and (vi) mergers, consolidations and sales or purchases of substantial assets, and require that the Company satisfy certain financial tests and maintain certain financial ratios. Failure to comply with such covenants could result in a default under the Amended and Restated Credit Agreement which could have a material adverse effect on the financial condition and results of operations of the Company. See

"Management's Discussion and Analysis of Financial Condition and Results of Operations--Liquidity and Capital Resources."

ABSENCE OF EXISTING MARKET FOR THE WARRANTS; RESTRICTIONS ON RESALE; NO ASSURANCE OF LISTING AND REGISTRATION OF WARRANTS. There is no existing market for the Warrants. The Warrants have not been registered under the Securities Act or any state securities laws and, unless so registered, may not be offered or sold except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and applicable state securities laws. Although the Warrants are expected to be eligible for trading through PORTAL upon issuance, there can be no assurance that the Warrants will become and remain eligible for trading on PORTAL, that an active trading market for the Warrants will develop or, if such market develops, as to the liquidity or sustainability of such a market. Accordingly, no assurance can be given that a holder of the Warrants will be able to sell such Warrants in the future or as to the price at which any sale may occur.

The Company intends to seek to list the Warrants on the AMEX or another national securities exchange or to seek quotation of the Warrants on NASDAQ Small Cap. However, the listing or quotation requirements for such organizations require a certain minimum number of holders of Warrants prior to approval for listing or quotation. Since the Offering is being made to a limited number of persons in a private placement transaction, there can be no assurance that the Company will obtain such listing or quotation for the Warrants, or if obtained, that the Warrants will not become delisted. If the Warrants have not been approved for listing or quotation, the Company is not required to register the Warrants under the Securities Act pursuant to the Registration Rights Agreement and does not intend to register the Warrants. As described above, if the Warrants are not registered under the Securities Act, they may not be offered or be sold except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and applicable state securities laws. See "Description of the Warrants--Registration Rights."

In addition, while the Company has agreed to use its reasonable best efforts to file and have declared effective under the Securities Act a registration statement covering resales of all of the Warrants if the Warrants have been approved for listing on a national securities exchange or for quotation on NASDAQ Small Cap, the SEC has previously taken the position that persons who purchase securities in a private placement, and who are engaged in the business of underwriting securities, may not be able to participate as a selling securityholder in any resale registration statement filed with respect to such securities. Accordingly, purchasers of Warrants who are engaged in the business of underwriting securities may not be able to have their resales of the Warrants or the underlying Class A Common Stock registered under the Securities Act.

NO ASSURANCE OF REGISTRATION OF CLASS A COMMON STOCK UNDERLYING THE WARRANTS. The Warrants may not be exercised unless, at the time of such exercise, a registration statement covering the issuance of shares of Class A Common Stock by the Company upon exercise of the Warrants shall be effective under the Securities Act. Although the Company has agreed to use its reasonable best efforts to have such registration statement declared effective by the SEC, there can be no assurance that the Company will be able to do so. If such a registration statement has not been declared effective at any time on or prior to the Expiration Date, the Company will be required to redeem the Warrants for $2.20 per Warrant. In addition, the Warrant Exercise Price will be subject to certain decreases in certain circumstances if the registration statement covering the issuance of shares of Class A Common Stock upon exercise of the Warrants has not been filed or declared effective within prescribed periods. See "Description of the Warrants-- Mandatory Redemption."

POSSIBLE VOLATILITY OF STOCK PRICE. Since 1991, the market price of the Class A Common Stock has experienced a high degree of volatility. There can be no assurance that such volatility will not continue or become more pronounced. In addition, recently the stock market has experienced, and is likely to experience in the future, significant price and volume fluctuations which could adversely affect the market price of the Class A Common Stock without regard to the operating performance of the

Company. The Company believes that factors such as quarterly fluctuations in the financial results of the Company or its competitors and general conditions in the industry, the overall economy and the financial markets could cause the price of the Class A Common Stock to fluctuate substantially. See "Price Range of Class A Common Stock."

SHARES ELIGIBLE FOR FUTURE SALE; DILUTION. The Company has approximately 3,406,326 shares of Class A Common Stock held by members of the public that are able to trade without restriction. Sales of a substantial number of additional shares of Class A Common Stock in the public market could adversely affect the market price of the Class A Common Stock. As of March 31, 1995, 3,672,316 shares of Class A Common Stock were issuable upon conversion of the Debentures, 1,023,028 shares of Class A Common Stock were issuable upon conversion of the Series AA Convertible Debentures and Series BB Convertible Debentures, and 150,000 shares of Class A Common Stock were issuable pursuant to presently exercisable warrants. Conversion of a substantial amount of the Warrants or other outstanding warrants, the Debentures, the Series AA Convertible Debentures or the Series BB Convertible Debentures or sale of the Class A Common Stock underlying such debentures also could adversely affect the market price of the Class A Common Stock, due to the large number of shares issuable upon conversion of such instruments in comparison to the relatively small number of shares held by members of the public that are able to trade without restriction. The Company has granted the holders of the Series AA Convertible Debentures and Series BB Convertible Debentures certain registration rights relating to the Class A Common Stock issuable upon conversion of such debentures. See "Management's Discussion and Analysis of Financial Condition and Results of Operations--Liquidity and Capital Resources." In addition, as of March 31, 1995, (i) John J. Shalam, President and Chief Executive Officer of the Company, owned 3,366,762 shares of Class A Common Stock (excluding for this purpose all of the shares subject to the Shalam Option (as herein defined)) and 1,883,198 shares of Class B Common Stock of the Company, par value $.01 per share ("Class B Common Stock"), which are convertible into an equal number of shares of Class A Common Stock and (ii) other affiliates (as such term is defined the Securities Exchange Act of 1934, as amended (the "Exchange Act")) of the Company owned 4,700 shares of Class A Common Stock and 377,756 shares of Class B Common Stock, which are convertible into an equal number of shares of Class A Common Stock. Sales by such persons of a substantial number of shares of Class A Common Stock or Class B Common Stock (collectively, "Common Stock") could adversely affect the market price of the Class A Common Stock.

The independent members of the Board of Directors may elect not to exercise the Shalam Option in whole or in part in connection with the exercise of Warrants if such board members believe it is in the best interests of the Company not to exercise all or part of the Shalam Option. The decision by the independent members of the Board of Directors not to exercise the Shalam Option, in whole or in part, would result in an increase in the number of shares of Class A Common Stock outstanding and available for future sale and could result in significant dilution to the holders of Common Stock.

DEPENDENCE ON EXISTING MANAGEMENT. The continued success of the Company is substantially dependent on the efforts of John J. Shalam, President and Chief Executive Officer, Philip Christopher, Executive Vice President, and C. Michael Stoehr, Senior Vice President and Chief Financial Officer. The loss or interruption of the continued full time services of any of such individuals could have a material adverse impact on the Company's business operations, prospects and relations with its suppliers. The Company does not have employment contracts with any of these persons, nor have any of these persons signed agreements binding them not to compete with the Company following the termination of their employment with the Company. The Company maintains a "key man" life insurance policy only on John J. Shalam.

RISK OF AMENDMENT TO WARRANTS. Under the terms of the Warrant Agreement, the Warrants may be amended or modified by holders of a majority of the Warrants in a manner which materially adversely affects holders of the Warrants unless such amendment or modification would change the Expiration Date (except to a later date), increase the Warrant Exercise Price, reduce the Redemption Price, reduce the reduction in the Warrant Exercise Price upon a Registration Default or reduce the

shares of Class A Common Stock purchasable upon exercise of the Warrants (other than pursuant to adjustments provided in the Warrant Agreement), which amendments require the approval of each holder of Warrants. Accordingly, the Warrants could be amended in a manner materially adverse to the holder of a Warrant without such holder's consent. See "Description of the Warrants--Amendments."

VOTING RIGHTS OF CLASS A COMMON STOCK AND VOTING CONTROL BY PRINCIPAL STOCKHOLDER. The holders of Warrants do not have any voting rights as stockholders of the Company. The voting rights of holders of Class A Common Stock for which the Warrants are exercisable are limited by the Company's Certificate of Incorporation. Each share of Class A Common Stock is entitled to one vote per share and each share of Class B Common Stock is entitled to ten votes per share. Both classes vote together as a single class except with respect to the election and removal without cause of directors and as otherwise may be required by Delaware law. With respect to the election of directors, the holders of shares of Class A Common Stock, voting as a separate class, are entitled to elect 25% (rounded up to the nearest whole number) of the authorized number of directors of the Company and the holders of the Class B Common Stock, voting as a separate class, are entitled to elect the remaining directors. The rights of holders of Class A Common Stock and Class B Common Stock with respect to the election of directors will be subject to certain adjustments under specified circumstances. See "Description of Capital Stock--Class A Common Stock and Class B Common Stock." John J. Shalam has effective voting control of the Company and can elect a majority of the directors through his ownership of 3,369,135 shares of Class A Common Stock (including the shares of Class A Common Stock subject to the Shalam Option) and 1,883,198 shares of Class B Common Stock, which gives him approximately 85.5% of the aggregate voting power of the issued and outstanding Common Stock. Pending exercise of the Shalam Option, Mr. Shalam will have voting control of the shares of Class A Common Stock subject to the Shalam Option. The disproportionate voting rights of the Class A Common Stock and the Class B Common Stock may effectively preclude the Company from being taken over in a transaction not supported by John J. Shalam, may render more difficult or discourage a merger proposal or a tender offer, may preclude a successful proxy contest or may otherwise have an adverse effect on the market price of the Class A Common Stock. See "Management--Beneficial Ownership of Common Stock" and "Description of Capital Stock--Effects of Disproportionate Voting Rights."

THE OFFERING

INTRODUCTION

The Company is hereby offering to issue up to 1,365,000 Warrants upon the terms and conditions set forth herein. The Offering is being extended to the beneficial holders (the "Investors") of Debentures as of June 3, 1994. Each Investor will be entitled to acquire 21 Warrants for each $1,000 principal amount of Debentures then beneficially held by such Investor in consideration for a Release by such Investor of the Company and the Initial Purchasers (as defined) and their respective directors, officers, partners, employees and agents from any liability for any and all potential claims such Investor may have in connection with the Debentures up through the date of the Release. See "Terms of the Warrants."

The Release must be executed by the beneficial holders of Debentures as of June 3, 1994. The Company will not issue Warrants to the record holder of the Debentures unless such record holder was also the beneficial holder as of such date. To subscribe for the Warrants, the beneficial holder of Debentures as of June 3, 1994 will be required to represent in the Subscription Agreement for the Offering that it was the beneficial holder of a specified amount of Debentures as of such date.

The Warrants are offered subject to prior withdrawal, cancellation or modification of the Offering by the Company. The Company reserves the right, in its sole discretion, to terminate this Offering at any time, and without regard to the amount of subscriptions received; provided that the Company does not intend to close the Offering unless it receives subscriptions from at least the beneficial holders of a majority of the principal amount of the Debentures as of June 3, 1994.

BACKGROUND OF THE OFFERING

On March 15, 1994, the Company completed its private offering to Oppenheimer & Co., Inc., Chemical Securities, Inc. and Furman Selz Incorporated (the "Initial Purchasers") of $65,000,000 in principal amount of Debentures, realizing net proceeds, before deduction of expenses, of approximately $63,050,000. The Debentures were purchased by the Initial Purchasers who intended to resell the Debentures to a limited number of qualified institutional buyers (as such term is defined in Rule 144A promulgated under the Securities Act) and institutional accredited investors, and outside the United States in offshore transactions in reliance on and in compliance with Regulation S promulgated under the Securities Act.

The Debentures are convertible at any time prior to maturity, unless previously redeemed, into shares of Class A Common Stock, par value $.01 per share ("Class A Common Stock"), at a conversion price of $17.70 per share. On March 15, 1994, the closing sales price of the Company's Class A Common Stock as reported on the American Stock Exchange was $14 5/8 per share.

On June 3, 1994, the Company announced its preliminary earnings and sales for its second quarter of fiscal 1994. The text of the press release announcing these preliminary results is reproduced in part below:

> Hauppauge, New York, (June 3, 1994)--Audiovox Corporation (AMEX: VOX) today announced preliminary earnings and record preliminary sales for its quarter ended May 31, 1994.
>
> Estimated net sales rose 21.4% to $115.9 million from $95.5 million for the comparative 1993 quarter. Estimated net earnings were $1.4 million in the second quarter 1994 compared to $2.7 million, before the extraordinary item, for the second quarter 1993. On a proforma basis, estimated primary earnings per share for the second quarter of 1994 were $0.16 versus $0.26 for the second quarter of 1993. On a proforma basis, estimated fully diluted earnings per share were $0.15 for the second quarter of 1994 versus $0.25 for the second quarter 1993. Audiovox believes the proforma results are a better measure of its performance, as they reflect the Company's earnings adjusted for

the change in the Company's ownership percentage of CellStar (NASDAQ: CLST) stock from 50% to 20.88%, the elimination of the after tax management fees and the 1993 tax benefit of a net operating loss carryforward.

John J. Shalam, Chief Executive Officer, stated, "It must be understood that this is a preliminary indication of our results for the second quarter. Upon completion of the final review and report due in early July, the actual results will be announced."

Mr. Shalam further stated, "As noted in our first quarter report, our company operates in a highly competitive environment. The second quarter margins were adversely affected by severe competitive price pressure in the cellular industry which developed during this period, and by product shortages. In addition, the Company incurred increased expenses in the expansion of its Quintex retail operation."

The Company has been requested to consider modifications of the $65 million 6 1/4% convertible subordinated debentures due 2001, issued in its recent private placement, and is willing to consider making modifications. However, there can be no assurance that any such modifications will be made. . . .

The closing sale price of the Class A Common Stock on June 2, 1994 was $12 3/8 per share and the closing sale price of the Class A Common Stock on June 3, 1994 was $9 per share. In June 1994, officers and other representatives of the Company met with certain holders of Debentures to discuss the Company's second quarter results. The Company has been advised that the latest traded sale price of the Debentures prior to the announcement of the Company's second quarter results was approximately $920 per $1,000 principal amount of Debentures and the closing sale price of the Debentures on June 3, 1994 was approximately $780 per $1,000 principal amount of Debentures.

On July 12, 1994, the Company formally announced its earnings and sales for the fiscal quarter and six months ended May 31, 1994. The text of the press release announcing these results is reproduced in part below:

Hauppauge, New York, (July 12, 1994)--Audiovox Corporation (AMEX: VOX) today announced results for its fiscal 1994 second quarter and six months ended May 31, 1994.

Net sales for the second quarter rose 21.7% to $116.3 million from $95.5 million during the comparable 1993 period. Net earnings for the second quarter of fiscal 1994 were $1.4 million compared with proforma net earnings of $2.4 million for 1993's second quarter. Primary earnings per share were $0.16 for the second quarter of fiscal 1994 compared with proforma earnings per share of $0.26 last year. On a fully diluted basis the quarterly earnings per share were $0.15 for 1994 compared with proforma earnings per share of $0.25 for 1993.

For the six months ended May 31, 1994, net sales rose 23.6% to $231.6 million from $187.3 million during the comparable 1993 period. Net earnings for the six months ended May 31, 1994 were $25.4 million compared to $7.2 million in the corresponding period in 1993. Proforma net earnings for the first six months of fiscal 1994 were $4.4 million compared with proforma net earnings of $4.1 million for the six months ended May 31, 1993. Primary earnings per share were $2.77 for the first six months of the current fiscal year compared with earnings per share of $0.79 last year. On a fully diluted basis, the earnings per share for the first half of the fiscal year were $2.22 and $0.74 for the 1994 and 1993 periods, respectively. On a proforma basis, primary earnings per share for the same periods were $0.48 and $0.45. On a fully diluted basis, the proforma earnings per share for the same periods were $0.43.

Audiovox believes the proforma results are a better measure of its operating results as they reflect the Company's performance before the gain from the sale of CellStar Corporation (NASDAQ: CLST) shares, adjustment for the change in ownership percentage of CellStar from 50% to

20.88% (due to the December 1993 initial public offering of CellStar) and the elimination of Audiovox's 1993 tax benefit from a net operating loss carryforward.

Commenting on the quarterly results, Audiovox President and Chief Executive Officer, John J. Shalam stated, "Although we achieved sales growth in our cellular, auto sound and auto security businesses, our earnings in the second quarter were principally impacted by the cellular group. The cellular margins were affected by the competitive price pressure in the cellular industry which developed during this period, and by product shortages. In addition the Company incurred increased expenses in the expansion of its Quintex retail operations." Mr. Shalam further stated, "Our Company expects to continue to operate in a highly competitive environment which is subject to changes in economic and market conditions.". . .

As previously reported, Audiovox has been requested to consider and is considering certain modifications of the terms of its $65 million 6 1/4% convertible subordinated debentures due 2001, issued in a March private placement. However, there can be no assurance that any such modifications will be made. . .

On July 15, 1994, the Company filed its Quarterly Report on Form 10-Q with the SEC for the fiscal quarter ended May 31, 1994 (the "May 31 10-Q"). The Company stated the following in this filing:

The Company has been requested to consider and is considering modifications of the terms of its $65 million 6 1/4% Convertible Subordinated Debentures due 2001, issued in a March private placement. The Company has had discussions with several of its bond holders concerning these modifications. However, there can be no assurance that any such modifications will be made.

After such earnings and sales announcement, the Company had additional discussions with certain holders of the Debentures, each of whom executed a confidentiality agreement, regarding their investment in the Debentures.

Subsequent to such discussions with such Debentureholders, the Company's Board of Directors (other than Mr. Shalam) determined that action should be taken by the Company with respect to the Debentures. The Board of Directors of the Company determined that the Company would offer the Warrants to those current or former holders of Debentures who beneficially held Debentures on June 3, 1994, the date the Company announced its quarterly earnings for the fiscal quarter and six months ended May 31, 1994. The Board of Directors authorized the Offering after considering the following factors, among others, (a) the Company's desire to maintain good relations with its investors, customers, suppliers, lenders, and the financial community as a whole, (b) the possible adverse impact which the Company's failure to act might have upon the Company's ability to raise capital in the future, (c) the offer by John J. Shalam to the Company of the Shalam Option which enables the Company to offer the Warrants while limiting the dilutive effect on the earnings per share and the book value of the Company, (d) the fact that the Offering does not entail any current cash costs (other than fees) to the Company (although cash costs may be possible in the future depending on Mr. Shalam's or his Successor's tax liability and the mandatory redemption requirement), (e) the protection from potential litigation that would be afforded the Company, (f) although the Company believes there is no basis for any claims, the current litigious atmosphere in the securities markets, and the costly diversion of the Company's resources and management's attention which would be involved in any such litigation, and (g) the fact that litigation is subject to many uncertainties and it is possible that a finding could be made against the Company. In addition to the foregoing reasons, the Board of Directors determined to offer the Warrants to the Debentureholders rather than amend the terms of the Debentures because (a) of the tax consequences to the Investors of the receipt of the Warrants and (b) the Warrants provide an opportunity for an additional upside potential return to the beneficial holders of Debentures as of June 3, 1994.

TERMS OF THE OFFERING

Upon the terms and subject to the conditions of the Offering, the Company will accept subscriptions for Warrants which are properly made in accordance with the terms of the Offering and received by the Company on or prior to the Offer Termination Date (as hereinafter defined). The terms of the Warrants are described under "Terms of the Warrants." As used herein, the term "Offer Termination Date" means 5:00 p.m., New York City time, on May 1, 1995; provided, however, that the Company may, at any time or from time to time, in its sole discretion, extend the period of time for which the Offering is open, in which event the term "Offer Termination Date" means the latest time and date to which the Offering is extended. The Company also expressly reserves the right (a) to terminate the Offering at any time and (b) at any time or from time to time, to amend the Offering in any respect. The Company does not intend to consummate the Offering unless the beneficial holders of at least a majority of the principal amount of Debentures outstanding as of June 3, 1994 elect to participate in the Offering and execute a Release. Any extension, termination or amendment will be followed as promptly as practicable by delivery of a letter to the Investors announcing such extension, termination or amendment.

BENEFICIAL HOLDERS; PROCEDURES FOR SUBSCRIPTIONS; DELIVERY OF WARRANTS

Upon the terms and subject to the conditions of the Offering, beneficial holders of the Debentures as of June 3, 1994 may subscribe for Warrants by completing and signing the Subscription Agreement, the Registration Rights Agreement, a Suitability Questionnaire and the Release (the "Confidential Subscription Documents") accompanying this Offering Memorandum and delivering such documents at any time prior to 5:00 p.m. (New York City time) on the Offer Termination Date (May 1, 1995) to Fried, Frank, Harris, Shriver & Jacobson (special securities law counsel to the Company), One New York Plaza, New York, New York 10004, Attention: Stuart Gelfond, Esq. The method of delivery of all documents is at the election and risk of the subscriber. If delivery is by mail, registered mail with return receipt requested, properly insured, is recommended and enough time should be allowed to assure timely delivery. In all cases, Warrants will be issued pursuant to the Offering only after timely receipt by the Company of the Confidential Subscription Documents and any other documents required to be delivered with the Confidential Subscription Documents.

The Warrants are being offered hereby in the United States only to the beneficial holders of the Debentures as of June 3, 1994 who are accredited investors (as such term is defined in Rule 501(a)(1), (2), (3) or (7) promulgated under the Securities Act), and any potential investor will be required to certify as to such persons' status as such. The Warrants are also being offered hereby outside the United States in offshore transactions in reliance on and in compliance with Regulation S promulgated under the Securities Act. Subscriptions will be accepted in the sole discretion of the Company and only if after reasonable inquiry and advice of counsel it determines that the sale of Warrants to the investor satisfies relevant federal and state securities laws and that the beneficial holders of the Debentures has properly executed the Confidential Subscription Documents.

The Company specifically reserves the right to reject, for any reason and in its sole discretion, any subscription for Warrants. The Company shall notify each subscriber of such determination as soon as practicable after receipt of such subscriber's subscription.

For purposes of the Offering, the Company shall be deemed to have accepted a subscription for Warrants as, if and when the Company gives oral or written notice to the offeree of the Company's acceptance of such subscription. Subject to the terms and conditions of the Offering, delivery of Warrants for subscriptions so accepted pursuant to the Offering will be made by the Warrant Agent as soon as practicable after the expiration of the Offering. If any subscriptions are not accepted for any reason, the Confidential Subscription Documents and any other documents submitted therewith will be

returned, without expense to the offeree, as promptly as practicable following the expiration or termination of the Offering.

All questions as to the validity, form, eligibility (including time of receipt) and acceptance of any subscription for Warrants pursuant to any of the procedures described above will be determined in the sole discretion of the Company, whose determination shall be final and binding. The Company reserves the absolute right to reject any or all subscriptions not in proper form or if the acceptance of subscription may, in the opinion of the Company's counsel, be unlawful. The Company also reserves the absolute right to waive any of the conditions of the Offering or any defect or irregularity in any subscription. The Company will not be under any duty to give notification of any defects or irregularities in any subscription or incur any liability for failure to give any such notification.

THE COMPANY WILL ACCEPT SUBSCRIPTIONS ONLY FROM BENEFICIAL HOLDERS OF THE DEBENTURES AS OF JUNE 3, 1994 WHO PROPERLY EXECUTE THE CONFIDENTIAL SUBSCRIPTION AGREEMENTS AND ONLY WITH RESPECT TO DEBENTURES BENEFICIALLY HELD AS OF SUCH DATE.

REGISTRATION RIGHTS FOR CLASS A COMMON STOCK; REDUCTION IN EXERCISE PRICE FOR WARRANTS FOR FAILURE TO REGISTER

The Company will agree to file with the SEC, within 300 days of the Closing Date, and use its reasonable best efforts to cause to become effective within 365 days of the closing of the offering (the "Closing Date"), a shelf registration statement or statements with respect to the issuance of the underlying Class A Common Stock upon exercise of the Warrants. If the registration statement with respect to the Common Stock is not filed within such 300-day period or declared effective within such 365-day period, the exercise price of the Warrants will decrease by $ 1/8 per share of Class A Common Stock; subject to additional decreases of $ 1/8 per share of Class A Common Stock for each additional six-month period for which such registration statement has not been filed or is not declared effective, as the case may be. In addition, if such registration is declared effective, the Exercise Price will also decrease by $ 1/8 per share of Common Stock if such registration statement ceases to be effective for more than 90 days (180 days in certain circumstances) in any 365-day period, subject to additional decreases of $ 1/8 per share of Class A Common Stock for each additional six-month period for which such registration statement ceases to be effective. Notwithstanding the foregoing, the maximum number of $ 1/8 per share decreases shall be 10 and there shall be no more than one such decrease in any six-month period. (Each of such events which results in a decrease in the Warrant Exercise Price being referred to herein as a "Registration Default"). The reduction in the Warrant Exercise Price upon a Registration Default is subject to adjustment in certain limited circumstances. See "Description of the Warrants--Adjustments." The Company will be obligated to use its reasonable best efforts to cause the registration statement relating to the Class A Common Stock to remain effective until the Expiration Date. The Company will not be obligated to register Class A Common Stock underlying any Warrants (a) which the holder does not seek to register or (b) if the Company determines (based on discussions with the SEC, advice of counsel or otherwise) that it is not advisable or appropriate to register such shares of Class A Common Stock underlying such Warrants. In any such event (a) or (b), the Warrant Exercise Price underlying such Warrants will not decrease upon the failure to register with the SEC such underlying shares of Class A Common Stock if the SEC has declared effective a registration statement with respect to other shares of Class A Common Stock. See "Description of Warrants-- Registration Rights."

MANDATORY REDEMPTION

If a registration statement relating to the Class A Common Stock underlying the Warrants is not effective at any time on or prior to the Expiration Date, the Company is required to redeem all of the

outstanding Warrants for $2.20 per Warrant. The Redemption Price is subject to adjustment in certain limited circumstances. See "Description of the Warrants--Adjustments."

LISTING OF WARRANTS; REGISTRATION OF WARRANTS

The Company intends to seek to list the Warrants on a national securities exchange or to seek quotation of the Warrants on the automated quotation system of a national securities association (as such terms are defined in the Securities Act) and to simultaneously register the Warrants under the Securities Act. The Company intends to seek to obtain such listing on the AMEX or to obtain quotation of the Warrants on NASDAQ Small Cap. However, AMEX and NASDAQ Small Cap require a minimum number of holders of Warrants prior to listing or quotation, as the case may be, without a waiver. Since the Offering is being made to a limited number of persons in a private placement transaction, the AMEX or NASDAQ Small Cap may not agree to list or quote the Warrants, as the case may be. In such case, the Company intends to seek to list the Warrants on one of the Boston Stock Exchange, Midwest Stock Exchange, Pacific Stock Exchange or Philadelphia Stock Exchange. However, there can be no assurance that any of such stock exchanges will agree to list the Warrants since such exchanges also have minimum holder requirements for listing. If any of the above-exchanges agree to list the Warrants or the Warrants have been approved for quotation on NASDAQ Small Cap (a "Listing Approval"), the Company will file a shelf registration statement relating to the Warrants upon the later of (a) 300 days after the Closing Date and (b) the date approval of such listing or quotation is obtained (the "Approval Date") and will use its reasonable best efforts to cause such registration statement to become effective upon the later of (a) 365 days after the Closing Date and (b) 60 days after the Approval Date. Once effective, the Company will be obligated to use reasonable best efforts to cause the registration statement relating to the Warrants to remain effective until the date three years following the Closing Date.

RELEASE OF POTENTIAL CLAIMS

As consideration for the Warrants, each Investor in the Offering will be required to execute a Release which is included in the Confidential Subscription Documents. The Release must be executed by the beneficial holder of the Debentures as of June 3, 1994. The Company will require sufficient proof that the person executing the Release was the beneficial holder of the Debentures as of June 3, 1994. By executing a Release, an Investor in the Warrants will irrevocably and unconditionally release the Company and the Initial Purchasers, and their respective directors, officers, partners, employees, agents, legal representatives, heirs, executors, administrators, successors and assigns (collectively, the "Released Parties"), from liability for any and all potential claims, suits, actions or damages, if any, such Investor or such Investors, heirs, successors or assigns ever had, now have or hereafter can, shall or may have against any Released Party for, upon or by reason of any matter, cause or thing (whether now known or unknown), including, without limitation, any liability under federal or state statutory or common law, including without limitation, the Securities Act, the Exchange Act and state "blue sky" laws, relating to the Investor's investment in the Debentures through the date of the Release and the offering of the Debentures. Investors are hereby urged to read the Release for the exact terms thereof.

The Company makes no representation as to the claims, suits or actions, if any, that may be available to any offeree against the Released Parties with respect to its investment in the Debentures or the disclosures made by the Company in the offering memorandum relating to the Debentures or otherwise in connection with the Debentures and the Debenture Offering. The Company does not believe that there is any basis for any such claims and would vigorously defend any lawsuits arising out of such matters. If a court or jury were to decide that the Company violated the antifraud or other provisions of federal and state securities laws based upon disclosures made in connection with the Debenture Offering, the Company could be liable for monetary damages or equivalent remedies under federal and state law to persons investing in the Debenture Offering or persons purchasing Debentures

after the completion of the Debenture Offering and prior to the issuance of the Company's press release on June 3, 1994. By executing and delivering a Release to the Company, an investor in Warrants will have waived and relinquished all rights, if any, to bring any such action against any of the Released Parties, under any theory of liability, including any action for monetary damages or equivalent remedies.

Whether or not the Company obtains the Releases, the Company will retain its indemnification obligations to the Initial Purchasers under the underwriting agreement relating to the offering of the Debentures.

POTENTIAL INVESTORS ARE URGED TO CONSULT THEIR COUNSEL WITH RESPECT TO THE LEGAL EFFECTS OF AN INVESTMENT IN THE WARRANTS AND THE EXECUTION AND DELIVERY OF THE RELEASES. EACH INVESTOR IN THE WARRANTS WILL BE REQUIRED TO REPRESENT TO THE COMPANY THAT IT FULLY UNDERSTANDS AND ACKNOWLEDGES THE LEGAL CONSEQUENCES OF EXECUTING AND DELIVERING THE RELEASE TO THE COMPANY.

This Offering is not, and shall not be construed as, an admission by the Company or any of its officers, directors, employees or agents of any liability or responsibility for any losses any offeree may have incurred in connection with its investment in the Debentures, or an admission of a violation of any applicable federal or state law, statute, rule or regulation by the Company or any of its officers, directors, employees or agents, or as a waiver of any federal or state statute of limitation.

Offerees are under no obligation to invest in the Warrants. By rejecting the Offering of Warrants made hereby, an offeree will not prejudice any of its rights with respect to its investment in the Debentures. The terms of the Debentures will not change as a result of the Offering.

The Warrants offered hereby are being offered through the officers and directors of the Company who will not be compensated in connection with the procurement of subscriptions, but will be reimbursed for their reasonable out-of-pocket expenses, if any, incurred in connection with the Offering.

SHALAM OPTION

John J. Shalam has agreed to grant the Company an option (the "Shalam Option") to purchase shares of Class A Common Stock (the "Option Shares") at a purchase price equal to the sum of (a) the Warrant Exercise Price plus (b) an additional amount (the "Tax Amount") intended to reimburse Mr. Shalam or his Successors for any additional taxes per share which may be required to be paid by Mr. Shalam or his Successors as a result of the payment of the Warrant Exercise Price being treated for federal income tax purposes as the distribution to Mr. Shalam or his Successors of a dividend (taxed at ordinary income rates without consideration of Mr. Shalam's or his Successors', as the case may be, basis), rather than as a payment to Mr. Shalam or his Successors for the sale of his Class A Common Stock to the Company (taxed at the capital gains rate with consideration of Mr. Shalam's basis and considering any stepped up basis to Mr. Shalam's Successors) pursuant to the Shalam Option. If Mr. Shalam or his Successors, as a result of the receipt of the payment of the Warrant Exercise Price, are taxed at a capital gains rate (with consideration given to their stepped up basis), no Tax Amount will be included in the purchase price to be paid. Any Successor acquiring the shares of Class A Common Stock underlying the Shalam Option (whether by sale, transfer or upon Mr. Shalam's death), will acquire such shares subject to the terms of the Shalam Option. The terms of the Shalam Option (other than the initial exercise price) will be similar to those of the Warrants, however, the exercise price per share for the Shalam Option will not decrease in the event of a Registration Default. Such additional amount per

share shall be calculated in accordance with the tax rates applicable to the date of exercise in accordance with the following formula:

$$\frac{(A-B) \times C + (B \times D)}{1-A}$$

where A equals Mr. Shalam's combined marginal U.S. federal, state and local ordinary income tax rates after reduction of the federal rate for the benefit of the deductions for state and local taxes; B equals Mr. Shalam's combined marginal U.S. federal, state and local capital gains tax rates after reduction of the federal rate for the benefit of the deductions for state and local taxes; C equals the per share Warrant Exercise Price without giving effect to any adjustment thereof resulting from a Registration Default; and D equals Shalam's per share adjusted tax basis in the Class A Common Stock purchasable by the Company pursuant to the Shalam Option and includes any stepped-up basis of Mr. Shalam's Successors. Any payment owing to Mr. Shalam's Successors will be based on the same formula as it relates to such Successors.

The Shalam Option will be exercisable, in whole or in part, for a number of shares equal to the aggregate number of shares purchasable under the Warrants on the Closing Date. The basic terms of the Shalam Option will be similar to the basic terms of the Warrants; provided that the exercise price of the Shalam Option will not be reduced in the event of a Registration Default. The Company is not required to exercise the Shalam Option upon exercise of the Warrants and intends to do so only if the Board of Directors of the Company (other than Mr. Shalam) at the time of exercise of the Warrants, determines that it is in the best interests of the stockholders of the Company to exercise such Shalam Option. The Company will be able to exercise the Shalam Option only if the Warrants are exercised and then only for the same number of shares as are purchased under the Warrants. The Shalam Option may limit the dilutive effect of the Warrants on the earnings per share or the book value per share if the Company elects to execute the Shalam Option. The obligations of the Company under the Warrants are not subject to compliance by Mr. Shalam with the terms of the Shalam Option. The Tax Amount will be immediately due and payable upon receipt of a satisfactory notice from the holder of the Option Shares stating that a Tax Amount is required to reimburse such person for additional taxes in accordance with the Shalam Option, setting forth the calculation of the Tax Amount and confirming that such person will file its tax return with respect to this period in accordance with the facts underlying this calculation, but such Tax Amount is subject to readjustment in the event the actual tax paid is different than the amount set forth in the notice. Upon consummation of the Offering, a legend will be placed on a number of Option Shares equal to the number of shares of Class A Common Stock underlying Warrants granted in the Offering which will provide that such shares are subject to the terms of the Shalam Option. Such legend on the Option Shares will be removed with respect to the number of Option Shares equal to the number of shares of Class A Common Stock underlying the Warrants which have been exercised or with respect to which the independent members of the Board of Directors of the Company have determined not to exercise the Shalam Option.

PRICE RANGE OF CLASS A COMMON STOCK

The Company's Class A Common Stock is traded on the American Stock Exchange (ticker symbol: VOX). The following table sets forth the high and low sale prices of the Class A Common Stock, as reported by the American Stock Exchange, for the periods indicated:

FISCAL PERIOD	HIGH	LOW
1992		
First Quarter	$2 3/8	$ 1 3/8
Second Quarter	4	1 3/4
Third Quarter	4 1/8	2 5/8
Fourth Quarter	6 1/8	3 1/4
1993		
First Quarter	9 5/8	5 5/8
Second Quarter	12 5/8	7 1/8
Third Quarter	14 5/8	10 1/4
Fourth Quarter	18 3/8	12
1994		
First Quarter	18 3/8	14 1/4
Second Quarter	16	11 7/8
Third Quarter	12 3/4	6 1/4
Fourth Quarter	9 3/8	6 3/4
1995		
First Quarter	8 1/2	6 3/8
Second Quarter (through April 11, 1995)	7	6 1/4

On April 11, 1995, the closing sale price of the Class A Common Stock, as reported by the American Stock Exchange, was $6 5/8 per share. As of March 27, 1995, the Company had approximately 2,025 holders of record of its Class A Common Stock and five holders of record of its Class B Common Stock.

DIVIDEND POLICY

The Company has never declared or paid cash dividends on its Common Stock. The Company intends to follow a policy of retaining earnings, if any, to finance the growth of its business and does not anticipate paying any cash dividends in the foreseeable future. The Amended and Restated Credit Agreement contains covenants prohibiting the payment of dividends. See "Risk Factors--Restrictive Covenants."

USE OF PROCEEDS

The Company will not receive any cash proceeds from the sale of Warrants. The proceeds received by the Company upon exercise of the Warrants will be used toward the purchase of shares of Class A Common Stock upon exercise the Shalam Option or, if the Board of Directors determines it is in the best interest of the Company not to exercise the Shalam Option, as and if received by the Company, to purchase inventory and for other working capital or general corporate needs. See "The Offering-- Shalam Option."

CAPITALIZATION

The following table sets forth the current maturities of long-term debt, short-term debt and capitalization of the Company as of February 28, 1995. The information presented below should be read in conjunction with the consolidated financial statements thereto appearing elsewhere in this Offering Memorandum.

	ACTUAL	PRO FORMA FOR WARRANT OFFERING
	FEBRUARY 28, 1995	FEBRUARY 28, 1995
	(UNAUDITED) (IN THOUSANDS)	
Short-term debt and current maturities of long-term debt:		
Bank obligations	$27,834	$27,834
Convertible debentures due 1996	5,462	5,462
Other	159	159
Total	33,455	33,455
Long-term debt, less current maturities:		
Convertible subordinated debentures due 2001	65,000	65,000
Other	5,327	5,327
Total	70,327	70,327
Stockholders' equity:		
Preferred stock, 50,000 shares authorized, issued and outstanding	2,500	2,500
Common stock:		
Class A common stock; 30,000,000 shares authorized, 6,777,788 issued and outstanding (1)	68	68
Class B common stock; 10,000,000 shares authorized, 2,260,954 issued and outstanding	22	22
Paid-in capital (2)	39,814	42,816
Retained earnings (2)	50,790	47,788
Cumulative equity adjustments from foreign currency translation	(534)	(534)
Total capitalization	$92,660	$92,660

- ------------

(1) Excludes up to:

(i) 970,500 shares of Class A Common Stock issuable upon the exercise of options granted or eligible to be granted pursuant to the Company's 1994 and 1993 Stock Option Plans, 1987 Restricted Stock Plan, as amended, and 1987 Stock Option Plan, in connection with which options and restricted stock grants for 375,800 shares were outstanding (125,000 of which were presently exercisable and vested) and 594,700 shares were available to be granted as of February 28, 1995.

(ii) 50,000 shares of Class A Common Stock issuable upon exercise of stock warrants granted in connection with the acquisition of a 100% interest in a joint venture, of which no shares have been issued as of the date of this Offering Memorandum. See "Certain Transactions--H & H Eastern Distributors, Inc."

(iii) 1,023,028 shares of Class A Common Stock issuable upon conversion of the Series AA Convertible Debentures and Series B Convertible Debentures, of which no shares have been issued as of the date of this Offering Memorandum.

(iv) 3,672,316 shares of Class A Common Stock issuable upon conversion of the Debentures, of which no shares have been issued as of the date of this Offering Memorandum.

(v) Includes 100,000 shares of Class A Common Stock issuable upon exercise of presently exercisable stock warrants granted pursuant to a consulting agreement, of which no shares have been issued as of the date of this Offering Memorandum. See "Certain Transactions--Consulting Agreement."

(2) The pro forma as adjusted calculations reflect the issuance of 1,365,000 Warrants as if such transaction had occurred on February 28, 1995. Accordingly, retained earnings and paid in capital have been adjusted for the estimated effect of the issuance of the Warrants.

SELECTED CONSOLIDATED FINANCIAL DATA

The selected consolidated financial data for the fiscal years ended November 30, 1992, 1993 and 1994 have been derived from the audited financial statements of the Company for the periods then ended appearing elsewhere in this Offering Memorandum. The selected consolidated financial data for the fiscal years ended November 30, 1990 and 1991 have been derived from the audited financial statements for the periods then ended previously issued by the Company. The data for the first quarters ended February 28, 1994 and February 28, 1995 is unaudited. The data presented below should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the Consolidated Financial Statements, and related Notes thereto and other financial information including elsewhere in this Offering Memorandum. Certain reclassifications have been made to the data for periods prior to fiscal 1994 in order to conform to the fiscal 1994 presentation.

	FISCAL YEARS ENDED NOVEMBER 30,					THREE MONTHS ENDED FEBRUARY 28, (UNAUDITED)	
	1990	1991	1992	1993	1994	1994	1995
STATEMENT OF OPERATIONS DATA:							
Net sales	$308,147	$327,966	$343,905	$389,038	$486,448	$115,337	$131,391
Cost of sales	256,228	279,734	284,904	314,118	401,537	93,159	108,805
Gross profit	51,919	48,232	59,001	74,920	84,911	22,178	22,586
Operating expenses:							
Selling, general and administrative,warehousing, assembly and repair	54,570	55,413	50,248	59,766	74,425	16,950	20,723
Restructuring and other charges	--	5,048(1)	--	--	--	--	--
	54,570	60,461	50,248	59,766	74,425	16,950	20,723
Operating income (loss)	(2,651)	(12,229)	8,753	15,154	10,486	5,228	1,863
Other income (expenses):							
Interest and other bank charges	(5,580)	(7,406)	(6,686)	(6,504)	(6,535)	(1,523)	(2,050)
Equity in income of equity investments	44	461	1,177	4,948	3,748	685	1,187
Management fees and related income	3,435	4,684	4,933	1,903	1,543	210	396
Gain on sale of equity investment	--	--	--	--	27,783	27,783	--
Gain on public offering of equity investment	--	--	--	--	10,565	10,565	--
Other, net	(40)	(608)	137	(259)	(1,056)	(308)	(313)
	(2,141)	(2,869)	(439)	88	36,048	37,412	(780)
Income (loss) before provision for (recovery of) income taxes, extraordinary item, and cumulative effect of a change in an accounting principle	(4,792)	(15,098)	8,314	15,242	46,534	42,640	1,083
Provision for (recovery of) income taxes	(1,600)	(440)	2,495	5,191	20,328	18,477	547
Income (loss) before extraordinary item and cumulative effect of a change in an accounting principle	(3,192)	(14,658)	5,819	10,051	26,206	24,163	536
Extraordinary items-tax benefits from utilization of net operating loss carryforwards	--	--	1,851	2,173	--	--	--
Cumulative effect of change in accounting for income taxes	--	--	--	--	(178)	(178)	--
Net income (loss)	$ (3,192)	$(14,658)	$ 7,670	$ 12,224	$ 26,028	$ 23,985	$ 536
PER SHARE OF COMMON STOCK (2):							
Net income (loss) per common share (primary):							
Income (loss) before extraordinary item	$ (0.35)	$ (1.63)	$ 0.64	$ 1.11	$ 2.88	$ 2.63	$ 0.06
Extraordinary item	--	--	$ 0.21	$ 0.24	--	--	--
Cumulative effect of change in accounting for income taxes	--	--	--	--	$ (0.02)	$ (0.02)	--
Net income (loss)	$ (0.35)	$ (1.63)	$ 0.85	$ 1.35	$ 2.86	$ 2.61	$ 0.06
Net income (loss) per common share (fully diluted):							
Income before extraordinary							

item	--	--	--	$ 1.03	$ 2.21	$ 2.38	$ 0.06
Extraordinary item	--	--	--	$ 0.22	--	--	
Cumulative effect of change in accounting for income taxes	--	--	--	--	$ (0.01)	$ (0.02)	--
Net income (loss)	--	--	--	$ 1.25	$ 2.20	$ 2.36	$ 0.06

	NOVEMBER 30,					FEB 28, (UNAUDITED)	
	1990	1991	1992	1993	1994	1994	1995
BALANCE SHEET DATA:							
Cash and cash equivalents	$ 4,747	$ 5,653	$ 2,686	$ 1,372	$ 5,495	$ 1,441	$ 3,547
Total current assets	131,551	124,610	124,014	153,377	191,479	153,604	196,430
Total assets	142,834	137,082	145,917	169,671	239,098	179,652	245,098
Total current liabilities	52,219	30,391	37,061	90,226	36,228	79,104	75,832
Long term debt	29,075	59,912	55,335	13,610	75,653	5,735	70,327
Other liabilities and minority interests	78	83	64	42	35,183	4,907	6,279
Stockholders' equity	61,462	46,696	53,457	65,793	92,034	89,906	92,660

- ------------

(1) See "Management's Discussion and Analysis of Financial Condition and Results of Operations Corporate Restructuring."

(2) See Note 1(g) of Notes to Consolidated Financial Statements.

OVERVIEW

The Company's operations are conducted in a single business segment encompassing three principal product lines: cellular, automotive sound equipment, and automotive security and accessory equipment.

The Company's wholesale cellular operations generate revenue from the sale of cellular telephones and accessories. The Company's retail outlets typically generate revenue from three sources: (i) the sale of cellular telephones and related products, (ii) activation commissions paid to the Company by cellular telephone carriers when a customer initially subscribes for cellular service and (iii) monthly residual fees. The price at which the Company's retail outlets sell cellular telephones is often affected by the amount of the activation commission the Company will receive in connection with such sale. The amount of 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 Company's automotive sound product line includes stereo cassette radios, compact disc players and changers, speakers and amplifiers. The automotive security and accessory line consists of automotive security products, such as alarm systems, and power accessories, including cruise controls and power doorlocks.

Historically, the Company has been dependent on Japanese suppliers, particularly Toshiba, for its cellular products. In 1994 and 1995, the United States government announced proposed trade sanctions on cellular products imported from foreign countries, particularly Japan and China. Although the United States government has not implemented such proposed trade sanctions, as the Company sources a majority of its cellular products from Japan and China, if such trade sanctions (or trade sanctions on other of the Company's products) were to be imposed, there is no assurance that the Company will be able to obtain adequate alternatives to its Japanese supply sources. The Company is considering sourcing products from several countries. Such purchases would be subject to the risks of purchasing products from foreign suppliers. See "Risk Factors--United States Trade Sanctions Could Limit the Company's Sources of Supply," "--No Assurance of Alternative Supply Sources", "--Dependence on Foreign Suppliers" and "--Dependence on Toshiba."

Certain reclassifications have been made to the data for periods prior to fiscal 1994 in order to conform to fiscal 1994 presentation. The net sales and percentage of net sales by product line for the fiscal years ended November 30, 1992, 1993 and 1994 are reflected in the following table:

	YEARS ENDED NOVEMBER 30,					
	1992		1993		1994	
	(DOLLARS IN THOUSANDS)					
Cellular Product--Wholesale	$165,479	48%	$189,636	49%	$237,566	49%
Cellular Product--Retail	8,027	2	12,281	3	18,198	3
Activation Commissions	19,209	6	27,504	7	47,788	10
Residual Fees	2,260	1	2,646	1	4,005	1
Total Cellular	194,975	57	232,067	60	307,557	63
Automotive Sound Equipment	89,680	26	94,674	24	112,512	23
Automotive Security and Accessory Equipment	53,057	15	57,025	15	64,040	13
Other	6,193	2	5,272	1	2,339	1
Total	$343,905	100%	$389,038	100%	$486,448	100%

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

	PERCENTAGE OF NET SALES				
	YEARS ENDED NOVEMBER 30,			THREE MONTHS ENDED FEBRUARY28,	
	1992	1993	1994	1994	1995
Net sales:					
Net product sales	93.7%	92.3%	89.4%	86.1%	89.0%
Cellular telephone activation commissions	5.6	7.0	9.8	13.2	10.2
Cellular telephone residual fees	0.7	0.7	0.8	0.7	0.8
Net sales	100.0	100.0	100.0	100.0	100.0
Cost of sales	82.8	80.7	82.5	80.7	82.8
Gross profit	17.2	19.3	17.5	19.2	17.2
Selling expense	4.9	6.0	6.6	6.5	6.9
General and administrative expense	7.3	7.2	6.8	6.4	7.0
Warehousing, assembly and repair expense	2.4	2.2	1.9	1.8	1.9
Operating income	2.6	3.9	2.2	4.5	1.4
Interest expense	1.9	1.7	1.3	1.3	1.6
Income of equity investments	0.3	1.3	0.8	0.6	0.9
Management fees	1.4	0.5	0.3	0.2	0.3
Gain on sale of equity investment	--	--	5.7	24.1	--
Gain on public offering of equity investment	--	--	2.2	9.2	--
Other expenses, net	--	0.1	0.2	0.3	0.2
Income taxes	0.2	0.8	4.2	16.0	0.4
Net income	2.2	3.2	5.4	20.8	0.4

CORPORATE RESTRUCTURING

Prior to December 1, 1991, the Company managed its distribution and marketing by geographic district. For this purpose, the Company divided the areas in which it did business into one international and ten United States districts, and maintained a separate staff for each such district. This system was implemented in the early 1970's, at a time when a significant portion of the Company's sales involved products, such as automotive sound equipment, which required installation by the Company's customers. Because such customers typically did not keep significant quantities of the Company's products on-site at their installation facilities, it was necessary for the Company to store products in diverse locations near the customers' facilities in order to supply products to these customers on a timely basis. In addition, marketing, inventory storage and distribution were done regionally because the Company lacked the management information system capability to perform such tasks on a centralized basis.

Because each region had its own administrative and operations personnel, this geographic management system gave rise to duplicative overhead costs and, as the Company grew, an absence of efficient centralized control. In addition, the sales compensation system then in place gave regional sales personnel an incentive to focus on sales of higher priced, but lower margin, products.

In the late 1980's, demand for the Company's products began to shift and its methods of distribution began to change. Automobile manufacturers increased competition by making higher quality automobile sound systems available to their dealers, causing the Company to focus more on sales of both customer-installed and high-end automotive sound products. In addition, sales of cellular telephones became more significant. As a result of this shift in the Company's product mix, sales to lower volume customers such as automotive sound equipment installers decreased while sales to high volume customers such as the BOCs and mass merchandisers increased. As this shift in demand for the

Company's products continued, it became more efficient for the Company to consolidate its distribution operations, utilizing a smaller number of larger volume distribution centers. At this time, however, the Company did not have sufficient management information system capability to effectively manage its inventory distribution on a centralized basis. Accordingly, the Company continued to operate under the existing distribution methods while planning for a shift to a centralized system.

This planning, which commenced in 1988, resulted in the implementation, beginning in 1990, of a new management information system which permitted the Company to manage its inventory on a real-time basis. The full activation of this system on December 1, 1990 permitted the Company to consolidate its inventory locations from 16 primary distribution points to four, which in turn resulted in increased inventory turns, reduced financing requirements and improved customer order fill rates. The improved management information system also allowed the Company to shift its focus to a product based, rather than a geographically based, structure by allowing the Company to divisionalize reporting and separately measure profitability for its cellular, automotive sound and security, and retail operational areas. See "Business--Management Information System." The cellular operation focuses primarily on the wholesale distribution of cellular telephones and accessories. The automotive sound and security operation focuses on the marketing of automotive sound and security products to independent distributors, car dealers, retailers, mass merchandisers and warehouse club customers. The retail operation focuses on the marketing of cellular telephone and accessory products to the consumer and the activation of cellular subscribers.

In connection with the implementation of this product division management program, in 1991, the Company experienced a net loss of approximately $14,658,000. This loss was primarily attributable to both the restructuring of the Company's operations and the termination of the Hermes and Park Plus ventures and included (i) charges of approximately $5,048,000 incurred in connection with such restructuring and termination, (ii) final operating losses for Hermes and Park Plus of approximately $2,712,000 and $759,000, respectively and (iii) the Company's operating loss of approximately $6,139,000, which was primarily due to lower gross profit margins and increased provisions for bad debts, inventory write-downs and warranty repair charges. The Park Plus joint venture never became profitable, principally due to the relatively high unit cost of the mechanical parking equipment being sold and the general economic and real estate market downturns that occurred in the late 1980's, which impeded demand for such products. The Hermes operation was unsuccessful, due primarily to technical problems in the performance of the lower priced cellular telephones that it was distributing. The Company discontinued both of these ventures on November 30, 1991. Since that time, the Company has enhanced it's quality control and engineering capabilities. See "Business--Products."

By December 1, 1991, the implementation of the product division management system was complete and the Company had downsized its distribution network and reduced its personnel head count by 121 persons to reflect the new operational structure. As of November 30, 1994, the Company had been profitable during each fiscal quarter since December 1, 1991. See Note 2 of Notes to Consolidated Financial Statements.

RESULTS OF OPERATIONS

FIRST QUARTER FISCAL 1995 VS. FIRST QUARTER FISCAL 1994

Net sales increased $16.1 million or 13.9% for the three month period ended February 28, 1995 compared to the same period last year. This increase was attributable to increases in cellular ($14.8 million or 19.1%), automotive sound equipment ($1.8 million or 7.9%) and automotive accessories of $1.2 million (8.9%). There was a decrease in other sales, primarily consumer electronics, of $1.7 million or 100.0% for the three month period as the Company has discontinued the sale of facsimile machines.

The wholesale business increased 22.2% or $19.7 million which was partially offset by a $3.6 million decline (13.7%) in the retail business.

The improvement in cellular revenues was a combination of increased unit sales and residuals, partially offset by a decrease in activation commissions. Unit sales of cellular telephones increased by 97,000 (49%) from 201,000 for the three month period ended February 28, 1995 from the respective period in 1994, primarily in the portable telephone lines, although there was a slowdown in sales growth during the latter part of the quarter. This increase was partially offset by decreases in the sales of installed mobile and transportable telephones. The average revenue per unit decreased approximately 13% for the three month period compared to last year. This decrease in unit selling price is primarily attributable to increased market competition in hand-held portable cellular telephones and the introduction of lower priced hand-held portables by competitors. During the first quarter, one of the Company's major competitors over-produced product in anticipation of strong sales during the Christmas season. As a result, this competitor reduced their selling prices in order to relieve its inventory over-supply situation. This put additional pressure on the market which further affected the Company's unit selling prices of cellular telephones. The Company believes this over-supply of cellular telephones in the U.S. will continue to affect its performance in the second quarter. However, the Company believes this over-supply will begin to dissipate and the market will regain its balance during the second half of the fiscal year. As a result of continuing market competition, unit sales prices and average activation commissions are anticipated to continue to decline in fiscal 1995.

Cellular revenues for activations decreased by $1.8 million (11.7%) for the three month period ended February 28, 1995 compared to the same period in 1994. This decrease was primarily attributable to an 8% decrease in the Company's average payment received from the carriers for activation commissions compared to 1994. In addition, there was a 4% decrease in new cellular subscriber activations. The reduction in activation commission revenue was partially offset by increased residual revenues on customer phone usage of approximately 40.2%.

Sales of automotive sound equipment for the quarter ended February 28, 1995 increased to $24.5 million from $22.7 million for the same period in 1994 or 7.9%. The increase was primarily in the Prestige, Heavy Duty Sound, Private Label and non-Audiovox categories. Automotive accessories sales increased $1.2 million (8.9%) for the three month period ended February 28, 1995 compared to 1994, principally due to increases in the Prestige and Protector product lines, partially offset by decreases in AA security products. The Company believes there will not be any growth in consumer electronics sales in 1995 as the Company has discontinued its facsimile machine product line.

Gross margins for the quarter ended February 28, 1995 decreased to 17.2% from 19.2% for the same period in 1994. This decline in margins is principally due to a decrease in the cellular product line, partially offset by increases in automotive sound and accessories. The gross margins in the wholesale business decreased from 14.6% to 13.6%, principally in the cellular wholesale business. The retail gross margins also declined slightly compared to last year. The decrease in cellular margins is a result of the decline in the selling price of portable telephones due to increased competition and introduction of lower priced products. The decrease in retail gross margins was primarily due to the aforementioned loss of activation commissions partially offset by residual revenues of customer usage. During the first quarter of 1995, in an effort to maintain market share, the Company reduced the selling prices of available models to meet the competition. Cellular margins were further affected by additional promotions by the Quintex retail group to increase sales.

Automotive sound margins increased from 20.8% for the first quarter of 1994 to 22.0% in 1995. The AV product line experienced a decrease in margins which was offset by an increase in Heavy Duty Sound. Automotive accessory margins increased to 28.4% from 27.9% for the three month period, primarily in the Prestige and Hardgoods product lines, partially offset by a decrease in margins in AA security products. The Company operates in a highly-competitive environment and believes that such

competition will intensify in the future. Increased price competition relating to products and services provided to the Company's retail customers on behalf of cellular carriers may result in downward pressure on the Company's gross profit margins. See "Risk Factors--Competition."

Total operating expenses increased by approximately $3.8 million or 22.3% for the three month period ended February 28, 1995 compared to the respective period in 1994. Of this increase, $2.1 million (55%) was experienced in the wholesale business and $1.7 million (45%) was in the retail business. Warehousing, manufacturing, and repair expenses increased by $402,000 or 19.4% ($289,000 in wholesale, $113,000 in retail) for the three month period ended February 28, 1995, due to increases in field warehousing costs, principally due to increased inventory levels and sales volume and payroll taxes and benefits, partially offset by reductions in warehouse production expenses. Selling expenses increased by $1.6 million or 21.0% ($173,000 in wholesale, $1.4 million in retail) for the three month period ended February 28, 1995 over the prior year comparable period due to increases in advertising, commissions paid to outside sales representatives, salesmen's salaries, and payroll taxes and benefits. General and administrative expenses increased by $1.8 million or 24.3% ($1.6 million in wholesale, $149,000 in retail) for the three month period ended February 28, 1995 over respective period in 1994, resulting from increases in occupancy costs primarily associated with the retail expansion, professional fees and provision for bad debt. The Company has increased its provision for bad debt based upon its evaluation of its accounts receivable considering current and potential market conditions.

Net interest expense and bank charges increased by $527,000 or 34.6% for the three month period ended February 28, 1995, compared to the respective period of 1994 as a result of an increase in interest costs from increased borrowing. Management fees and related income and equity in income from joint venture investments decreased by approximately $9.9 million for the three-month period ended February 28, 1995, as compared to the same period of 1994, principally due to 1994's increase in the carrying value of the investment in CellStar after their public offering. See "Certain Transactions--CellStar."

For the three months ended February 28, 1995 and 1994, the Company recorded an income tax provision of $547,000 as compared to a provision of $18.5 million, respectively. The first quarter of 1994 was higher due to the aforementioned CellStar transaction and higher operating profits.

FISCAL 1994 COMPARED TO FISCAL 1993

Net sales increased by approximately $97.4 million, or 25.0% for fiscal 1994, compared to fiscal 1993. This result was primarily attributable to increases in net sales from cellular telephone products of approximately $75.5 million, or 32.5%, automotive sound equipment of approximately $17.8 million, or 18.8%, and automotive security and accessory equipment of approximately $7.0 million, or 12.3%. These increases were partially offset by a decline in net sales attributable to facsimile machines of approximately $2.9 million, or 55.6%.

The improvement in net sales of cellular telephone products was primarily attributable to a combination of increased unit sales and activation commissions. Net sales of cellular products increased by approximately 325,450 units, or 65.0%, compared to fiscal 1993, 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 18.2% vs. 1993 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 MinivoxTM and Minivox Lite(R) 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.

The number of activation commissions increased 84.2% over fiscal 1993. Activation commissions increased by approximately $20.3 million, or 73.8%, for fiscal 1994, compared to fiscal 1993. This growth was primarily attributable to the increase in new cellular subscriber activations, partially due to the net addition of 30 retail outlets operated by the Company, the acquisition of H&H and one new retail outlet operated by licensees of the Company during the twelve-month period ended November 30, 1994. This increase in commission revenue was partially offset by a 5.7% decrease in average activation commissions paid to the Company. Residual revenues on customer usage increased by approximately $1.4 million, or 51.4%, for fiscal 1994, compared to fiscal 1993, due primarily to the addition of new subscribers to the Company's subscriber base.

Net sales of automotive sound equipment increased by approximately $17.8 million, or 18.8%, for fiscal 1994, compared to fiscal 1993. This increase was attributable primarily to an increase in sales of high-end sound products, products sold to mass merchandise chains and new car dealers, and products used in the truck and agricultural vehicle markets, which was partially offset by decreases in auto sound sales to private label customers and several OEM accounts. Net sales of automotive security and accessory products increased approximately $7.0 million, or 12.3%, for fiscal 1994, compared to fiscal 1993, principally due to increases in sales of vehicle security products. This increase was partially offset by a reduction in net sales by the Company of cruise controls and recreational vehicle equipment and accessories.

Gross margins decreased to 17.5% in fiscal 1994 from 19.3% for fiscal 1993. This decrease was primarily due to the shift in the Company's product mix to a greater percentage of low-cost, high-volume portable cellular telephones. Additionally, cellular gross margins were adversely affected by price competition with Motorola and Nokia which developed during the latter part of the second quarter of 1994 and intensified during the remainder of the year. Cellular gross margins were further affected by costs incurred in connection with the return to the vendor of product that did not perform satisfactorily. See "Risk Factors--Competition." Retail gross margins declined from 37.2% to 35.5% as a result of reduced average activation commissions during fiscal 1994. This was partially offset by an increase in residual payments. Automotive sound equipment margins decreased across all product lines and automotive security and accessory product margins showed a moderate increase for fiscal 1994 compared to fiscal 1993. The Company operates in a highly-competitive environment and believes that such competition will intensify in the future. Increased price competition relating to products and services provided to the Company's retail customers on behalf of cellular carriers, may result in downward pressure on the Company's gross margins.

Total operating expenses increased by approximately $14.7 million, or 24.5%, for fiscal 1994, compared to fiscal 1993. Of the $14.7 million increase in total operating expenses, $10.8 million (73.5%) was from retail operations. This increase was due to the expansion of the retail division and the acquisition of the remaining 50% interest in H&H. Total operating expenses as a percentage of sales remained essentially unchanged at 15.3% for fiscal 1994 compared to fiscal 1993.

Selling expenses increased by approximately $8.7 million, or 37.7%, for fiscal 1994 compared to fiscal 1993, primarily due to increases in marketing support costs (which include expenditures for sales literature, promotion of products in key market areas, and divisional marketing expenses), salespersons' compensation and commissions paid to outside sales representatives primarily due to increases in commissionable sales. The Company has adopted a strategy for the wholesale business of increasing marketing support expenditures in order to accelerate sales growth. The retail division accounted for $5.8 million (66.0%) of the increase over fiscal 1993. Selling expense as a percentage of net sales increased from 6.0% for fiscal 1993 to 6.6% for fiscal 1994.

General and administrative expenses increased by approximately $5.0 million, or 17.9%, for fiscal 1994 compared to fiscal 1993, largely as the result of increases in the number of personnel required for the opening and operation of additional retail outlets, partially offset by a decrease in the provision for

bad debt expense, which was primarily attributable to increased collection efforts and an improvement in the credit quality of the Company's customer base. Employee benefit costs also increased, reflecting the continuing rise in health benefit costs. Other increases in general and administrative expenses occurred in travel, occupancy and insurance expenses. These increases were partially offset by decreases in professional fees and costs associated with the Company's overseas buying offices. The retail division accounted for $4.4 million (88.4%) of the increase over fiscal 1993.

Warehousing, assembly and repair expenses increased by approximately $907,000, or 10.7%, for fiscal 1994 compared to fiscal 1993, largely due to increases in costs attributable to direct labor, principally due to the retail and cellular divisions. The retail division accounted for $628,000 (69.2%) of the increase over fiscal 1993.

Management fees and related income and equity in income (loss) of equity investments for 1994 (See "Business-- Equity Investments.") increased by approximately $9.0 million (131%) over fiscal 1993 as outlined in the following table:

	1993			1994		
	MANAGEMENT FEES	EQUITY INCOME (LOSS)	TOTAL	MANAGEMENT FEES	EQUITY INCOME (LOSS)	TOTAL
CellStar	$1,220	$3,927	$5,147	$--	$13,958	$13,958
ASM	--	841	841	--	932	932
H & H	70	(6)	64	--	--	--
Pacific	613	186	799	435	242	677
Protector	--	--	--	1,108	--	1,108
TALK	--	--	--	--	(819)	(819)
	$1,903	$4,948	$6,851	$1,543	$14,313	$15,856

The increase in CellStar was due to the increase in carrying value of the Company's remaining investment in CellStar, partially offset by the suspension of management fees. The increase in ASM was due to an increase in sales and profitability by the venture. The decrease in H&H was due to this entity now being a wholly-owned subsidiary of the Company and, therefore, being included in the consolidated reporting of the Company for 1994. The decrease in Audiovox Pacific was due to an overall decline in gross profits as the market in Australia became more competitive.

Previously, Protector has been unprofitable and the investment on the Company's books was written off prior to 1987. The Company continued to support Protector through various marketing programs, but was unable to be reimbursed by the Company for these services through a management fee. Protector had funded its chemical treatment product warranty programs through insurance policies (cash collateralized) for each of the warranty periods. During 1994, the warranty obligations for certain warranty periods had been fulfilled and excess funds became available. Protector approved a partial payment to the Company for its prior support, which was recorded by the Company in November 1994.

TALK Corporation commenced operations in October 1994. From October 1994 through November 1994, all activity recorded by TALK Corporation was related to start-up operations. The Company believes that, as a new operation, there will be additional start-up costs for TALK Corporation during 1995.

Other expenses increased by approximately $797,000 for fiscal 1994 compared to fiscal 1993, primarily due to an increase in debt amortization costs and a reduction in interest income.

Net interest and bank charges increased by approximately $31,000, or 0.5%, for fiscal 1994, compared to fiscal 1993. Even though interest rates have increased, the Company's interest expense was favorably impacted by the newly issued $65 million, 6 1/4% debenture.

For fiscal 1994, the Company's provision for income tax was approximately $20.3 million, compared to a provision of approximately $5.2 million for fiscal 1993. The increase in the effective tax rate was primarily due to the undistributed earnings from equity investments. See Note 10 of Notes to Consolidated Financial Statements.

FISCAL 1993 COMPARED TO FISCAL 1992

Net sales increased by approximately $45.1 million, or 13.1% for fiscal 1993, compared to fiscal 1992. This result was primarily attributable to increases in net sales from cellular telephones of approximately $37.1 million, or 19.0%, automotive sound equipment of approximately $5.0 million, or 5.6%, and automotive security and accessory equipment of approximately $4.0 million, or 7.5%. These increases were partially offset by a decline in net sales attributable to facsimile machines of approximately $921,000, or 14.9%.

The improvement in net sales of cellular telephone products was primarily attributable to a combination of increased unit sales and activation commissions. Net sales of cellular products increased by approximately 102,700 units, or 21.5%, compared to fiscal 1992, primarily resulting from the introduction of the Minivox Lite(R) series of hand-held portable cellular telephones and increased sales of transportable "bag" cellular telephones, partially offset by a decline in sales of installed mobile cellular telephones. The average unit selling price was relatively consistent, as the continued shift toward sales of higher-priced hand-held portable cellular telephone products substantially offset a continued decline in cellular telephone prices throughout the period. 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(R) 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. Unit sales in the fourth quarter reflect a slower rate of growth as the introduction of the new Minivox MVX 525, slated for introduction in September, 1993, was delayed until November, 1993.

Activation commissions and residual fees increased by approximately $8.7 million, or 40.4%, for fiscal 1993, compared to fiscal 1992. This growth was primarily attributable to the increase in new cellular subscriber activations, partially due to the addition of 26 new retail outlets operated by the Company and 19 new retail outlets operated by licensees of the Company during the twelve-month period ended November 30, 1993. Residual revenues on customer usage increased by approximately $386,000, or 17.1%, for fiscal 1993, compared to fiscal 1992, due primarily to the addition of new subscribers to the Company's subscriber base.

Net sales of automotive sound equipment increased by approximately $5.0 million, or 5.6%, for fiscal 1993, compared to fiscal 1992. This increase was attributable primarily to an increase in sales of high-end sound products and products used in the truck and agricultural vehicle markets, which was partially offset by decreases in auto sound sales to new car dealers and the discontinuance of two of the Company's automotive sound product lines. Net sales of automotive security and accessory products increased approximately $4.0 million, or 7.5%, for fiscal 1993, compared to fiscal 1992, principally due to increases in sales of vehicle security products. This increase was partially offset by a reduction in net sales by the Company of video cassette players and television and related accessories which occurred in connection with the establishment by the Company and Automotive Sound & Accessories Company in January 1992 of a joint venture to sell these products to the recreational vehicle, van and marine markets. Net sales attributable to sales by the Company's joint ventures are not reflected in net sales but rather, the Company's pro rata share of equity in a joint venture's income is included in equity in income of equity investments, which is discussed below. Accordingly, upon formation of such joint venture, the Company no longer reported sales of video cassette players and related accessories.

Gross margins increased to 19.3% in fiscal 1993 from 17.2% for fiscal 1992. This increase was primarily due to the shift in the Company's product mix to a greater percentage of portable cellular telephones (primarily the Minivox Lite(R) series) which typically carry higher margins, higher activation commissions and increased income from residual payments. Cellular margin increases were partially offset by the delayed introduction of the Company's new Minivox MVX 525 which was introduced in November 1993, rather than September 1993, as planned. Imposition of the trade sanctions first threatened in fiscal 1993 would have a material adverse effect on the Company's cellular product margins. See "Risk Factors--Threatened United States Trade Sanctions Could Limit the Company's Sources of Supply," "--No Assurance of Alternative Supply Sources," "--Risks of Currency Fluctuations" and Dependence of Foreign Suppliers." Automotive sound equipment margins were relatively consistent and automotive security and accessory product margins showed a moderate increase for fiscal 1993 compared to fiscal 1992. The Company operates in a highly-competitive environment and believes that such competition will intensify in the future. Increased price competition relating to products and services provided to the Company's retail customers on behalf of cellular carriers, may result in downward pressure on the Company's gross margins. See "Risk Factors--Competition."

Total operating expenses increased by approximately $9.5 million, or 18.9%, for fiscal 1993, compared to fiscal 1992. Total operating expenses as a percentage of sales increased from 14.6% for fiscal 1992 to 15.4% for fiscal 1993. These increases were principally attributable to increased selling expenses.

Selling expenses increased by approximately $6.5 million, or 38.9%, for fiscal 1993 compared to fiscal 1992, primarily due to increases in marketing support costs (which include expenditures for sales literature and promotion of products in key market areas), salespersons' compensation and commissions paid to outside sales representatives primarily due to increases in commissionable sales. After the Company's return to profitability in fiscal 1992, it adopted a strategy of increasing marketing support expenditures in order to attempt to accelerate sales growth. This strategy was implemented in fiscal 1993 and, consequently, selling expense as a percentage of net sales increased from 4.9% for fiscal 1992 to 6.0% for fiscal 1993.

General and administrative expenses increased by approximately $2.9 million, or 11.5%, for fiscal 1993 compared to fiscal 1992, largely as the result of increases in the number of personnel required for the opening and operation of additional retail outlets, partially offset by a decrease in the provision for bad debt expense, which was primarily attributable to increased collection efforts and an improvement in the credit quality of the Company's customer base. Employee benefit costs also increased, reflecting the continuing rise in health benefit costs. In addition, professional fees and amortization of such fees increased, due to the retention of consultants and attorneys in connection with an amendment to the Company's bank credit facility. Since a majority of the Company's general and administrative expenses are fixed and such expenses grew, in the aggregate, at a rate slower than the growth in net sales, such expenses declined as a percentage of net sales from 7.3% for fiscal 1992 to 7.2% for fiscal 1993.

Warehousing, assembly and repair expenses increased by approximately $132,000, or 1.6%, for fiscal 1993 compared to fiscal 1992, largely due to increases in costs attributable to increased use of public warehousing as a result of increases in sales volume. Warehousemen receive an "in/out charge" when goods are received at the warehouse, plus a monthly charge based upon space occupied during the month. Because these expenses grew at a rate slower than net sales, such expenses declined as a percentage of net sales from 2.4% for fiscal 1992 to 2.2% for fiscal 1993.

Management fees and related income and equity in income of equity investments increased by approximately $741,000, or 12.1%, for fiscal 1993 compared to fiscal 1992, primarily as a result of increased earnings in the Company's equity investments, partially offset by a reduction in management fees, which the Company stopped accruing from CellStar in July 1993 in contemplation of the CellStar Offering. See "Risk Factors--Elimination of Management Fees From and Reduction in Equity in

CellStar." Other expenses increased by approximately $372,000, or 51.4%, for fiscal 1993 compared to fiscal 1992, primarily due to amortization of the costs associated with the restructuring of the Company's indebtedness completed in May 1992.

Net interest and bank charges decreased by approximately $182,000, or 2.7%, for fiscal 1993, compared to fiscal 1992. This decrease was primarily attributable to an increase in interest income and a decrease of approximately $6,800,000 in average outstanding debt.

For fiscal 1993, the Company's provision for income tax (before utilization of a net operating loss carryforward credit of approximately $2,173,000) was approximately $5,191,000, compared to a provision of approximately $2,500,000 (before utilization of a net operating loss carryforward credit of approximately $1,900,000) for fiscal 1992. The effective tax rate for fiscal 1993 was 34.1%, compared to 30.0% for fiscal 1992. As of November 30, 1993, the Company had utilized all of its net operating loss carryforwards.

LIQUIDITY AND CAPITAL RESOURCES

The Company's cash position at February 28, 1995 was approximately $1.9 million below the November 30, 1994 level. Operating activities provided approximately $1.2 million, primarily due to decreases in accounts receivable and profitable operations, partially offset by increases in inventory and accounts payable and accrued expenses. Investing activities used approximately $886,000 for the purchase of property, plant and equipment. Financing activities used approximately $2.3 million, primarily from a reduction of bank obligations under line of credit agreements.

The Company's cash position at November 30, 1994 was $4.1 million above the November 30, 1993 level. Operating activities used approximately $45.8 million, primarily due to increases in accounts receivable, inventory, and equity in income (loss) of equity investments. This was partially offset by increases in accounts payable and accrued expenses, deferred income taxes payable and profitable operations. Investing activities provided approximately $28.6 million, primarily from the net proceeds of the partial sale of one of the Company's equity investments, CellStar, and the collection of notes receivable from the same equity investment. This source of cash was partially offset by the purchase of property, plant and equipment, and the purchase of two new equity investments. Financing activities provided approximately $21.3 million, primarily from the proceeds from issuance of long-term debt, offset by a reduction of bank obligations under line of credit agreements and documentary acceptances. The Company also paid approximately $17.4 million in principal payments on long-term debt.

During March, 1995, the Company amended its Credit Agreement with its lenders. The amendments increase the amount available for direct borrowings of the Company from $40 million to $65 million until June 1, 1995 when direct borrowings will be stepped down to $20 million. The amendments also provided for an increased borrowing availability based on inventory from $20 million to $30 million until June 1, 1995 when it will be stepped down to $15 million. The Company's wholly owned subsidiary, Audiovox Holding Corp., pledged 1,050,000 of its shares of CellStar to obtain the amendment. Following such amendments, the Company believes that it has sufficient liquidity to satisfy its anticipated working capital and capital expenditure needs in the reasonably foreseeable future.

On March 23, 1995, CellStar filed a registration statement relating to a public offering for approximately 3.5 to 4 million shares of common stock to be issued by CellStar and for 1,075,000 shares of its common stock which may be sold by the Company pursuant to its piggyback registration rights contained in its registration rights agreement with CellStar. No assurance can be given that such public offering will be consummated or at what price such public offering will be consummated and that, if consummated, Audiovox will elect to sell its shares in such public offering. If the Company elects to sell its shares in such public offering, the Company will no longer receive equity income from CellStar. The Company believes that the loss of such income will not have a material adverse effect on its liquidity since such equity income was a non-cash accrual. See "Certain Transactions--CellStar."

The closing price of the CellStar common stock as traded on NASDAQ on April 11, 1995 was $20 1/4 per share. See Note 12 of Notes to Consolidated Financial Statements.

The Company believes that it has sufficient liquidity to satisfy its anticipated working capital and capital expenditure needs through November 30, 1995 and for the reasonably forseeable future.

IMPACT OF INFLATION

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 in those areas, if any, could have growing significance to the financial condition and results of operations of the Company.

CURRENCY FLUCTUATIONS

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. Recently, the dollar has undergone significant devaluation versus the Japanese yen falling to a post-World War II low of 80.15 yen per dollar. Accordingly, price negotiations for the Company's products imported from Japan could be adversely effected as a result of such devaluation of the dollar versus the Japanese Yen.

SEASONALITY

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

RECENT ACCOUNTING PRONOUNCEMENTS

The Financial Accounting Standards Board (FASB) has issued Statement 115, "Accounting for Certain Investment in Debt and Equity Securities" ("Statement 115"). This Statement addresses the accounting and reporting for investments in equity securities that have readily determinable fair values and for all investments in debt securities. Those investments are to be classified in three categories and accounted for as follows: 1) debt securities that the enterprise has the positive intent and ability to hold to maturity are classified as "held-to-maturity securities"; 2) debt and equity securities that are bought and held principally for the purpose of selling them in the near term are classified as "trading securities" and reported at fair value, with realized gains and losses included in earnings; and 3) debt and equity securities not classified as either held-to-maturity securities or trading securities are classified as "available-for-sale securities" and reported at fair value, with unrealized gains and losses excluded from earnings and reported in a separate component of shareholders' equity.

The Company believes that the implementation of Statement 115 will not have a material adverse effect on the Company's financial position.

GENERAL

The Company designs and markets cellular telephones and accessories, automotive aftermarket sound and security equipment, other aftermarket automotive accessories, and certain other products. Over the past thirty years, the Company has grown from a small supplier of car radios to a leading supplier of cellular telephones to the RBOCs, other cellular carriers and their respective agents in the United States. The Company has ranked among the top four in terms of cellular telephone market share for each of the six calendar quarters ending December 31, 1993. At February 28, 1995, the Company also operated 91 administrative and retail outlets, licensed its tradename, or entered into concessionaire arrangements with, 21 additional retail outlets in selected markets in the United States, and had two mobile vans. These outlets focus on the sale and servicing of cellular telephones in the United States. Each of the Company's retail outlets acts as a licensed agent for one of the two cellular carriers operating in its geographic area. In addition to generating product revenue from the sale of cellular telephone products, the Company's retail outlets, as agents for cellular carriers, are typically paid activation commissions and residual fees from such carriers. Through its international distribution network, the Company also sells cellular telephones in Canada, Europe, Latin America, Asia, the Middle East and Australia. In fiscal 1992, fiscal 1993, fiscal 1994 and the first quarter of fiscal 1995, net sales of cellular telephone products and related fees and commissions represented 57%, 60%, 63% and 70%, respectively, of the Company's total net sales.

Historically, the Company has been dependent on foreign suppliers, particularly Japan and China, for a majority of its products. In 1994 and 1995, the United States government announced proposed trade sanctions on cellular products imported from foreign countries, particularly Japan and China. Although the United States government has not implemented such proposed trade sanctions, as the Company sources a majority of its cellular products from Japan and China, if such trade sanctions (or trade sanctions on other of the Company's products) were to be imposed, there is no assurance that the Company would be able to obtain alternatives to its supply sources. The Company is considering sourcing products from several countries. Such purchases would be subject to the risks of purchasing products from foreign suppliers. See "Risk Factors--United States Trade Sanctions Could Limit the Company's Sources of Supply," "--No Assurance of Alternative Supply Sources," "--Dependence on Foreign Suppliers," and "--Dependence on Toshiba."

The Company's automotive aftermarket sound, security and accessory products include stereo cassette radios, compact disc players and changers, amplifiers and speakers; key based and remote control security systems; and cruise controls, door and trunk locks and rear window defoggers. In fiscal 1994, the Company introduced a satellite based security system to its product line. These products are marketed through mass merchandise chain stores, specialty automotive accessory installers, distributors and automobile dealers.

INDUSTRY BACKGROUND

United States Cellular Services

Cellular phone service was developed as a mobile alternative to conventional landline systems. Since its inception over ten years ago, the industry has grown rapidly from approximately one million subscribers in the United States in 1987 to more than 25 million subscribers as of year end 1994. In 1994, the number of cellular subscribers in the United States grew by approximately nine million, representing a 56% increase in the number of cellular subscribers from the end of 1993. The FCC issued the first license to provide cellular telephone service in the United States in 1983. Cellular phone service is now available in substantially all of the United States making cellular telephone service available to a substantial majority of the United States population. In recent years, as retail prices for cellular telephones have declined, sales of cellular telephones for personal use have grown more rapidly than

sales for business use. The United States Department of Commerce estimates that as of mid-1994, approximately 7.4% of the U.S. population owned a cellular telephone. According to statistics published by the U.S. Department of Commerce, the number of worldwide cellular subscribers grew by approximately eight million in the first six months of 1994 to a total of approximately 41 million at June 30, 1994.

Under applicable Federal Communications Commission ("FCC") regulations, two cellular service providers are granted licenses to provide cellular services in each Metropolitan Statistical Area ("MSA") and each Rural Service Area ("RSA"). Initially, the FCC reserved one license for wireless cellular service providers (the "A Block licensee") and the other license for landline affiliated cellular service providers (the "B Block licensee"). Currently, an A or B Block license may be granted to either a wireless or landline affiliated entity so long as no entity controls more than one cellular system in any service area.

The Company believes that, as retail prices for cellular telephones have declined in recent years, the sale of cellular telephones for personal use has grown more rapidly than the sale for business use. In addition, the Company believes that the United States domestic market expansion is being stimulated by many cellular service providers upgrading their existing cellular systems from analog radio frequency to digital radio frequency technology. Digital technology offers the potential for considerably greater transmission capacity than analog technology, a distinct advantage to cellular carriers in terms of volume and the ability to add customers to their systems. New digital cellular telephones enhance privacy, improve voice quality and portable equipment talk and standby times and can offer advanced features such as short messaging, all of which could make cellular telephones more appealing to consumers. As digital technology is phased into the marketplace, the Company will seek to benefit from both the sale of digital cellular telephones to replace existing analog cellular telephones and from the enhanced total market potential digital technology offers.

Many cellular telephone carriers attempt to stimulate the activation of subscribers onto their systems through sales techniques which include free cellular telephone air time, waiver of activation fees and sales of cellular telephones at substantially reduced prices. In addition, some retailers sell cellular telephones below cost or at a substantially reduced price in order to stimulate activations and increase their activation commission and residual fee income. The Company believes that the price at which retailers sell cellular telephones is substantially affected by the amount of the activation commission and anticipated residual fee income such retailer will receive from a cellular carrier as a result of such sale.

International Cellular Service

According to published statistics, the number of worldwide cellular subscribers (including United States subscribers) totaled nearly 41,000,000 as of mid-1994, an increase of approximately 24% from year-end 1993. Approximately ninety countries now offer cellular service. Unlike major industrialized countries, in which the demand for cellular telephone service has primarily been driven by consumer demand for quality communications during automobile and business travel, the Company believes that in many emerging economies, including many Latin American and Pacific Rim countries, demand is being driven by the inadequacy of landline systems and the high cost of building conventional telephone networks to serve the population in these areas. Consequently, the Company believes that cellular systems may offer a lower-cost alternative to the construction of conventional telephone facilities because they do not require substantial investment in cable and associated facilities. Thus, the Company believes that telephone users in Latin America, the Pacific Rim and other areas are likely to increasingly utilize cellular systems, despite the fact that unit cost and usage rates for cellular telephone systems may be more expensive than those of conventional landline communication systems.

Alternative Technologies

Alternative technologies to cellular, including enhanced specialized mobile radio ("ESMR") and personal communications service ("PCS"), are presently being developed. ESMR combines mobile radio, such as that used by taxi drivers, with low power, frequency reuse digital technology. The FCC has granted permission to ESMR system operators to construct digital mobile communications systems on existing frequencies in the United States; however, as of March 31, 1995, the Company believes that ESMR service was not commercially available in the markets in which the Company retails its products. PCS is a new form of cellular communication using handsets and low-powered microcell transmitters in office buildings and neighborhoods which is anticipated to be less costly to the consumer than existing cellular telephone service. Eventually, PCS providers may be able to bypass local phone companies to connect callers directly with homes, offices and cars. Certain companies are also investigating the use of satellite based technologies to replace cellular telephone systems. The Company anticipates that it will market and distribute products compatible with such technologies, when and if they are made commercially available.

COMPANY STRATEGY

The Company believes that its greatest opportunity for business expansion is in its cellular product line. Thus, the Company plans to capitalize on the increased demand for cellular telephone products, on both the wholesale and retail levels. In addition, the Company intends to continue to respond to consumer demand for sophisticated sound and security products. In furtherance of these goals, the Company engages in the following practices:

Promoting Company Brand Awareness

The Company sells its products under several brand names it owns or licenses, including Audiovox(R), SPS(R), Prestige(R), Pursuit(R), MinivoxTM, Minivox Lite(R), The Protector(R), American Radio(R) and Quintex(R). The Company uses several techniques to promote Company brand awareness, including trade and customer advertising, attendance at trade shows, and use of a wide variety of sales promotional material including pamphlets and other literature and point-of-sale displays.

Expand Product Line to Meet Consumer Demand

The Company believes that its broad distribution network and its relationships with its customers permit it to monitor closely and react quickly to both changes in consumer demand and developing new technologies. As demand for cellular telephones for personal use has expanded, the Company has begun to source cellular telephones which can be sold at lower price points from several additional manufacturers. In addition to monitoring feedback from its customers through its distribution network, the Company monitors the progress of new technology introductions (such as ESMR and PCS) by attending trade shows, participating in industry conferences and maintaining personal contact with industry participants. Toward that end, as of March 31, 1995, the Company was supplying portable cellular telephones for a program operated jointly with one of the RBOCs, which is designed to test the market response to a proposed PCS pricing structure. The Company is able to combine the feedback obtained through these sources with the experience of its product development group to provide direction to manufacturers in the development of products to meet changing consumer demands.

Value Added Marketing

The Company employs a value added marketing approach in connection with its wholesale sales. In this regard, the Company typically participates with its wholesale customers in joint marketing and promotional programs such as sales contests and cooperative advertising campaigns. The Company also typically offers its customers customized sales and product training, inventory management assistance, telemarketing assistance (including the scripting of telemarketing presentations) and Company-created

advertising materials. In addition, the Company maintains several Company-operated warranty repair centers to assist its network of authorized warranty service stations in technical training and parts procurement. The Company intends to expand the breadth of its product line (for example, by introducing a line of moderately priced cellular telephone products) in order to enable its customers to conveniently obtain a broad line of products from only one supplier.

Limitation of Fixed Plant and Capital Risk

A key component of the Company's operating strategy has been to bring to market quality products under its own brand names, in response to established consumer demand, while limiting its investment in fixed plant and, accordingly, its capital risk exposure. The Company seeks to accomplish this by controlling the design of its products through its product development group, while having such products produced by contract manufacturers. This concept enables the Company to devote a greater portion of its capital resources to design and marketing activities and inventory purchases, rather than the investments in factories and associated overhead that would be required if the Company manufactured its own products.

International Expansion

The Company has formed a majority-owned subsidiary with its local distributor in Malaysia as a minority owner and is considering forming ventures with its distributors in Greece and Thailand. By joining with an established local business with an existing customer base, the Company believes that it can enter a new market more quickly and with minimal capital expenditures. The Company also believes that its relationships with North American cellular carriers may aid the Company's expansion into international markets as such markets are developed by those carriers.

In August 1994, the Company formed a new joint venture (known as "Talk Corporation") with Shintom Co., Ltd. ("Shintom") and others for the purpose of developing, manufacturing and distributing cellular telephone and other consumer electronic products. In connection with the formation of the joint venture, the Company was granted certain exclusive distribution rights with respect to cellular products manufactured by Shintom. Talk Corporation commenced operations in October 1994.

Retail Expansion

The Company intends to open additional retail outlets in North America, both in metropolitan areas with perceived retail potential and in areas where it seeks to increase sales on a wholesale level to cellular carriers. The Company believes that the ability of its retail outlets to deliver a significant number of activations to cellular carriers provides the Company with a competitive advantage in its wholesale marketing of cellular telephones to cellular carriers. The size of these newly opened retail outlets is expected to vary from market to market and may include traditional retail stores as well as small kiosks (generally approximately 100 square feet) in shopping malls and mobile showroom vehicles. In addition, the Company intends to increase the number of licensees who use the Company's tradenames and activate cellular subscribers for the Company's retail outlets. These licensees, who are independent businesses, often are too small to be agents of the carriers themselves. These arrangements allow the Company's retail outlets to increase the number of activations they provide to the carriers.

PRODUCTS

The Company controls the design of its cellular and non-cellular products. To do so, the Company maintains an engineering staff for product design, development and testing in both its cellular and non-cellular groups. The Company's product development activities focus on meeting changing consumer demand for quality, multi-featured cellular telephone and automotive sound, security and accessory products. As a result of these activities, the Company was among the first to introduce cellular telephones with one-touch dialing, hands free operation and voice-activated dialing as standard

features. The Company's engineering staff typically operates jointly with its suppliers' research and development departments on initial product design and assists in the formulation of product specifications and the testing of pre-production prototypes to assure that products from suppliers meet the Company's strict quality standards. In addition, the engineering staff is responsible for the establishment of quality control and assurance procedures and oversees the implementation of such procedures by the Company's suppliers.

The Company maintains separate in-house warranty and service facilities for both cellular and non-cellular products. The Company's engineering staff is responsible for the establishment of warranty quality control procedures to support all warranty programs. In addition, the Company has a network of authorized service centers that are contracted to repair Company products, as well as relationships with several outside service and refurbishing specialists to support the in-house non-cellular warranty and service facilities. Cellular telephone warranties range from one to three years. Automotive sound and accessory warranties range from 90 days to vehicle life with the original owner. Other non-cellular warranties range from 90 days to vehicle life.

CELLULAR

The Company distributes and markets a diverse line of cellular telephone products through its domestic and international wholesale and retail operations. These products are marketed under the Audiovox(R), Prestige(R), MinivoxTM and Minivox Lite(R) labels and include mini hand-held, hand-held, mini transportable, transportable and mobile cellular telephones and accessories, such as batteries, battery packs, battery eliminators and chargers and antennae. If requested by one of its larger wholesale customers, the Company may also sell such products bearing the customer's private label brand name. The Company's emphasis is shifting from installed cellular mobile telephones to transportable and portable models which do not require complex installation. The Company introduced its first cellular unit in 1984, just as the technology was introduced in the United States. In 1992, the Company's MinivoxTM hand-held portable was rated number one in estimated quality based primarily on performance and convenience by a national consumer reporting publication. Also in 1992, the Company introduced the Minivox Lite(R) mini hand-held portable series which utilizes newly developed nickel metal hydride battery technology to help achieve its 6.2 ounce weight and to help make it the slimmest cellular phone on the market in 1994. In addition, the Company markets an accessory package that permits its MinivoxTM and Minivox Lite(R) 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. During 1993, the Company brought its first dual-mode digital cellular phone to market allowing access on both analog and the new digital networks being operated by North American carriers. The Company is currently sourcing Global Systems for Mobile Radio ("GSM") and Extended Total Access Communications Systems ("ETACS") cellular telephones for sale to the European and Asian markets, respectively. These cellular telephones use technology similar to, but in a different radio frequency spectrum from, that used in the United States. The Company's cellular unit sales for the fiscal years ended November 30, 1992, 1993 and 1994 and the fiscal quarter ended February 28, 1995 were approximately 476,000, 579,000, 826,000 and 298,000 respectively.

AUTOMOTIVE SOUND, SECURITY AND ACCESSORIES

Automotive Sound

Automotive sound products are marketed under the Audiovox(R), Prestige(R) and SPS(R) brands, as well as under private label agreements with original equipment manufacturers ("OEMs"). These products include stereo cassette radios, compact disc players and changers, amplifiers, speakers and accessories. In 1993, in response to consumer demand for easy to transport anti-theft automotive sound products, the Company introduced, for both the Audiovox(R) and Prestige(R) labels, a new line of removable front panel radios. The Audiovox(R) line is designed for do-it-yourself consumer installation and is sold principally to mass merchandisers, warehouse clubs and catalog showrooms. The Company's

high performance line, Prestige(R), was introduced in 1992. These products, with features including removable chassis and removable front panels, infrared wireless remote controls and high-power amplifiers, are intended for sale by specialty installers. The SPS(R) line is designed to produce a look consistent with the interior of new automobiles and is sold exclusively to new car dealers for installation in new cars, trucks and vans.

Automotive Security and Accessories

Vehicle security products are marketed under the Audiovox(R), Prestige(R) and Pursuit(R) brands. These products are designed to address the challenges posed by the high rate of automobile theft. These three brands feature a variety of systems and are sold through distinct distribution channels. The products include key based and remote-controlled systems and, beginning in 1994, the Company began to market a satellite based security system called the "PosseTM." The PosseTM utilizes satellite paging technology to activate an automobile's electro-mechanical systems. Via a toll-free telephone number, the customer is able to use the PosseTM to, among other things, start the vehicle's engine, open or close windows or locks, or disable the vehicle's starter in the event of theft.

The Audiovox(R) line consists of auto security systems which are sold primarily to mass merchandisers, warehouse clubs and catalog showrooms. This line is designed for do-it-yourself installation and its products range from two-wire installations to more complicated remote systems. The Prestige(R) line is sold only to specialty installers. Prestige(R) security products feature a number of security and convenience features, including remote starting capability, two-stage shock sensors and multitone sirens. In 1992, Prestige(R) received a consumer products design award for the outstanding design of its transmitter. The Pursuit(R) line of new car security systems includes features similar to those of the Prestige(R) line and is sold exclusively to new car dealers. Other automotive accessories include an extensive line of cruise controls, door and trunk locks and rear window defoggers, sold under The Protector(R) brand name.

DISTRIBUTION AND MARKETING

Cellular and Non-Cellular Wholesale

The Company markets products on a wholesale basis to a variety of customers through its direct sales force and independent sales representatives. During the three-month period ended February 28, 1995, the Company sold its products to approximately 3,300 wholesale accounts, including the RBOCs, other cellular carriers and their respective agents, mass merchandise chain stores, specialty installers, distributors and car dealers, OEMs and AAFES.

The Company's five largest wholesale customers (excluding joint ventures), who, in the aggregate, accounted for 12.4% of the Company's net sales for the fiscal year ended November 30, 1994, are Cellular Communications, Inc. ("Cellular One"), Bell Atlantic Mobile Systems, Nynex Mobile Communications Company, and Vanguard Cellular Systems, all of whom are cellular carriers and K-Mart, a non-cellular mass merchant. None of these customers individually accounted for more than 3.6% of the Company's wholesale net sales for such period. In addition, the Company also sells its non-cellular products to mass merchants such as Walmart Stores, Inc., warehouse clubs including Price/Costco, Inc., and OEMs such as Chrysler of Canada and Navistar International Corporation.

The Company uses several techniques to promote its products to wholesale customers including trade and customer advertising, attendance at trade shows, and direct personal contact by Company sales representatives. In addition, the Company typically assists cellular carriers in the conduct of their marketing campaigns (including the scripting of telemarketing presentations), conducts cooperative advertising campaigns, develops and prints custom sales literature and conducts in-house training programs for cellular carriers and their agents.

The Company believes that the use of such techniques, along with the provision of warranty services and other support programs, enhances its strategy of providing value-added marketing and thus permits the Company to increase Audiovox(R) brand awareness among wholesale customers while at the same time promoting sales of the Company's products through to end users.

The Company's wholesale policy is to ship its products within 24 hours of a requested shipment date from public warehouses in Norfolk, VA and Sparks, NV and from leased facilities located in Hauppauge, NY, Toronto, Canada and Los Angeles, CA.

Retail

As of February 28, 1995, the Company operated 91 administrative and retail outlets, licensed its tradename, or entered into concessionaire arrangements with, 21 additional retail outlets in selected markets in the United States, and had two additional mobile vans, through which it markets cellular telephones and related products to retail customers under the names Audiovox(R), American Radio(R), Quintex(R) and H & H Eastern Distributors. The Company intends to gradually phase out the use of such multiple names and rename all of its retail outlets with one uniform trade name. In addition to Audiovox products, these outlets sell competitive products such as Motorola, Nokia and Uniden.

The Company's retail outlets typically generate revenue from three sources: (i) sale of cellular telephones and related products, (ii) activation commissions paid to the Company by cellular telephone carriers when a customer initially subscribes for cellular service and (iii) monthly residual fees. The amount of the activation commissions 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 the customers activated by the Company on a particular cellular carrier's system. Under the Company's 21 licensee or concessionaire arrangements, the recipient receives the majority of the activation commissions and the Company retains the residual fees. The Company's agreements with cellular carriers provide for a reduction in or elimination of activation commissions in certain circumstances if a cellular subscriber activated by the Company deactivates service within a specified period. The Company records a reserve to provide for the estimated liability for return of activation commissions associated with such deactivations. As a practical matter, the profitability of the Company's retail operations is dependent on the Company maintaining agency agreements with cellular carriers under which it receives activation commissions and residual fees.

The Company's objective is to locate its retail outlets in highly visible and accessible locations, such as on high traffic streets and in or near destination shopping centers. As an accommodation to a cellular carrier, the Company has, from time-to-time, opened retail outlets in locations selected by the cellular carrier. The Company promotes its retail outlets through print and radio advertising, direct mailings and billboards. Most of the Company's retail advertising expenditures take advantage of cooperative advertising allowances generally provided by the cellular carriers.

The Company believes that the performance of its retail stores is enhanced by its well-trained sales force. The Company requires its sales force to successfully complete an initial training program, and then periodically educates and updates them on new and existing products and services so that they will be better able to serve the Company's retail customers. The sales representatives receive a base salary supplemented by sales commissions; however, no commissions are paid on the amount of residual fees generated by cellular telephones sold by the sales personnel. In addition to in-store promotions, the sales force attempts to generate repeat business and referral business through telephone contact with existing and potential customers.

The Company's relationships with the cellular carriers are governed by contracts that, in the aggregate, are material to the continued generation of revenue and profit for the Company. Pursuant to applicable contracts with cellular carriers, each of the Company's retail outlets functions as a non-exclusive agent engaged to solicit and sell cellular telephone service in certain geographic areas and, while such contract is in effect and for a specified period thereafter (which typically ranges from three months to one year) may not act as a representative or agent for any other carrier or reseller in those areas or solicit cellular or wireless communication network services of the kind provided by the cellular carrier in the areas where the Company acts as an agent. The Company's retail operation is free, at any time after the restricted period, to pursue an agreement with another carrier who services a particular geographic area. At present, each geographic area is serviced by two cellular carriers.

As of March 31, 1995, the Company has agency contracts with the following carriers: Bell Atlantic Mobile Systems, Inc., BellSouth Mobility, Inc., Metro Mobile CTS of Columbia, Inc. ("Bell Atlantic"), GTE Mobilnet of the Southeast, Inc., Richmond Cellular Telephone Company, d/b/a Cellular One, New York Cellular Geographic Service Area, Inc. ("NYNEX"), United States Cellular, Air Touch and Contel Cellular, Inc. Depending upon the terms of the specific carrier contracts, which typically range in duration from one year to five years, the Company's retail operation may receive a one-time activation commission and periodic residual fees. These carrier contracts provide the carrier with the right to unilaterally restructure or revise activation commissions and residual fees payable to the Company and certain carriers have exercised such right from time-to-time. Depending upon the terms of the specific carrier contract, the carrier may terminate the agreement, with cause, upon prior notice to the Company. Typically, the Company's right to be paid residual fees ceases upon termination of an agency contract.

Equity Investments

The Company has from time-to-time, at both the wholesale and retail levels, established joint ventures to market its products to a specific market segment or geographic area. In entering into a joint venture, the Company seeks to join forces with an established distributor with an existing customer base and knowledge of the Company's products. The Company seeks to blend its financial and product resources with these local operations to expand their collective distribution and marketing capabilities. The Company believes that such joint ventures provide a more cost effective method of focusing on specialized markets.

In that regard, the Company has a 50% equity position in three companies: Audiovox Pacific Pty., Limited ("Pacific") (a wholesale distributor of cellular products in Australia and New Zealand), Audiovox Specialty Markets Co., L.P. ("ASM") (a U.S. distributor of cellular and automotive sound security and accessory products to the van and recreational vehicle market) and The Protector Corporation ("Protector") (formerly a marketer of automotive chemical aftermarket applications such as rust proofing and undercoating. Protector no longer operates in the direct sales of chemical aftermarket applications but Protector still receives fees and commissions for use of its trademarks.). The purpose of these joint ventures is to distribute cellular and non-cellular products either to specific markets (e.g., vans and recreational vehicles) or in specific geographic locations. The Company does not control or participate in the day-to-day management of these joint ventures. Additionally, CellStar, which markets and distributes cellular telephones and related products and in which the Company continues to hold a 20.88% equity interest, was founded as a 50% owned joint venture. H & H Eastern Distributors, Inc. ("H&H"), in which the Company recently acquired the 50% equity interest not previously owned by the Company, was founded as a joint venture in 1989 to market cellular telephones and related products in the southeastern United States. See "Certain Transactions--CellStar" and "-- H & H Eastern Distributors" and Notes 2 and 12 of Notes to Consolidated Financial Statements.

The Company also has a 33.33% equity position in Talk Corporation, which was formed in 1994 as a joint venture with Shintom, Rainbowstar Co., Ltd. and others for the purpose of developing, manufacturing and distributing cellular telephone and other consumer electronic products for Japan

and other markets. The joint venture will distribute Shintom's cellular products in Japan, China, South Korea, Indonesia, Vietnam and certain middle eastern countries. The Company may also distribute these products in these markets, and has also been granted the exclusive right to distribute cellular products manufactured by Shintom in the remaining markets of the world.

SUPPLIERS

The Company purchases its cellular and non-cellular products from manufacturers located in several Pacific Rim countries, including Japan, China, Korea, Taiwan, Singapore and Europe and in the United States. In selecting its vendors, the Company considers quality, price, service, market conditions and reputation. The Company maintains buying offices in Taiwan, Korea, Hong Kong and China to provide local supervision of supplier performance with regard to, among other things, price negotiation, delivery and quality control. The majority of the products sourced through these foreign buying offices are non-cellular.

Historically, the Company has been dependent on foreign suppliers, particularly Japan and China, for a majority of its products. In 1994 and 1995, the United States government announced proposed trade sanctions on cellular products imported from foreign countries, particularly Japan and China. Although the United States government has not implemented such proposed trade sanction as the Company sources a majority of its cellular products from Japan and China, if such trade sanctions (or trade sanctions on other of the Company's products) were to be imposed, there is no assurance that the Company would be able to obtain alternatives to its supply sources. The Company is considering sourcing products from several other countries. Such purchases would be subject to the risks of purchasing products from foreign suppliers. See "Risk Factors--United States Trade Sanctions Could Limit the Company's Sources of Supply," "--No Assurance of Alternative Supply Sources," "--Dependence on Foreign Suppliers" and "Dependence on Toshiba."

Since 1984, the principal supplier of the Company's wholesale cellular telephones has been Toshiba, accounting for approximately 86.4%, 83.7%, 83.7% and 78.0% of the total dollar amount of the Company's cellular product purchases and approximately 48.0%, 46.9%, 45.5% and 56.2% of the total dollar amount of all product purchases by the Company, during the fiscal years ended November 30, 1992, 1993 and 1994, and the first quarter of fiscal 1995, respectively. In 1994, Toshiba began to compete directly with the Company in the United States by marketing cellular telephone products through Toshiba's United States distribution subsidiary. The Company anticipates that Toshiba will continue to sell products to the Company as an original equipment customer; however, there is no agreement in effect that requires Toshiba to supply the Company with products, and there can be no assurance that Toshiba will continue to supply products to the Company or that any products supplied will be competitive with others in the market. See "Risk Factors-- Dependence on Toshiba." In order to expand its supply channels and diversify its cellular product line, the Company has begun to source cellular equipment from other manufacturers including, Samsung Electronics Co., Ltd. ("Samsung"), Alcatel Radiotelephone ("Alcatel") and Shintom. Purchases of non-cellular products are made primarily from other overseas suppliers including Hyundai Electronics Inc. ("Hyundai"), Namsung Corporation ("Namsung") and Nutek Corporation ("Nutek"). There are no agreements in effect that require manufacturers to supply product to the Company. The Company considers its relations with its suppliers to be good. The Company believes additional sources of supply are currently available, but that such sources may be negatively impacted if the United States imposes threatened trade sanctions. See "Risk Factors--United States Trade Sanctions Could Limit the Company's Sources of Supply," "--No Assurance of Alternative Supply Sources" and "-- Dependence on Foreign Suppliers."

TRADEMARKS

The Company markets products under several trademarks, including Audiovox(R), SPS(R), Prestige(R), Pursuit(R), MinivoxTM, Minivox Lite(R), The Protector(R), American Radio(R) and Quintex(R). The Company believes that these trademarks are recognized by customers and are therefore significant in marketing

its products. Trademarks are registered for a period of ten years and such registration is renewable for subsequent ten-year periods.

MANAGEMENT INFORMATION SYSTEM

The Company has invested approximately $8,500,000 since 1991 in the implementation of a fully-integrated system that provides the Company with real-time inventory, ordering and financial information. The computer hardware is an IBM AS-400 E70 model which the Company believes has sufficient excess processing capacity to handle its needs for the foreseeable future. The Company has arrangements with certain of its major non-cellular wholesale customers that permit such customers to electronically enter ordering and delivery information directly into the Company's management information system. Beginning in mid-1994, the Company began implementing a point-of-sale system in its retail operations. The Company believes that the point-of-sale system increases the range and frequency of data available to management on a store-by-store basis. The point-of-sale system enables the Company to track inventory levels and monitor daily revenues by product or service for each location. This system enables the Company to offer its customers rapid delivery of a wide variety of products.

COMPETITION

The Company competes primarily on the basis of quality, product design features, inventory availability, delivery, service and price. The Company believes that it competes effectively on the basis of each such factor. The Company operates in a highly competitive environment and believes that such competition will intensify in the future. Many of the Company's competitors are larger and have greater capital and management resources than the Company. Competition often is based on price, and therefore wholesale distributors and retailers, including the Company, generally operate with low gross margins. The Company is also affected by competition between cellular carriers. Increased price competition relating not only to cellular telephone products, but also to services provided by the Company to retail customers on behalf of cellular carriers, may result in downward pressure on the Company's gross margins (including that resulting from the loss of residual fees attributable to customers who change cellular carriers) and could have a material adverse effect on the Company's business, financial condition and results of operations. The Company's cellular products compete principally with cellular telephones supplied by Motorola, Inc., Nokia Mobile Phones, Inc., Fujitsu Network Transmission Systems, Inc., Oki Electric Industry, Co., Nippon Electric Corp., Toshiba and others. The Company's non-cellular products compete with other suppliers including Matsushita Electric Corp., Sony Corp. of America, Directed Electronics, Inc. and Code Alarm, Inc., as well as divisions of well-known automobile manufacturers. In February 1995, Motorola Inc. announced its cellular inventory build-up was "several weeks above normal levels." See "Risk Factors--Competition" and "Management's Discussion and Analysis of Financial Condition and Results of Operations--First Quarter Fiscal 1995 vs. First Quarter Fiscal 1994."

In the event that United States trade sanctions on products imported from Japan and China or containing Japanese components are imposed, the Company may lose market share to competitors that are less dependent on Japanese and Chinese suppliers. See "Risk Factors--United States Sanctions Could Limit the Company's Sources of Supply."

Competitors of the Company in the international markets include North American cellular carriers that have retail outlets and direct end-user access, United States and foreign based exporters and distributors and grey-market importers. In addition, the Company competes for activation commissions and residual fees with agents and subagents of cellular carriers.

EMPLOYEES

As of February 28, 1995, the Company employed 1,082 persons, of whom 363 were involved in wholesale operations, 629 were involved in retail operations and 51 were corporate office personnel. Of

these employees, 1,043 work in domestic operations and 39 work in international operations. None of the Company's employees are represented by a labor union, collective bargaining representative or agreement. The Company believes that its labor relations are good.

PROPERTIES

The Company leases all of its facilities. As of February 28, 1995, excluding its joint venture premises, the Company leased a total of 62 operating facilities located in 16 states, two Canadian provinces, Malaysia, Singapore, Hong Kong, Korea, China and Taiwan. These facilities range in size from 140 to 70,000 square feet, aggregating approximately 350,000 square feet. They serve as offices, warehouses, distribution centers or retail locations. The unexpired terms of these leases varied from less than one year to six years. Additionally, the Company utilizes approximately 100,000 square feet of public warehouse facilities. Aggregate annual rentals for all such properties and facilities for the fiscal years ended November 30, 1992, 1993 and 1994 and the first quarter of fiscal 1995 were approximately $2,594,000, $2,390,000, $3,107,000 and $898,000, respectively. The following table describes the Company's principal facilities, all of which are leased, having an area in excess of 25,000 square feet.

LOCATION OF PROPERTY	PRIMARY USE	APPROXIMATE SQUARE FOOTAGE	LEASE EXPIRATION DATE
150 Marcus Boulevard..... Hauppauge, NY*	Corporate and Non-Cellular Headquarters	70,000	10/31/96
16808 Marquardt Avenue..... Cerritos, CA*	Office, Warehouse and Distribution	50,271	1/31/96
185 Oser Avenue..... Hauppauge, NY	Cellular Headquarters	30,000	10/31/95

- ------------

* Property owned by executive officers of the Company and leased to the Company. These leases are described under "Certain Transactions--Transactions with Management." See also Note 11 of Notes to Consolidated Financial Statements.

LEGAL PROCEEDINGS

In February 1993, an action was instituted in the Circuit Court of Cooke County, Illinois, (Robert Verb, et al. v. Motorola, Inc., et al., File No.: 93 Ch. 00969), against the Company and other defendants. The complaint in such action seeks damages on several product liability related theories, alleging that there is a link between the non-thermal electromagnetic field emitted by portable cellular telephones and the development of cancer, including brain cancer. On August 20, 1993, an order was entered dismissing the complaint which included the Company as a defendant and permitting plaintiffs to file an amended complaint which does not include the Company as a defendant. Such order, effectively dismissing the Company as a defendant, is being appealed by the plaintiffs. The Company believes that its insurance coverage and rights of recovery against manufacturers of its portable hand-held cellular telephones relating to this case are sufficient to cover any reasonably anticipated damages. In addition, the Company believes that there are meritorious defenses to the claims made in this case.

On August 31, 1994, an action was instituted entitled Steve Helms and Cellular Warehouse, Inc. v. Quintex Mobile, Wachovia Bank, GTE Mobilnet, Stan Bailey and Rick Rasmussen in the Court of Common Pleas, Sumter County, South Carolina. Plaintiffs allege ten causes of action against Quintex, including fraud, breach of contract, conspiracy, conversion, interference with prospective contract, restraint of trade, violation of Unfair Trade Practices Act, false arrest and malicious prosecution. Damages sought are $1.2 million plus punitive damages. Also plaintiffs are seeking treble damages and attorneys' fees under the Unfair Trade Practices Act. The case is presently in the early discovery stage. The Company intends to vigorously defend the action and is of the opinion that there are meritorious defenses to the claims made in this case and that the ultimate outcome of this matter will not have a material adverse impact on the financial position of the Company.

In addition, the Company is currently, and has in the past been, a party to other routine litigation incidental to its business. The Company does not expect any pending litigation to have a material adverse effect on its financial condition or results of operations. See Note 15 of Notes to Consolidated Financial Statements.

CERTAIN TRANSACTIONS

TRANSACTIONS WITH MANAGEMENT

The Company leases or has leased certain of its office, warehouse and distribution facilities from certain executive officers of the Company or from entities in which such individuals own a controlling interest. The following table identifies leases to which any such executive officer or entity is a party and which, either alone or when combined with all other leases in which such executive officer has an interest, involve more than $60,000. The table identifies the property which is subject to such lease, the owner of such property, and the amount of rent paid by the Company during each of the fiscal years ended November 30, 1992, 1993 and 1994, and the fiscal quarter ended February 28, 1995, respectively.

PROPERTY	EXPIRATION DATE	OWNER OF PROPERTY	PERIOD	RENT PAID
150 Marcus Blvd.....	October 31, 1996	John J.	Fiscal 1994	$ 396,500
Hauppauge, NY		Shalam	Fiscal 1993	429,000
			Fiscal 1992	363,000
60 Arkay Dr.....	January 31, 1993(1)	John J.	Fiscal 1994	none
Hauppauge, NY		Shalam	Fiscal 1993	(3)
			Fiscal 1992	$ 187,328
16808 Marquardt Ave.....	January 31, 1996	Marquardt	Fiscal 1994	$ 175,000
Cerritos, CA		Associates(2)	Fiscal 1993	189,605
			Fiscal 1992	160,435
331-335 Sherwee Dr.....	January 31, 1999	Harold	Fiscal 1994	$ 61,000
Raleigh, NC		Bagwell	Fiscal 1993	(3)
			Fiscal 1992	(3)

- ------------

(1) The Lease would have expired by its terms on August 1, 1994 but was terminated by agreement on January 31, 1993.

(2) Marquardt Associates is a California partnership comprised of four individuals, including John J. Shalam, who owns 60% of the partnership, Philip Christopher, who owns 10%, James Wohlberg, who owns 5%, and John J. Shalam's brother-in-law who owns 25%.

(3) The rent paid was less than $60,000.

The Company believes that the terms of each of the foregoing leases are no less favorable to the Company than those which could have been obtained from unaffiliated third parties. To the extent that conflicts of interest arise between the Company and such persons in the future, such conflicts will be resolved by a committee of independent directors of the Company's Board of Directors.

CELLSTAR

On December 14, 1993, the Company sold 2,500,000 shares of CellStar Common Stock in connection with the CellStar Offering, for aggregate net proceeds of approximately $25,594,000. On December 30, 1993, the Company sold 375,000 shares of CellStar Common Stock pursuant to an over-allotment option granted to the underwriters of the CellStar Offering, for aggregate net proceeds of approximately $3,839,000. The Company continues to own 3,875,000 shares of CellStar Common Stock, constituting 20.88% of the issued and outstanding CellStar Common Stock.

In connection with the CellStar Offering, the Company and Alan H. Goldfield, President and, prior to the CellStar Offering, a 50% stockholder of CellStar, entered into an Option Agreement under the terms of which the Company granted to Mr. Goldfield the right, until December 3, 1995, to purchase, in whole or in part, up to 1,500,000 shares of CellStar Common Stock from the Company. During the first 18 months of such option, the exercise price shall equal $11.50 per share (the initial public offering price) and for the remaining six months shall equal $14.38 per share. The Company has granted to Mr.

Goldfield an additional option, exercisable until December 3, 1996, to purchase an additional 250,000 shares of CellStar Common Stock at an exercise price equal to $13.80 per share, subject to certain restrictions and adjustment in certain events.

Pursuant to a Voting Rights Agreement entered into by and between the Company and Mr. Goldfield, the Company granted to Mr. Goldfield the right for two years to vote up to 2,800,000 shares of CellStar Common Stock owned by the Company, subject to reduction in the event Mr. Goldfield sells his shares of CellStar Common Stock in certain events, and subject to reduction in the event Mr. Goldfield exercises his right to purchase shares under the foregoing option agreements.

The Company's distribution agreement with CellStar, dated as of November 22, 1993, was not renewed upon expiration. The Company and CellStar entered into a Sales Representation Agreement, dated as of January 1, 1995, pursuant to which CellStar acts as the Company's independent sales representative for certain of the Company's automotive products for certain customers in the states of Texas, Oklahoma and New Mexico and in Mexico. The agreement is for a one year term.

On March 23, 1995, CellStar filed a registration statement relating to a public offering for approximately 3.5 to 4 million shares of common stock to be issued by CellStar and for 1,075,000 shares of its common stock which may be sold by the Company pursuant to its piggyback registration rights contained in its registration rights agreement with CellStar. No assurance can be given that such public offering will be consummated or at what price such public offering will be consummated and that, if consummated, Audiovox will elect to sell its shares in such public offering.

REPAYMENT OF CERTAIN SUBORDINATED INDEBTEDNESS

The Company utilized approximately $13,903,000 of the net proceeds of the offering of the Debentures to repay and extinguish all of its outstanding Series A Notes and Series B Notes, including paying a prepayment premium of approximately $172,000 (before adjustment for taxes). The Company and the holders of such instruments also entered into a debenture exchange agreement (the "Debenture Exchange Agreement"). Pursuant to the Debenture Exchange Agreement, the Company's Series A 10.8% Convertible Subordinated Debentures due 1996 (the "Series A Convertible Debentures") and the Company's Series B 11% Convertible Subordinated Debentures due 1996 (the "Series B Convertible Debentures") were exchanged for its Series AA Convertible Debentures and Series BB Convertible Debentures, instruments of like tenor which, in each such case, constitute senior indebtedness of the Company and which will remain outstanding until retired in accordance with their terms, with full rights of conversion into shares of Class A Common Stock and registration rights with respect to such shares. At the closing of the Debenture offering, the Company caused to be issued to such holders irrevocable standby letters of credit in an aggregate amount equal to all future payments of principal and interest on the Series AA Convertible Debentures and Series BB Convertible Debentures. The holders would have the right to draw upon the letters of credit in the event of a default by the Company. As of February 28, 1995, there was approximately $77,000 of Series AA Convertible Debentures outstanding and $5.4 million of Series BB Convertible Debentures outstanding. The Series AA Convertible Debentures and Series BB Convertible Debentures are convertible at any time, at the option of the holder, into Class A Common Stock at a price of $5.34 per share (subject to adjustment in certain circumstances). See Note 8 to Notes to Consolidated Financial Statements.

CONSULTING AGREEMENT

The Company and Harvey R. Blau ("Blau") have entered into a letter agreement, dated April 1, 1993 (the "Consulting Agreement"). Pursuant to the Consulting Agreement, the term of which was from April 1, 1993 to March 31, 1995, Blau was to render up to 20 hours of consulting services to the Company per year. In connection with the Consulting Agreement, Blau was awarded a warrant (the "Blau Warrant") to purchase 100,000 shares of Class A Common Stock at a purchase price of $7.50 per

share (subject to adjustment upon certain events described in the Blau Warrant). The Blau Warrant is exercisable in whole or in part, from time-to-time, until December 31, 1998. On December 15, 1993, the Company and Blau executed a letter agreement pursuant to which it was agreed that Blau had performed in excess of 40 aggregate hours of consulting services under the Consulting Agreement, that no further services were required to be performed by Blau under the Consulting Agreement and that the consideration for the Blau Warrant was deemed fully paid. The Company has also entered into a consulting arrangement with Mr. Blau pursuant to which the Company pays Mr. Blau $7,500 per month for consulting services. Payments under this arrangement began in November 1994.

H & H EASTERN DISTRIBUTORS, INC.

The Company and James Maxim ("Maxim") have entered into an Agreement, dated September 23, 1993 and effective December 1, 1993, pursuant to which the Company acquired all of the issued and outstanding stock of H & H Eastern Distributors, Inc. owned by Maxim, and as a result, the Company became the sole stockholder of H & H Eastern Distributors, Inc. In connection with such Agreement, the Company issued to Maxim a warrant (the "Maxim Warrant") to purchase 50,000 shares of Class A Common Stock, at a purchase price of $14.375 per share. The per share purchase price and number of shares purchasable pursuant to the Maxim Warrant are each subject to adjustment upon the occurrence of certain events described in the Maxim Warrant. The Maxim Warrant is exercisable, in whole or in part, from time-to-time, until September 22, 2003. In connection with the Maxim Warrant, Maxim has the right to require the Company to file with the SEC, on or after September 22, 1995, a registration statement relating to the sale by Maxim of the Class A Common Stock purchasable pursuant to the Maxim Warrant.

SHALAM OPTION

John J. Shalam has agreed to grant the Company the Shalam Option to purchase Option Shares at a purchase price equal to the sum of (a) the Warrant Exercise Price plus (b) an additional amount (the "Tax Amount") intended to reimburse Mr. Shalam or his Successors for any additional taxes per share which may be required to be paid by Mr. Shalam or his Successors as a result of the payment of the Warrant Exercise Price being treated for federal income tax purposes as the distribution to Mr. Shalam or his Successors of a dividend (taxed at ordinary income rates without consideration of Mr. Shalam's or his Successors', as the case may be, basis), rather than as a payment to Mr. Shalam or his Successors, for the sale of his Class A Common Stock to the Company (taxed at the capital gains rate with consideration of Mr. Shalam's basis and considering any stepped up basis to Mr. Shalam's Successors) pursuant to the Shalam Option. If Mr. Shalam or his Successors, as a result of the receipt of the payment of the Warrant Exercise Price, are taxed at a capital gains rate (with consideration given to their stepped up basis), no Tax Amount will be included in the purchase price to be paid. Any Successor acquiring the shares of Class A Common Stock underlying the Shalam Option (whether by sale, transfer or upon Mr. Shalam's death) will acquire such shares subject to the terms of the Shalam Option. The terms of the Shalam Option (other than the initial exercise price) will be similar to those of the Warrants, however, the exercise price per share for the Shalam Option will not decrease in the event of a Registration Default. Such additional amount per share shall be calculated in accordance with the tax rates applicable to the date of exercise in accordance with the following formula:

$$\frac{(A-B)xC+(BxD)}{1-A}$$

where A equals Mr. Shalam's combined marginal U.S. federal, state and local ordinary income tax rates after reduction of the federal rate for the benefit of the deductions for state and local taxes; B equals Mr. Shalam's combined marginal U.S. federal, state and local capital gains tax rates after reduction of the federal rate for the benefit of the deductions for state and local taxes; C equals the per share Warrant Exercise Price without giving effect to any adjustment thereof resulting from a

Registration Default; and D equals Shalam's per share adjusted tax basis in the Class A Common Stock purchasable by the Company pursuant to the Shalam Option and includes any stepped-up basis of Mr. Shalam's Successors. Any payment owing to Mr. Shalam's Successors will be based on the same formula as it relates to such Successors.

The Shalam Option will be exercisable, in whole or in part, for a number of shares equal to the aggregate number of shares purchasable under the Warrants on the Closing Date. The basic terms of the Shalam Option will be similar to the basic terms of the Warrants; provided that the exercise price of the Shalam Option will not be reduced in the event of a Registration Default. The Company is not required to exercise the Shalam Option upon exercise of the Warrants and intends to do so only if the Board of Directors of the Company (other than Mr. Shalam) at the time of exercise of the Warrants, determines that it is in the best interests of the stockholders of the Company to exercise such Shalam Option. The Company will be able to exercise the Shalam Option only if the Warrants are exercised and then only for the same number of shares as are purchased under the Warrants. The Shalam Option may limit the dilutive effect of the Warrants on the earnings per share or the book value per share if the Company elects to execute the Shalam Option. The obligations of the Company under the Warrants are not subject to compliance by Mr. Shalam with the terms of the Shalam Option. The Tax Amount will be immediately due and payable upon receipt of a satisfactory notice from the holder of the Option Shares stating that a Tax Amount is required to reimburse such person for additional taxes in accordance with the Shalam Option, setting forth the calculation of the Tax Amount and confirming that such person will file its tax return with respect to this period in accordance with the facts underlying this calculation, but such Tax Amount is subject to readjustment in the event the actual tax paid is different than the amount set forth in the notice. Upon consummation of the Offering, a legend will be placed on a number of Option Shares equal to the number of shares of Class A Common Stock underlying Warrants granted in the Offering which will provide that such shares are subject to the terms of the Shalam Option. Such legend on the Option Shares will be removed with respect to the number of Option Shares equal to the number of shares of Class A Common Stock underlying the Warrants which have been exercised or with respect to which the independent members of the Board of Directors of the Company have determined not to exercise the Shalam Option.

DIRECTORS AND EXECUTIVE OFFICERS

The following table sets forth certain information pertaining to the directors (all of whom were elected to terms expiring at the next annual meeting of stockholders) and executive officers of the Company:

NAME	AGE	CURRENT POSITION
John J. Shalam	61	President and Chief Executive Officer and Director
Philip Christopher	46	Executive Vice President and Director
Charles M. Stoehr	48	Senior Vice President, Chief Financial Officer and Director
Martin Novick	59	Vice President and Director
Patrick M. Lavelle	43	Group Vice President and Director
Harold Bagwell	54	Vice President and Director
Gordon Tucker	43	Director
Irving Halevy	78	Director

John J. Shalam has served as President and Chief Executive Officer and a Director of the Company since 1987. Mr. Shalam also serves as president and a director of most of the Company's operating subsidiaries. From 1960 to 1987, Mr. Shalam was President and Director of the Company's predecessor, Audiovox Corp.

Philip Christopher, Executive Vice President of the Company, has been with the Company (or its predecessors) since 1970 and has held his current position since 1983. Prior thereto, he was Senior Vice President of the Company (or its predecessors). Mr. Christopher has additional responsibility for the Company's cellular division, Audiovox Cellular Communications Co. He has been a Director of the Company since 1987 and from 1973 through 1987 was a Director of the Company's predecessor, Audiovox, Corp.

Charles M. Stoehr has been Chief Financial Officer of the Company (or its predecessors) since 1979, and was elected Senior Vice President in 1990. Mr. Stoehr has been a Director of the Company since 1987. From 1979 through 1990, Mr. Stoehr was a Vice President of the Company (or its predecessors).

Martin Novick has been a Vice President of the Company (or its predecessors) since 1979 and has been a Director since 1987. As of May, 1994, Mr. Novick was appointed Vice President of the Consumer Electronics Group which is responsible for marketing and selling the Company's Automotive Electronic Products to mass merchants and national chain markets.

Patrick M. Lavelle has been a Vice President of the Company (or its predecessors) since 1982. In 1994, Mr. Lavelle was appointed Group Vice President of the Company's Automotive Electronics Division, with responsibility for marketing and selling the Company's Auto Sound, Auto Security and Accessory product lines. Mr. Lavelle was elected to the Board of Directors in 1993.

Harold Bagwell has been a Vice President of the Company since 1992 and an officer of certain subsidiaries of the Company (or its predecessors) since 1978. Mr. Bagwell has responsibility for the Company's retail operations in the southern United States.

Gordon Tucker has served as a director of the Company since 1987. Since August 1994, Dr. Tucker has been the Rabbi of Temple Israel Center of White Plains, New York, and since 1979 has also been an Assistant Professor of Philosophy at the Jewish Theological Seminary of America. From 1984 through 1992, he was also Dean of the Rabbinical School at the Jewish Theological Seminary of America.

Irving Halevy has served as a director of the Company since 1987. Mr. Halevy is a retired professor of Industrial Relations and Management at Fairleigh Dickinson University where he taught from 1952 to 1986. He also is a panel member of the Federal Mediation and Conciliation Service.

EXECUTIVE COMPENSATION

The following table sets forth a summary for the 1994, 1993 and 1992 fiscal years of all compensation paid to the Chief Executive Officer and the four most highly compensated executive officers whose individual compensation exceeded $100,000.

SUMMARY COMPENSATION TABLE

		ANNUAL COMPENSATION		LONG TERM COMPENSATION AWARDS		
NAME AND PRINCIPAL POSITION	YEAR	SALARY	BONUS	RESTRICTED STOCK ($)(1)	SECURITIES UNDERLYING OPTIONS	ALL OTHER COMPENSATION(2)
John J. Shalam, Chief	1994	$398,077	$645,920	--	--	$ 2,900
Executive Officer.....	1993	430,385	0	--	--	4,306
	1992	345,769	0	--	--	2,145
Philip Christopher,	1994	450,000	395,005	$ 171,875(1)	75,000	2,905
Executive Vice	1993	450,000	39,531	--	--	4,568
President.....	1992	354,700	0	--	--	2,441
Charles M. Stoehr, Senior	1994	238,461	288,398	255,000(1)	30,000	3,364
Vice President, Chief	1993	250,000	71,915	--	--	3,318
Financial Officer.....	1992	224,147	0	--	--	1,437
Patrick Lavelle, Group Vice	1994	125,000	218,400	34,000(1)	5,000	3,364
President.....	1993	125,000	198,731	--	--	2,825
	1992	125,000	155,275	--	--	1,894
Harold Bagwell, Vice	1994	94,200	359,635	17,000(1)	3,000	3,364
President.....	1993	90,000	459,665	--	--	4,711
	1992	90,000	184,562	--	--	1,715

- ------------

(1) These values are based on the closing market price of the Company's Class A Common Stock on the date of grant. The value of the Restricted Stock grants, based on the value of the Company's shares at November 30, 1994, were as follows: Philip Christopher, $178,125; Charles M. Stoehr, $106,875; Patrick Lavelle, $14,250; and, Harold Bagwell, $7,125. The shares of Restricted Stock may vest dependent upon the achievement of a rolling three year earnings per share goal and/or continued employment with the Company. Shares of Restricted Stock are entitled to receive dividends.

(2) Amounts shown represent actual, and for fiscal 1994, estimated contributions by the Company to the Audiovox Corporation Profit Sharing and 401(K) Plan allocated or to be allocated to the accounts of the respective officers for the fiscal years indiciated.

OPTION GRANTS IN LAST FISCAL YEAR (1994)

	INDIVIDUAL GRANTS						
					POTENTIAL REALIZABLE VALUE AT ASSUMED ANNUAL RATES OF STOCK PRICE APPRECIATION FOR OPTION TERM(1)		
NAME	NUMBER OF SECURITIES UNDERLYING OPTIONS GRANTED	% OF TOTAL OPTIONS GRANTED TO EMPLOYEES IN FISCAL YEAR	EXERCISE OR BASE PRICE $/SHARE	EXPIRATION DATE	0%($)	5%($)	10%($)
John J. Shalam.....	--	--	--	--	--	--	--
Philip Christopher.....	75,000	39.78	$11.00	11/22/04	--	$14,899	$512,398
Charles M. Stoehr.....	30,000	15.92	13.00(2)	12/14/03	$120,000	440,736	932,809
Patrick Lavelle.....	5,000	2.65	13.00(2)	12/14/03	20,000	73,456	155,468
Harold Bagwell.....	3,000	1.59	13.00(2)	12/14/03	12,000	44,074	93,281

- ------------

(1) These values are based on the closing market price of the Company's Class A Common Stock on the date of grant. All options reported have a ten-year term. Amounts shown represent hypothetical future values at such term based upon hypothetical price appreciation of Class A Common Stock and may not necessarily be realized. Actual values which may be realized, if any, upon exercise of such options, will be based upon the market price of Class A Common Stock at the time of any such exercise and thus are dependent upon the future performance of Class A Common Stock.

(2) The market price of Class A Common Stock on the date of grant was $17.00.

AGGREGATED OPTION EXERCISES IN LAST FISCAL YEAR AND FISCAL YEAR-END OPTION VALUES(1)

NAME	NUMBER OF SECURITIES UNDERLYING UNEXERCISED OPTIONS AT NOVEMBER 30, 1994 EXERCISABLE/ UNEXERCISABLE	VALUE OF UNEXERCISED IN-THE-MONEY OPTIONS AT NOVEMBER 30, 1994 EXERCISABLE/ UNEXERCISABLE
John J. Shalam	--	--
Philip Christopher	0/75,000	$ 0/0
Charles M. Stoehr	30,000/30,000	0/0
Patrick Lavelle	5,000/5,000	0/0
Harold Bagwell	5,000/3,000	0/0

(1) No options were exercised by the named individuals in fiscal 1994 and none were in the money at November 30, 1994

COMPENSATION OF DIRECTORS

For their services, members of the Board of Directors who are not salaried employees of the Company receive an annual retainer of $10,000.

COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

The members of the Compensation Committee consisted of Messrs. Tucker and Halevy during fiscal year 1994. The Compensation Committee recommends to the Board of Directors remuneration arrangements for senior management and the directors and approves and administers other compensation plans, including the profit sharing plan of the Company, in which officers, directors and employees participate.

LIMITATION ON LIABILITY

Article FIFTH of the Company's Certificate of Incorporation provides that a director of the Company shall not be personally liable to the Company or its stockholders for monetary damages for breach of fiduciary duty as a director, except for liability (i) for any breach of the director's duty of loyalty to the Company or its stockholders, (ii) for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, (iii) for the payment of dividends in violation of Section 174 of the Delaware General Corporation Law, or (iv) for any transaction in which the director derived any improper personal benefit. It also provides that any repeal or modification of the foregoing provision by the stockholders of the Company shall be prospective only and shall not adversely affect any right or protection of a director existing at the time of such repeal or modification.

BENEFICIAL OWNERSHIP OF COMMON STOCK

The following table sets forth, as of April 1, 1995, certain information with respect to the beneficial ownership of any class of Common Stock by all stockholders known by the Company to own beneficially more than five percent (5%) of the outstanding shares of any class of Common Stock, each director, nominee for director, each executive officer and all directors and executive officers of the Company as a group:

NAME AND ADDRESS(1)	TITLE OF CLASS OF COMMON STOCK(2)	SOLE VOTING OR INVESTMENT POWER(2)	PERCENT OF CLASS(3)(6)
John J. Shalam	Class A	5,249,960(4)(5)	57.6
150 Marcus Blvd. Hauppauge, NY	Class B	1,883,198	83.3
Philip Christopher	Class A	265,154	2.9
150 Marcus Blvd. Hauppauge, NY	Class B	260,954	11.5
All directors and officers as a group	Class A	5,590,614(6)	61.3
(10 persons)	Class B	2,144,152	94.8

(1) Cede & Co., nominee of Depository Trust Co., 55 Water Street, New York, New York 10041, was the record owner of 2,731,975 shares of Class A Common Stock and it is believed that none of such shares was beneficially owned.

(2) Class A Common Stock includes as beneficially owned for each person listed those shares of Class A Common Stock into which Class B Common Stock beneficially owned by such person may be converted upon the exercise of the conversion right of the Class B Common Stock.

(3) Does not give effect to the issuance of 4,695,344 shares of Class A Common Stock issuable as of April 1, 1995 upon conversion of the Series AA Convertible Debentures or Series BB Convertible Debentures and the Debentures. The number of shares issuable upon conversion of such debentures is subject to adjustment in accordance with the terms of the Note Purchase Agreement with respect to the Series AA Convertible Debentures and the Series BB Convertible Debentures and in the Indenture with respect to the Debentures. See Note 8 of Notes to Consolidated Financial Statements.

(4) The amount shown excludes 116,802 shares of Class B Common Stock held in three irrevocable trusts for the benefit of Marc, David and Ari Shalam, the children of John J. Shalam, with respect to which shares Mr. Shalam disclaims any beneficial ownership.

(5) Includes up to 1,365,000 shares of Class A Common Stock subject to the Shalam Option. See "Certain Transactions--Shalam Option."

(6) Includes 75,000 shares of Class A Common Stock issuable upon the exercise of options currently exercisable or exercisable within 60 days of April 1, 1995.

DESCRIPTION OF THE WARRANTS

The Warrants are to be issued under a Warrant Agreement (the "Warrant Agreement") between the Company and Continental Stock Transfer & Trust Company, as Warrant Agent (the "Warrant Agent"). The following summaries of certain provisions of the Warrant Agreement do not purport to be complete and are subject to, and are qualified in their entirety by reference to, all the provisions of the Warrants and the Warrant Agreement, including the definitions therein of certain terms. Wherever particular sections or defined terms of the Warrant Agreement are referred to, such sections or defined terms are incorporated by reference.

Copies of the proposed form of Warrant and the Warrant Agreement have been included with the copy of this Offering Memorandum. Additional copies are available from the Company upon request and should be read carefully by prospective investors in the Warrants.

GENERAL

Each Warrant will entitle the registered holder thereof (the "holder"), subject to and upon compliance with the provisions thereof and of the Warrant Agreement, at such holder's option, to purchase one share of Class A Common Stock. The Warrant Exercise Price of each Warrant will be $7 7/8 per share unless the closing price of the Class A Common Stock on the AMEX is greater than $7 1/8 per share of the Class A Common Stock as of 5:00 p.m. (New York City time) on the date of the closing of the Offering, in which case the exercise price of the Warrant will be 110% of the closing price of the Class A Common Stock on the AMEX as of such time. The Warrant Exercise Price must be at least 110% of the current market price of the Class A Common Stock on the date of the closing in order for the Warrant to be eligible to be traded under Rule 144A under the Securities Act. The Warrants will not be exercisable until one year after the closing of this Offering and unless a registration statement with respect to the issuance of Class A Common Stock upon exercise of the Warrants shall be effective under the Securities Act, and will expire, unless exercised, at 5:00 p.m., New York City time, on March 15, 2001, or such earlier date as set forth in the next sentence (the "Expiration Date"). If less than 5% of the Warrants initially issued remain outstanding, the Company may elect, by notice to each holder of Warrants, that the Warrants will expire on the 30th day after delivery of such notice. See "Registration Rights" below. The Warrant Exercise Price and the number of shares of Class A Common Stock for which Warrants may be exercised is subject to adjustment as set forth below. See "Adjustments" below.

The Offering expires 5:00 p.m. (New York City time) on May 1, 1995, unless extended.

Warrants may be exercised by surrendering the certificate evidencing such Warrants (the "Warrant Certificate") with the form of election to purchase shares set forth on the reverse side thereof duly completed and executed by the holder thereof and paying in full the Warrant Exercise Price for each such Warrant at the office or agency designated for such purpose, which will initially be the corporate trust office of the Warrant Agent in New York, New York. Warrants evidenced by the Global Warrant Certificate may be exercised by a holder by either obtaining a definitive Warrant Certificate and following the procedure set forth above or by following certain procedures set forth in the Warrant Agreement. Each Warrant may only be exercised in whole, and the Warrant Exercise Price may be paid only by certified or official bank check payable to the order of the Warrant Agent.

No fractional shares of Class A Common Stock will be issued upon exercise of the Warrants. In lieu thereof, the Company will pay a cash adjustment based upon the market price of the Class A Common Stock.

When issued, the Warrants will be a new issue of securities with no established trading market. No assurance can be given as to the liquidity of the trading market for the Warrants. The Company expects that the Warrants will be eligible for trading on PORTAL upon consummation of the Offering. The Company intends to seek to list the Warrants on the AMEX or another national securities exchange or

to seek to obtain quotation of the Warrants on NASDAQ Small Cap. However, the listing or quotation requirements for such organizations require a certain minimum number of holders of Warrants prior to approval for listing or quotation. Since the Offering is being made to a limited number of persons in a private placement transaction, there can be no assurance that the Company will obtain such listing or quotation for the Warrants, or if obtained, that the Warrants will not become delisted. If the Warrants have not been approved for listing or quotation, the Company is not required to register the Warrants under the Securities Act pursuant to the Registration Rights Agreement and does not intend to register the Warrants. As described above, if the Warrants are not registered under the Securities Act, they may not be offered or be sold except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and applicable state securities laws. See "Risk Factors-- Absence of Existing Market for Warrants; Restrictions on Resale; No Assurance of Listing and Registration."

MANDATORY REDEMPTION

If a registration statement relating to the Class A Common Stock underlying the Warrants is not effective at any time on or prior to the Expiration Date, the Company is required to redeem all of the outstanding Warrants for $2.20 per Warrant. The Redemption Price is subject to adjustment in certain limited circumstances. See "Description of the Warrants--Adjustments."

ADJUSTMENTS

The Warrant Exercise Price and the number of shares of Class A Common Stock issuable upon exercise of the Warrants are subject to adjustment in the following events under formulas set forth in the Warrant Agreement: (i) the issuance of any shares of Common Stock to holders of any class of Common Stock as a dividend or distribution; and (ii) subdivisions, combinations and reclassifications of any class of Common Stock. The Shalam Option will also contain the adjustments set forth in (i) and (ii) above. The Redemption Price and the reduction in the Warrant Exercise Price upon a Registration Default will also be subject to adjustment upon the occurrence of the events set forth in (i) and (ii) above.

Except as stated in the preceding provisions, the initial Warrant Exercise Price and the number of shares issuable upon exercise of the Warrants will not be adjusted for any other events including issuances of shares of Class A Common Stock, or options to acquire shares of Class A Common Stock, at less than the then current market price of the Class A Common Stock or the then current Warrant Exercise Price of the Warrants. Moreover, no adjustment will be made unless such adjustment would require a change of at least 1% in the Warrant Exercise Price then in effect, but any adjustment that would otherwise be required to be made shall be carried forward and taken into account in any subsequent adjustment. The Company will reserve the right to make such reductions in the Warrant Exercise Price in addition to those required in the foregoing provisions as it considers to be advisable in order that any event treated for Federal tax purposes as a dividend of stock or stock rights shall not be taxable to the recipients.

In case either of the following occurs: (i) any consolidation or merger involving the Company other than a consolidation or merger which does not result in any reclassification, conversion, exchange or cancellation of outstanding shares of Class A Common Stock; or (ii) any sale or transfer of all or substantially all of the assets of the Company (each, a "Transaction"), the Person formed by such Transaction or which acquires such assets, as the case may be (the "Acquiror"), shall execute and deliver to the Warrant Agent prior to the consummation of the Transaction a warrant agreement (or supplement to this Warrant Agreement) providing that the Holder of each Warrant then outstanding shall have the right thereafter, during the period such Warrant shall be exercisable in accordance with this Warrant Agreement, to exercise such Warrant only into the kind and amount of securities, cash or other property (collectively, the "Consideration") receivable upon such Transaction by a holder of the number of shares of Class A Common Stock into which such Warrant might have been converted

immediately prior to such transaction (assuming such holder of shares of Class A Common Stock (i) is not a person with which the Company consolidated or into which the Company merged or which merged into the Company or to which such sale or transfer was made, as the case may be (a "constituent person") (or an affiliate of a constituent person), and (ii) failed to exercise his or her rights of election, if any, and received per share of Class A Common Stock the kind and amount of cash or other property received per share of Class A Common Stock by a plurality of non-electing shares).

MODIFICATION OF THE WARRANT AGREEMENT

The Warrant Agreement permits, with certain exceptions, the amendment thereof and the modification of the rights and obligations of the Company and the rights of the holders of Warrant Certificates under the Warrant Agreement at any time by the Company and the Warrant Agent with the consent of the holders of Warrant Certificates representing a majority in number of the then outstanding Warrants; provided that no such modification or amendment may, without the consent of the holder of each outstanding Warrant affected thereby: (i) change the Expiration Date (except to extend the Expiration Date to a later date) or increase the Warrant Exercise Price; (ii) reduce the reduction in the Warrant Exercise Price of a Warrant upon a Registration Default; (iii) reduce the Redemption Price or (iv) reduce the percentage of Holders of Warrants the consent of who is required for modification or amendment of the Warrant Agreement. See "Risk Factors--Amendment to the Warrants."

The Warrant Agreement (including the terms and conditions of the Warrants) may be modified or amended by the Company and the Warrant Agent without the consent of the holder of any Warrant, for certain specified purposes not materially adversely affecting the rights of the holders of the Warrants.

NO RIGHTS AS STOCKHOLDER

Holders of Warrants will not be entitled, by virtue of being such holders, to receive dividends, vote, receive notice of any meetings of stockholders, share in the assets of the Company in the event of liquidation, dissolution or the winding up of the Company's affairs, or otherwise have any right of stockholders of the Company.

RULE 144A INFORMATION REQUIREMENT; FINANCIAL INFORMATION

The Company has agreed to furnish to the holders, the beneficial holders of the Warrants designated by the Holders of the Warrants, or the prospective purchasers of any such securities, the information required to be delivered pursuant to Rule 144A(d)(4) promulgated under the Securities Act, if applicable, until such time as such securities are no longer "restricted securities" within the meaning of Rule 144 promulgated under the Securities Act. Upon request, the Company will also furnish to the holders of the Warrants all quarterly and annual financial information furnished to the holders of the Class A Common Stock.

TRANSFER AND EXCHANGE

A holder may transfer or exchange the Warrants in accordance with the Warrant Agreement. The Warrant Certificates evidencing the Warrants may be surrendered for exercise or exchange, and the transfer of Warrant Certificates will be registrable, at the office or agency of the Company maintained for such purpose, which initially will be the corporate trust office of the Warrant Agent in New York, New York. The Warrant Certificates will be issued only in fully registered form in denominations of whole numbers of Warrants. No service charge will be made for any exercise, exchange or registration of transfer of Warrant Certificates, but the Company may require payment of a sum sufficient to cover any tax or other governmental charge payable in connection therewith. The Company may also require a holder, among other things, to furnish appropriate endorsements and transfer documents.

The registered holder of a Warrant may be treated as the owner of it for all purposes.

BOOK ENTRY; DELIVERY AND FORM

The certificates representing the Warrants will be issued in fully registered form. Except as described below, the Warrants sold to U.S. persons initially will be represented by a single, permanent global certificate in definitive, fully registered form (the "Restricted Global Warrant") and will be deposited with the Warrant Agent as custodian for The Depository Trust Company, New York, New York ("DTC") and registered in the name of a nominee of DTC, Cede & Co. Warrants sold in offshore transactions in reliance on Regulation S will be represented by a single, permanent global certificate, in definitive, fully registered form (the "Regulation S Global Warrant") and will be deposited with the Warrant Agent as custodian for DTC and registered in the name of Cede & Co. as the nominee of DTC, for the account of CEDEL. The Company will also attempt to have the Regulation S Global Warrant registered for the account of Euroclear, although the Company has been informed by Euroclear that interests in the Warrants may not be held through Euroclear unless 25% of the Warrants sold in the Offering are sold in transactions in reliance on Regulation S. The Company is offering less than 25% of the Warrants to holders who would acquire the Warrants in a Regulation S transaction, although depending on the success of the offering more than 25% of the purchasers of the Warrants may acquire the Warrants in a Regulation S transaction. Accordingly, no assurance can be given that the Regulation S Global Warrant will be registered for the account of Euroclear. If Euroclear has agreed to list the Warrants, the Company may elect to have the Warrants registered with Euroclear and purchasers of Warrants in the Offering will be notified of such listing promptly after the Offering has been consummated. Prior to the 40th day after the closing of this Offering, beneficial interests in the Regulation S Global Warrant may be only held through CEDEL, and any resale or other transfer of such interests to U.S. persons shall not be permitted during such period in reliance on Regulation S. CEDEL will hold omnibus positions on behalf of their respective participants through customers' securities accounts in CEDEL's name on the books of their respective depositaries, which in turn will hold positions in customers' securities accounts in the depositaries' name on the books of DTC. Citibank will act as depositary for CEDEL (in such capacities, the "Depositaries"). If Euroclear agrees to have the Regulation S Global Warrant registered for its account, the Company may elect to have the Warrants registered with Euroclear and, if so registered, the provisions described under this caption "Book-Entry, Delivery and Form" relating to CEDEL will also be applicable to Euroclear.

The Global Warrants (as defined below) will be subject to certain restrictions on transfer set forth therein and in the Warrant Agreement and will bear the respective legends regarding such restrictions set forth under "Notice to Investors." A beneficial interest in the Regulation S Global Warrant may be transferred to a person who takes delivery in the form of an interest in the Restricted Global Warrant only upon receipt by the Warrant Agent of a written certification from the transferor (in the form provided in the Warrant Agreement) to the effect that such transfer is being made to a person whom the transferor reasonably believes is a "qualified institutional buyer" within the meaning of Rule 144A promulgated under the Securities Act (a "Qualified Institutional Buyer") in a transaction meeting the requirements of Rule 144A and in accordance with any applicable securities laws of any state of the United States or any other jurisdiction. Beneficial interests in the Restricted Global Warrant may be transferred to a person who takes delivery in the form of an interest in the Regulation S Global Warrant only upon receipt by the Warrant Agent of a written certification (in the form provided in the Warrant Agreement) to the effect that such transfer is being made in accordance with Regulation S under the Securities Act. After a beneficial interest in a Global Warrant has been transferred pursuant to an effective registration statement or Rule 144 promulgated under the Securities Act, all certification requirements will cease with respect to such beneficial interest, and any beneficial interests so transferred will thereafter be evidenced by a third global certificate. Any beneficial interest in one of the Global Warrants that is transferred to a Person who takes delivery in the form of an interest in the other Global Warrant will, upon transfer, cease to be an interest in such Global Warrant and become an interest in the other Global Warrant and, accordingly, will thereafter be subject to all transfer restrictions, if any, and other procedures applicable to beneficial interests in such other Global Warrant for as long as it remains such an interest.

Warrants held by U.S. persons or "foreign purchasers" who elect to take physical delivery of their certificates instead of holding their interest through a Global Warrant (and which are thus ineligible to trade through DTC or CEDEL (collectively referred to herein as the "Non-Global Purchasers") will be issued in registered form (the "Certificated Warrants"). Upon the transfer to a Qualified Institutional Buyer or in accordance with Regulation S of Certificated Warrants initially issued to a Non-Global Purchaser, such Certificated Warrants will, unless the transferee requests otherwise or the Global Warrant previously has been exchanged in whole for Certificated Warrants, be exchanged for an interest in a Global Warrant. For a description of the restrictions on the transfer of Certificated Warrants and any interest in Global Warrants, see "Notice to Investors."

The Global Warrants. Upon the issuance of the Regulation S Global Warrant and the Restricted Global Warrant (each a "Global Warrant" and together the "Global Warrants"), DTC or its custodian will credit, on its internal system, the respective number of Warrants of the individual beneficial interests represented by such Global Warrant to the accounts of persons who have accounts with DTC. Ownership of beneficial interests in a Global Warrant will be limited to persons who have accounts with DTC ("participants") or persons who hold interests through participants. Ownership of beneficial interests in a Global Warrant will be shown on, and the transfer of that ownership will be effected only through, records maintained by DTC or its nominee (with respect to interests of participants). U.S. persons may hold their interests in the Restricted Global Warrant directly through DTC if they are participants in such system, or indirectly through organizations which are participants in such system. Investors may hold their interests in the Regulation S Global Warrant directly through CEDEL if they are participants in such system, or indirectly through organizations that are participants in such systems. Beginning 40 days after the Closing Date (but not earlier), investors may also hold such interests through organizations other than CEDEL that are participants in the DTC system.

So long as DTC, or its nominee, is the registered owner or holder of a Global Warrant, DTC or such nominee, as the case may be, will be considered the sole owner or holder of the Warrants represented by such Global Warrant for all purposes under the Warrant Agreement and the Warrants. No beneficial owner of an interest in the Global Warrants will be able to transfer that interest except in accordance with DTC's applicable procedures, in addition to those provided for under the Warrant Agreement and, if applicable, CEDEL.

Neither the Company, the Warrant Agent nor any agent of the Warrant Agent or the Company will have any responsibility or liability for any aspect of the records relating to or payments made on account of beneficial ownership interests in the Global Warrants or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

The Company expects that DTC or its nominee, upon receipt of any payment upon redemption in respect of the Global Warrants will credit participants' accounts with payments in amounts proportionate to their respective beneficial interests in the amounts of such Global Warrant as shown on the records of DTC or its nominee. The Company also expects that payments by participants to owners of beneficial interests in such Global Warrant held through such participants will be governed by standing instructions and customary practice, as is now the case with securities held for the accounts of customers registered in the names of nominees for such customers. Such payments will be the responsibility of such participants.

Transfers between participants in DTC will be effected in the ordinary way in accordance with DTC rules and will be settled in same-day funds. If a person holding a beneficial interest in a Global Warrant requires physical delivery of a Certificated Warrant for any reason, including to sell Warrants to persons in states which require physical delivery of a Certificated Warrant or to pledge such Warrants, such holder must transfer its interest in the Global Warrant in accordance with the normal procedures of DTC and the procedures set forth in the Warrant Agreement. Transfers between participants in CEDEL will occur in accordance with CEDEL's rules and operating procedures. Cross-market transfers between persons holding directly or indirectly through DTC, on the one hand, and directly or indirectly through CEDEL on the other, will be effected by DTC in accordance with DTC rules on behalf of CEDEL by their respective Depositaries; however, subject to compliance with the transfer restrictions applicable to the Warrants, such crossmarket transactions will require delivery of instructions to the relevant European international clearing system by the counterparty in such system in accordance with its rules and procedures and within its established deadlines (European time). The relevant European international clearing system will, if the transaction meets its settlement requirements, deliver instructions to its Depositary to take action to effect final settlement on its behalf by delivering or receiving securities in DTC, and making or receiving payment in accordance with normal procedures for same-day funds settlement applicable to DTC. Participants in CEDEL may not deliver instructions to the Depositary.

Because of time-zone differences, credits to the securities account of a CEDEL participant as a result of a transaction with a participant in DTC will be made during the securities settlement processing day (which must be a business day for CEDEL) immediately following the DTC settlement date. Such credits of any transactions in such securities settled during such processing will be reported to the participants in CEDEL on such business day. Cash received in CEDEL as a result of sales of securities by or through a participant in CEDEL to a participant in DTC will be received with value on the DTC settlement date but will be available in the relevant CEDEL cash account only as of the business day following settlement in DTC.

DTC has advised the Company that it will take any action permitted to be taken by a holder of Warrants only at the direction of one or more participants to whose account the DTC interests in Global Warrants is credited and only in respect of such portion of the aggregate number of Warrants as to which such participant or participants has or have given such direction.

DTC has advised the Company as follows: DTC is a limited purpose trust company organized under the laws of the State of New York, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the Uniform Commercial Code and a "Clearing Agency" registered pursuant to the provisions of Section 17A of the Exchange Act. DTC was created to hold securities for its participants and facilitate the clearance and settlement of securities transactions between participants through electronic book-entry changes in accounts of its participants, thereby eliminating the need for physical movement of certificates. Participants include securities brokers and dealers, banks, trust companies and clearing corporations and certain other organizations. Indirect access to the DTC system is available to others such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a participant, either directly or indirectly ("indirect participants").

CEDEL is incorporated under the laws of Luxembourg as a professional depository. CEDEL holds securities for its participating organizations ("CEDEL Participants") and facilitates the clearance and settlement of securities transactions between CEDEL Participants through electronic book-entry changes in accounts of CEDEL Participants, thereby eliminating the need for physical movement of certificates. Transactions may be settled in CEDEL in any of 28 currencies, including United States dollars. CEDEL provides to CEDEL Participants, among other things, services for safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. CEDEL interfaces with domestic markets in several countries. As a professional depository, CEDEL is subject to regulation by the Luxembourg Monetary Institute. CEDEL Participants are

recognized financial institutions around the world, including underwriters, securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. Indirect access to CEDEL is also available to others, such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a CEDEL Participant, either directly or indirectly.

Euroclear was created in 1968 to hold securities for participants of Euroclear ("Euroclear Participants") and to clear and settle transactions between Euroclear Participants through simultaneous electronic book-entry delivery against payment, thereby eliminating the need for physical movement of certificates and any risk from lack of simultaneous transfers of securities and cash. Transactions may now be settled in any of 27 currencies, including United States dollars. Euroclear includes various other services, including securities lending and borrowing and interfaces with domestic markets in several countries generally similar to the arrangements for cross-market transfers with DTC described above. Euroclear is operated by the Brussels, Belgium office of Morgan Guaranty Trust Company of New York (the "Euroclear Operator"), under contract with Euroclear Clearance Systems S.C., a Belgium cooperative corporation (the "Cooperative"). All operations are conducted by the Euroclear Operator, and all Euroclear securities clearance accounts and Euroclear cash accounts are accounts with Euroclear Operator, not the Cooperative. The Cooperative establishes policy for Euroclear on behalf of Euroclear Participants. Euroclear Participants include banks (including central banks), securities brokers and dealers and other professional financial intermediaries. Indirect access to Euroclear also is available to other firms that clear through or maintain a custodial relationship with a Euroclear Participant, either directly or indirectly.

The Euroclear Operator is the Belgian branch of a New York banking corporation which is a member bank of the Federal Reserve System. As such, it is regulated and examined by the Board of Governors of the Federal Reserve System and the New York State Banking Department, as well as the Belgian Banking Commission.

Securities clearance accounts and cash accounts with the Euroclear Operator are governed by the Terms and Conditions Governing Use of Euroclear and the related Operating Procedures of the Euroclear System and applicable Belgian law (collectively, "the Terms and Conditions"). The Terms and Conditions govern transfers of securities and cash within Euroclear, withdrawals of securities and cash from Euroclear, and receipts of payments with respect to securities in Euroclear. All securities in Euroclear are held on a fungible basis without attribution of specific certificates to specific securities clearance accounts. The Euroclear Operator acts under the Terms and Conditions only on behalf of Euroclear Participants, and has no record of or relationship with persons holding through Euroclear Participants.

Distributions with respect to certificates representing Warrants held through CEDEL will be credited to the cash accounts of CEDEL Participants in accordance with each such systems' rules and procedures, to the extent received by its Depositary. Such distributions will be subject to tax reporting in accordance with relevant United States tax laws and regulations. Each Depositary will take any other action permitted to be taken by a holder of Warrants under the Indenture on behalf of a participant in CEDEL only in accordance with its relevant rules and procedures and subject to its ability to effect such actions on its behalf through DTC.

Although DTC and CEDEL have agreed to the foregoing procedures in order to facilitate transfers of interests in the Global Warrants among participants of DTC and CEDEL they are under no obligation to perform such procedures, and such procedures may be discontinued at any time. Neither the Company nor the Warrant Agent will have any responsibility for the performance by DTC or CEDEL or their respective participants or indirect participants of their respective obligations under the rules and procedures governing their respective operations. In addition, if Euroclear agrees to have Warrants registered in its name it will be subject to the same limitations and terms described above with respect to CEDEL.

If DTC is at any time unwilling or unable to continue as a depositary for the Global Warrants and a successor depositary is not appointed by the Company within 90 days, the Company will issue Certificated Warrants in exchange for the Global Warrants.

REGISTRATION RIGHTS

Pursuant to the Warrant Agreement, the Company will agree to file with the SEC within 300 days after the Closing Date a shelf registration statement or statements under the Securities Act on Form S-1, Form S-2 or Form S-3, as determined by the Company, if the use of such form is then available, to cover the issuance of Class A Common Stock by the Company upon exercise of the Warrants (the "Shelf Registration Statement").

The Warrant Agreement will provide that: (i) the Company will file the Shelf Registration Statement with the SEC on or prior to 300 days after the Closing Date; and (ii) the Company will use reasonable best efforts to cause the Shelf Registration Statement to be declared effective by the SEC on or prior to one year after the Closing Date. If: (i) the Shelf Registration Statement is not filed with the SEC on or prior to 300 days after the Closing Date; (ii) the Shelf Registration Statement has not been declared effective by the SEC within one year after the Closing Date; or (iii) the Shelf Registration Statement is filed and declared effective but shall thereafter cease to be effective (without being succeeded immediately by an additional Shelf Registration Statement filed and declared effective) for a period of time which shall exceed 90 days (180 days in the event of a Disadvantageous Condition (as defined below)) in the aggregate per year (defined as a period of 365 days beginning on the date such Registration Statement is declared effective) (each such event referred to in clauses (i) through (iii) above, a "Registration Default"), the Warrant Exercise Price of the Warrants will be reduced by $ 1/8 per share of Class A Common Stock. The Warrant Exercise Price of the Warrants will be reduced by an additional $ 1/8 per share of Class A Common Stock, as applicable, with respect to each subsequent six-month period until the Shelf Registration Statement is filed, is declared effective, or again becomes effective, as the case may be. Notwithstanding the foregoing, the maximum number of $ 1/8 per share decreases shall be 10 and there shall be no more than one such decrease in any six-month period. The reduction in the Warrant Exercise Price upon a Registration Default is subject to adjustment in certain limited circumstances. The Company will not be obligated to register Class A Common Stock underlying any Warrants (a) which the holder does not seek to register or (b) if the Company determines (based on discussions with the SEC, advice of counsel or otherwise) that it is not advisable or appropriate to register such shares of Class A Common Stock underlying such Warrants if the SEC has declared effective a registration statement with respect to other shares of Class A Common Stock underlying the Warrants. In any such event (a) or (b), the exercise price underlying such Warrants will not decrease upon the failure to register with the SEC such underlying shares of Class A Common Stock if the SEC has declared effective a registration statement with respect to other shares of Class A Common Stock. The Shalam Option will not contain a similar reduction in the Shalam Option Price upon a Registration Default.

The Company intends to seek to list the Warrants on a national securities exchange or to seek quotation of the Warrants on the automated quotation system of a national securities exchange (as such terms are defined in the Securities Act) within 365 days of the Closing Date and to simultaneously register the Warrants under the Securities Act. The Company intends to seek to obtain such listing on theAMEX (the exchange on which the Class A Common Stock is listed) or to obtain quotation of the Warrants on NASDAQ Small Cap. However, AMEX and NASDAQ Small Cap require a minimum number of holders of Warrants, prior to listing or quotation, as the case may be, without a waiver. Since the Offering is being made to a limited number of persons in a private placement transaction, the AMEX or NASDAQ Small Cap may not agree to list or quote the Warrants, as the case may be. In such case, the Company intends to seek to list the Warrants on one of the Boston Stock Exchange, Midwest Stock Exchange, Pacific Stock Exchange or Philadelphia Stock Exchange. However, there can be no assurance that any of such stock exchanges will agree to list the Warrants since such exchanges also have minimum holder requirements for listing. If any of the above exchanges agree to list the

Warrants or the Warrants have been approved for quotation on NASDAQ Small Cap (a "Listing Approval"), the Company will file a shelf registration statement (the "Resale Registration Statement") relating to the Warrants upon the later of (a) 300 days after the Closing Date and (b) the date approval of such listing or quotation is obtained (the "Approval Date") and will use its reasonable best efforts to cause such registration statement to become effective upon the later of (a) 365 days after the Closing Date and (b) 60 days after the Listing Approval Date. Once effective, the Company will be obligated to use reasonable best efforts to cause the Resale Registration Statement to remain effective until the date three years following the Closing Date.

Notwithstanding the foregoing, to the if the Company shall furnish to the holders of Warrants notice stating that in the Board of Directors' good faith judgment it would be disadvantageous (a "Disadvantageous Condition") to the Company or its stockholders for such a registration statement to be maintained effective, or to be filed and become effective, the Company shall be entitled to cause any registration statement to be withdrawn and the effectiveness of such registration statement terminated, or, in the event no Registration Statement has yet been filed, shall be entitled not to file any such Registration Statement, until such Disadvantageous Condition no longer exists (notice of which the Company shall promptly deliver to the holders of Warrants), such period not to extend beyond one hundred and eighty (180) days. In the event that the Company shall give any notice of a Disadvantageous Condition, the Company shall at such time as it in good faith deems appropriate file a new registration statement covering the securities that were covered by such withdrawn registration statement.

Holders of Transfer Restricted Warrants will be required to make certain representations to the Company (as described in the Warrant Agreement) and will be required to deliver information to be used in connection with the Resale Registration Statement in order to have such Warrants included in the Resale Registration Statement and benefit from the provisions regarding the reduction in the Warrant Exercise Price upon a Registration Default set forth in the second preceding paragraph. Once effective, the Company will be obligated to cause the Resale Registration Statement to remain effective for three years following the Closing Date, and to cause the Shelf Registration Statement to remain effective until the Expiration Date. For purposes hereof, "Transfer Restricted Warrants" means each Warrant until the date on which such Warrant has been effectively registered under the Securities Act and disposed of in accordance with the Resale Registration Statement, or the date on which such Warrant is distributed to the public pursuant to Rule 144 promulgated under the Securities Act or is salable pursuant to Rule 144(k) promulgated under the Securities Act (or any similar provisions then in force) or is otherwise freely tradeable.

Holders of Transfer Restricted Warrants will be required to indemnify the Company against certain liabilities, including liabilities under the Securities Act, incurred as a result of information provided by such Holders in connection with the Resale Registration Statement, and to contribute to payments the Company may be required to make in respect of such liabilities.

CONCERNING THE WARRANT AGENT

Continental Stock Transfer & Trust Company will act as Warrant Agent under the Warrant Agreement. The address of the Warrant Agent's corporate trust office is Two Broadway, New York, New York 10004, Attention: William Seegraber. Continental Stock Transfer & Trust Company also acts as trustee under the Indenture governing the Debentures, and as registrar and transfer agent for the Class A Common Stock.

DESCRIPTION OF CAPITAL STOCK

The authorized capital stock of the Company consists of 30,000,000 shares of Class A Common Stock, par value $.01 per share, 10,000,000 shares of Class B Common Stock, par value $.01 per share, 50,000 shares of Preferred Stock, par value $50 per share, and 1,500,000 shares of Series Preferred Stock, par value $.01 per share. As of March 31, 1995, there were 6,777,788 shares of Class A Common

Stock outstanding. As of March 31, 1995, 2,260,954 shares of Class B Common Stock and 50,000 shares of Preferred Stock were issued and outstanding. There are no shares of Series Preferred Stock outstanding.

The following summary description relating to the Class A Common Stock, the Class B Common Stock, the Preferred Stock and Series Preferred Stock does not purport to be complete and is qualified in its entirety by reference to such documents. A copy of any of such documents is available upon request to the Company. A description of the Company's capital stock is contained in the Certificate of Incorporation of the Company. Reference is made to such Certificate of Incorporation for a detailed description of the provisions thereof summarized below.

CLASS A COMMON STOCK AND CLASS B COMMON STOCK

Voting Rights

Except for the election or removal without cause of directors, as required by the Certificate of Incorporation, and except for such separate class votes as may be required by Delaware law and the Certificate of Incorporation, holders of both classes of Common Stock vote as a single class on all matters, including amendment of the Certificate of Incorporation to increase or decrease the aggregate number of authorized shares of any class or classes of stock. In all cases, each share of Class A Common Stock is entitled to cast one vote per share and each share of Class B Common Stock is entitled to cast ten votes per share.

Holders of Class A Common Stock, voting separately as a class, are entitled to elect 25% of the Board of Directors (rounded up to the nearest whole number) so long as the number of outstanding shares of Class A Common Stock is at least 10% of the total number of outstanding shares of both classes of Common Stock. If the number of outstanding shares of Class A Common Stock should become less than 10% of the total number of outstanding shares of both classes of Common Stock, directors would then be elected by all stockholders voting as one class, except holders of Class A Common Stock would have one vote per share and holders of Class B Common Stock would have ten votes per share. In such event, the American Stock Exchange may consider delisting the Class A Common Stock.

The holders of a majority of the Class B Common Stock, voting separately as a class, will continue to be able to elect the directors not elected by holders of the Class A Common Stock, so long as the number of outstanding shares of Class B Common Stock is at least 12.5% of the number of outstanding shares of both classes of Common Stock. If the number of outstanding shares of Class B Common Stock falls below that percentage, directors not elected by the holders of Class A Common Stock will be elected by the holders of both classes of Common Stock, with holders of Class A Common Stock having one vote per share and holders of Class B Common Stock having ten votes per share.

Directors may be removed, with or without cause, provided that any removal of directors without cause may be made only by the holders of the class or classes of Common Stock that elected them. Vacancies in a directorship may be filled by the vote of the class of shares that had previously filled that vacancy, or by the remaining directors elected by that class. However, if there are no such directors, the vacancy may be filled by the remaining directors.

The outstanding shares of Class A Common Stock equal approximately 75.0% of the shares of both classes outstanding, and the holders of Class A Common Stock have approximately 23.0% of the combined voting power of both classes of Common Stock. The holders of Class B Common Stock, therefore, have the power to amend the Company's Certificate of Incorporation to authorize the issuance of enough additional Class B Common Stock to decrease the outstanding amount of Class A Common Stock to less than 10%. Because of limitations on dividends in shares of Class A Common Stock and Class B Common Stock, stock dividends will have the effect of strengthening the control position of holders of Class B Common Stock.

Dividends

The holders of Class A Common Stock and Class B Common Stock are entitled to receive dividends or distributions declared by the Board of Directors in equal amounts, share for share, except as hereafter noted. See "Dividend Policy." With respect to a cash dividend, the Board may pay an equal or greater amount per share on the Class A Common Stock than on the Class B Common Stock or declare and pay a cash dividend on the Class A Common Stock without any such dividend being declared and paid on the Class B Common Stock.

In addition, dividends paid in shares of Class A Common Stock or Class B Common Stock may be paid only as follows:

(i) shares of Class A Common Stock may be paid only to holders of shares of Class A Common Stock and shares of Class B Common Stock may be paid only to holders of Class B Common Stock; and

(ii) the same number of shares shall be paid in respect of each outstanding share of Class A Common Stock and Class B Common Stock.

Conversion

At the option of the holder, each share of Class B Common Stock is convertible at any time into one share of Class A Common Stock. Conversion of a significant number of shares of Class B Common Stock into Class A Common Stock could put control of the entire Board of Directors into the hands of such holders of the Class B Common Stock who so convert.

Restrictions on Transfer of Class B Common Stock

Without the written consent of holders of two-thirds of the outstanding shares of Class B Common Stock, shares of Class B Common Stock may not be transferred except to another holder of Class B Common Stock, certain family members of the holder and certain other permitted transferees. Upon any nonpermitted sale or transfer, shares of Class B Common Stock will automatically convert into an equal number of shares of Class A Common Stock. Accordingly, no trading market will develop in the Class B Common Stock and the Class B Common Stock will not be listed or traded on any exchange or in any market.

Other Rights

Stockholders of the Company have no preemptive or other rights to subscribe for additional shares. Subject to any rights of holders of any Preferred Stock and Series Preferred Stock, all holders of Common Stock, regardless of class, are entitled to share ratably in any assets available for distribution on liquidation, dissolution or winding up of the Company. No shares of either class of Common Stock are subject to redemption. All outstanding shares are, and all shares issuable upon exercise of the Warrants offered hereby will be, when issued upon such exercise in accordance with the terms of the Warrants, legally issued, fully paid and nonassessable. The Company may not subdivide or combine shares of either class of Common Stock without at the same time proportionally subdividing or combining shares of the other class of Common Stock.

Effects of Disproportionate Voting Rights

The disproportionate voting rights of Class A Common Stock and Class B Common Stock could have an adverse effect on the market price of the Class A Common Stock. Such disproportionate voting rights may effectively preclude the Company from being taken over in a transaction not supported by holders of Class B Common Stock, may render more difficult or discourage a merger proposal or tender offer or may preclude a successful proxy contest, even if such actions were favored by stockholders of the Company other than the holders of the Class B Common Stock. Accordingly, such disproportionate voting rights may deprive stockholders of an opportunity to sell their shares at a premium over prevailing market prices, since takeover bids frequently involve purchases of stock directly from stockholders at such a premium price.

Transfer Agent

The transfer agent and registrar for shares of the Class A Common Stock and Class B Common Stock is Continental Stock Transfer & Trust Company, New York, New York. Continental Stock Transfer & Trust Company will also be acting as Warrant Agent for the Warrants

PREFERRED STOCK

Preferred Stock

The 50,000 shares of Preferred Stock are owned by Shintom. Such shares are nonvoting and have preference over the Common Stock in the event of liquidation, dissolution or winding up of the Company to the extent of its par value of $50 per share.

SERIES PREFERRED STOCK

The Company is authorized to issue up to 1,500,000 shares of Series Preferred Stock, par value $.01 per share, none of which has been issued. The Certificate of Incorporation provides that the Board of Directors may issue by resolution shares of Series Preferred Stock from time to time in one or more series and fix, as to each such series, the designations, preferences and relative, participating, optional and other special rights, and the qualifications, limitations or restrictions pertaining thereto, including voting rights (including the right to vote as a series on particular matters), preferences as to dividends and liquidation and conversion rights. However, the Company may not issue shares of Series Preferred Stock carrying in excess of one vote per share or convertible into Class B Common Stock without prior approval of a majority in interest of the holders of Class B Common Stock. The Company has no present plans for the issuance of any shares of Series Preferred Stock.

It is not possible to state the actual effect of the authorization of the Series Preferred Stock upon the rights of holders of Class A Common Stock, Class B Common Stock and Preferred Stock until the Board determines the specific rights thereof. However, such effects might include (a) restrictions on dividends on either class of Common Stock if dividends on Series Preferred Stock have not been paid; (b) dilution of the voting power of the Class A Common Stock to the extent that the Series Preferred Stock has voting rights; (c) dilution of the equity interest of the Class A Common Stock to the extent that the Series Preferred Stock is convertible into Class A Common Stock; or (d) either class of Common Stock and Preferred Stock not being entitled to share in the Company's assets upon liquidation, dissolution or winding up until satisfaction of any liquidation preference granted to holders of Series Preferred Stock. The Company has been advised that under its current listing requirements, the American Stock Exchange would consider delisting the Class A Common Stock if any Series Preferred Stock diluted the class voting rights of the Class A Common Stock. Issuance of Series Preferred Stock, while providing desirable flexibility in connection with possible acquisition and other corporate purposes, could make it more difficult for a third party to acquire a majority of the outstanding voting stock. Accordingly, the issuance of Series Preferred Stock may be used as an antitakeover device without further action on the part of the stockholders of the Company.

DELAWARE LAW

The Company is subject to the provisions of Section 203 of the Delaware General Corporation Law. In general, this statute prohibits a publicly held Delaware corporation from engaging, under certain circumstances in a "business combination" with an "interested stockholder" for a period of three years after the date of the transaction in which the person becomes an interested stockholder, unless either: (i) prior to the date at which the stockholder became an interested stockholder, the Board of Directors approved either the business combination or the transaction in which the person becomes an interested stockholder; (ii) the stockholder acquires more than 85% of the outstanding voting stock of the corporation (excluding shares held by directors who are officers or held in certain employee stock plans) upon consummation of the transaction in which the stockholder becomes in interested stockholder; or (iii) the business combination is approved by the Board of Directors and by at least 66 2/3% of the outstanding voting stock of the corporation (excluding shares held by the interested stockholder) at a meeting of stockholders (and not by written consent) held on or subsequent to the date of the business

combination. An "interested stockholder" is a person who, together with affiliates and associates, owns (or at any time within the prior three years did own) 15% or more of the corporation's voting stock. Section 203 defines a "business combination" to include, without limitation, mergers, consolidations, stock sales and asset-based transactions and other transactions resulting in a financial benefit to the interested stockholder.

Section 203 of the Delaware General Corporation Law contains provisions normally considered to have the effect of inhibiting a non-negotiated merger or other business combination. Consequently, the market price of the Class A Common Stock may be less likely to reflect a "premium for control."

SHARES ELIGIBLE FOR FUTURE SALE; DILUTION

The Warrants offered hereby will be exercisable for Class A Common Stock upon the later of (a) one year after the Closing Date and (b) the effectiveness of the Shelf Registration Statement, until the Expiration Date at the Warrant Exercise Price, subject to adjustment in the Expiration Date and the Warrant Exercise Price in certain cases. See "Description of the Warrants." The Company has agreed to use its reasonable best efforts to cause the Shelf Registration Statement relating to the Class A Common Stock to be declared effective within one year of the Closing Date. Sales of a substantial number of shares of Class A Common Stock in the public market could materially adversely affect the market price of the Class A Common Stock. Conversion of a substantial amount of the Series AA Convertible Debentures, Series BB Convertible Debentures, Debentures, Warrants or other warrants of the Company also could materially adversely affect the market price of the Class A Common Stock due to the large number of additional shares of Common Stock issuable upon conversion of such debentures and Warrants (1,365,000 shares) in comparison to the relatively small number of shares held by members of the public that are able to trade without restriction. In addition, the independent members of the Board of Directors may elect not to exercise the Shalam Option in connection with the exercise of the Warrants if such board members believe it is in the best interests of the Company not to exercise the Shalam Option. The decision by the independent directors of the Board of Directors not to exercise the Shalam Option, in whole or in part, upon exercise of the Warrants would result in an increase in the number of shares of Class A Common Stock outstanding and available for future sale and could result in significant dilution to the holders of Common Stock. See "Risk Factors--Shares Eligible for Future Sale; Dilution".

Upon completion of this Offering, the Company will have outstanding 6,777,788 shares of Class A Common Stock (assuming no exercise of options or warrants or conversion of other securities after March 31, 1995). Of these shares, 3,406,326 shares of Class A Common Stock are freely transferable and tradable without restriction or further registration under the Securities Act except for any shares purchased by any affiliates of the Company, which will be subject to the resale limitations of Rule 144 promulgated under the Securities Act.

In general, under Rule 144 as currently in effect, affiliates of the Company would be entitled to sell within any three-month period a number of shares that does not exceed the greater of one percent of the number of shares of Class A Common Stock then outstanding or the average weekly trading volume of the Class A Common Stock during the four calendar weeks preceding the filing of a Form 144 with respect to such sale. Sales under Rule 144 are also subject to certain manner of sale provisions and notice requirements and to the availability of current public information about the Company.

The Company is unable to estimate accurately the number of shares that will be sold under Rule 144 since this will depend in part on the market price for the Class A Common Stock, the personal circumstances of the sellers and other factors.

With regard to certain demand and piggyback registration rights, see "Recent Transactions-- Repayment of Certain Subordinated Indebtedness" and "--H & H Eastern Distributors, Inc."

The Company has registered Class A Common Stock under the Securities Act for issuance to certain of its directors, officers and employees pursuant to the Company's stock option plans. Shares issued pursuant to such stock option plans after the effective date of any registration statement covering such shares generally will be available for sale in the open market (except that such shares held by affiliates will be subject to compliance with the volume restrictions of Rule 144 under the Securities Act).

NOTICE TO INVESTORS

Each purchaser of Warrants, by its acceptance thereof, will be deemed to have acknowledged, represented to and agreed with the Company as set forth in the Subscription Agreement and as follows:

1. It understands and acknowledges that the Warrants are being offered in a transaction not requiring registration under the Securities Act or any other securities law, that the Warrants and the shares of Class A Common Stock issuable upon conversion of the Warrants have not been registered under the Securities Act or any other applicable securities law and, unless so registered, may not be offered, sold or otherwise transferred except in compliance with the registration requirements of the Securities Act or any other applicable securities law, pursuant to an exemption therefrom or in a transaction not subject thereto, and in each case, in compliance with the conditions for transfer set forth in paragraph (4) below.

2. In the normal course of its business, it invests in, or purchases securities similar to, the Warrants and it has such knowledge and experience in financial and business matters as to render it capable of evaluating the merits and risks of purchasing the Warrants and the Class A Common Stock for which they are exercisable. It is aware that it (or any investor account) may be required to bear the economic risk of an investment in the Warrants for an indefinite period of time and it (or such account) is able to bear such risk for an indefinite period. The Subscriber further acknowledges that it is aware that the Company does not expect to pay dividends in the foreseeable future.

3. It acknowledges that neither the Company nor any person representing the Company has made any representation to it with respect to the Company, the Offering or the Warrants, other than the information contained in this Offering Memorandum which has been delivered to it and upon which it is relying in making its investment decision with respect to the Warrants. It has had access to such financial and other information concerning the Company and the Warrants as it has deemed necessary in connection with its decision to purchase the Warrants, including an opportunity to ask questions of, and request information from, the Company.

4. It is purchasing the Warrants for its own account, or for one or more investor accounts for which it is acting as a fiduciary or agent, in each case for investment, and not with a view to, or for offer or sale in connection with, any distribution thereof in violation of the Securities Act, subject to any requirement of law that the disposition of its property or the property of such investor account or accounts be at all times within its or their control and subject to its or their ability to resell the Warrants pursuant to Rule 144A, Regulation S or any exemption from registration available under the Securities Act. It agrees on its own behalf and on behalf of any investor account for which it is purchasing the Warrants, and each subsequent holder of the Warrants by its acceptance thereof will agree, to offer, sell or otherwise transfer such Warrants prior to the date which is three years after the later of the date of original issue and the last date on which the Company or any affiliate of the Company was the owner of such Warrants (or any predecessor thereto) (the "Resale Restriction Termination Date") only (a) to the Company, (b) pursuant to a registration statement which has been declared effective under the Securities Act, (c) for so long as the Restricted Securities are eligible for resale pursuant to Rule 144A, to a person it reasonably believes is a qualified institutional buyer under and in compliance with Rule 144A (a "QIB") that purchases for its own account or for the account of a QIB to whom notice is given that the transfer is being made in reliance on Rule 144A, (d) pursuant to offers and sales that occur outside the United States within the meaning of and in compliance with Regulation S promulgated under the Securities Act, (e) within the United States to an institutional "accredited investor" within the meaning of subparagraph (a)(1), (2), (3) or (7) of Rule 501 promulgated under the Securities Act that is purchasing for his own account or for the account of such an institutional "accredited investor" for investment purposes and not with a view to, or for offer or sale in connection with, any distribution in violation of the Securities Act or (f) pursuant to any other available exemption from the registration requirements of the Securities Act, subject in each of the foregoing cases to any

requirement of law that the disposition of its property or the property of such investor account or accounts be at all times within its or their control. The foregoing restrictions on resale should not apply subsequent to the Resale Restriction Termination Date. If any resale or other transfer of the Warrants is proposed to be made pursuant to clause (e) above prior to the Resale Restriction Termination Date, the transferor shall deliver a letter from the transferee substantially in the form of Annex A hereto to the Warrant Agent, which shall provide, among other things, that the transferee is an institutional "accredited investor" within the meaning of subparagraph (a)(1), (2), (3) or (7) of Rule 501 promulgated under the Securities Act and that it is acquiring such Warrants for investment purposes and not for distribution in violation of the Securities Act. In connection with the Offering, the Subscriber will execute a Suitability Questionnaire which evidences that status of, and contains certain representations and warranties by the Subscriber and the Subscriber will acknowledge that the Company is relying on the information contained in such Suitability Questionnaire in connection with the sale of the Warrants to the Subscriber and the other Subscribers. Each purchaser acknowledges that the Company and the Warrant Agent reserve the right, prior to any offer, sale or other transfer prior to the Resale Restriction Termination Date of the Warrants pursuant to clause (d), (e) or (f) above, to require the delivery of an opinion of counsel, certifications and other information satisfactory to the Company and the Warrant Agent. Each purchaser acknowledges that each Warrant Certificate will contain a legend substantially to the following effect:

THE SECURITIES EVIDENCED HEREBY HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR ANY STATE SECURITIES LAWS. NEITHER THIS SECURITY NOR ANY INTEREST OR PARTICIPATION HEREIN MAY BE OFFERED, SOLD, ASSIGNED, TRANSFERRED, PLEDGED, ENCUMBERED OR OTHERWISE DISPOSED OF IN THE ABSENCE OF SUCH REGISTRATION OR UNLESS SUCH TRANSACTION IS EXEMPT FROM, OR NOT SUBJECT TO, REGISTRATION.

THE HOLDER OF THIS SECURITY BY, ITS ACCEPTANCE HEREOF AGREES TO OFFER, SELL OR OTHERWISE TRANSFER SUCH SECURITY, PRIOR TO THE DATE (THE "RESALE RESTRICTION TERMINATION DATE") WHICH IS THREE YEARS AFTER THE LATER OF THE ORIGINAL ISSUE DATE HEREOF AND THE LAST DATE ON WHICH THE COMPANY OR ANY AFFILIATED PERSON OF THE COMPANY WAS THE OWNER OF THIS SECURITY (OR ANY PREDECESSOR OF SUCH SECURITY) ONLY (A) TO THE COMPANY, (B) PURSUANT TO A REGISTRATION STATEMENT WHICH HAS BEEN DECLARED EFFECTIVE UNDER THE SECURITIES ACT, (C) FOR SO LONG AS THE SECURITIES ARE ELIGIBLE FOR RESALE PURSUANT TO RULE 144A, TO A PERSON IT REASONABLY BELIEVES IS A "QUALIFIED INSTITUTIONAL BUYER," AS SUCH TERM IS DEFINED IN, AND IN COMPLIANCE WITH, RULE 144A PROMULGATED UNDER THE SECURITIES ACT, THAT PURCHASES FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER TO WHOM NOTICE IS GIVEN THAT THE TRANSFER IS BEING MADE IN RELIANCE ON RULE 144A, (D) PURSUANT TO OFFERS AND SALES THAT OCCUR OUTSIDE THE UNITED STATES WITHIN THE MEANING OF AND IN COMPLIANCE WITH REGULATION S PROMULGATED UNDER THE SECURITIES ACT, (E) TO AN INSTITUTIONAL "ACCREDITED INVESTOR" WITHIN THE MEANING OF SUBPARAGRAPH (A)(1), (2), (3) OR (7) OF RULE 501 PROMULGATED UNDER THE SECURITIES ACT THAT IS ACQUIRING THE SECURITY FOR ITS OWN ACCOUNT, OR FOR THE ACCOUNT OF SUCH AN INSTITUTIONAL "ACCREDITED INVESTOR," FOR INVESTMENT PURPOSES AND NOT WITH A VIEW TO, OR FOR OFFER OR SALE IN CONNECTION WITH, ANY DISTRIBUTION IN VIOLATION OF THE SECURITIES ACT, OR (F) PURSUANT TO ANOTHER AVAILABLE EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT, SUBJECT TO THE COMPANY'S AND THE WARRANT AGENT'S RIGHT PRIOR TO ANY

SUCH OFFER, SALE OR TRANSFER PURSUANT TO CLAUSE (D), (E) OR (F), TO REQUIRE THE DELIVERY OF AN OPINION OF COUNSEL, CERTIFICATIONS AND OTHER INFORMATION SATISFACTORY TO EACH OF THEM, AND SUBJECT TO THE REQUIREMENT THAT IN EACH OF THE FOREGOING CASES, A CERTIFICATE OF TRANSFER IN THE FORM APPEARING ON THIS SECURITY IS COMPLETED AND DELIVERED BY THE TRANSFEROR TO THE WARRANT AGENT. THIS LEGEND WILL BE REMOVED UPON THE REQUEST OF THE HOLDER AFTER THE RESALE RESTRICTION TERMINATION DATE.

5. If it is a purchaser in a sale that occurs outside the United States within the meaning of Regulation S under the Securities Act, it acknowledges that until the expiration of the "40-day restricted period" within the meaning of Rule 903(c) (2) promulgated under the Securities Act, any offer or sale of the Restricted Securities shall not be made by it in reliance upon Regulation S to a U.S. person or for the account or benefit of a U.S. person within the meaning of Rule 902(o) promulgated under the Securities Act.

6. It was the beneficial owner of the principal amount of Debentures as of June 3, 1994 set forth in the Subscription Agreement executed by such person.

7. It acknowledges that the Company and others will rely upon the truth and accuracy of the foregoing acknowledgments, representations and agreements and agrees that, if any of the acknowledgments, representations or warranties deemed to have been made by it by its purchase of Warrants are no longer accurate, it shall promptly notify the Company. If it is acquiring any Warrants as a fiduciary or agent for one or more investor accounts, it represents that it has sole investment discretion with respect to each such account and that it has full power to make the foregoing acknowledgments, representations and agreements on behalf of each such account.

CERTAIN FEDERAL INCOME TAX CONSEQUENCES

The following is a general summary of certain of the anticipated United States federal income tax consequences to investors in the Offering with respect to receipt, exercise and disposition of the Warrants and to the Company upon issuance and exercise of the Warrants. The summary is for general information only and is based on the United States Internal Revenue Code of 1986 (the "Code"), the Treasury Regulations promulgated or proposed thereunder, and judicial and administrative interpretations thereof, all as in effect on the date hereof and all of which are subject to change. Any such changes could be applied retroactively in a manner that could adversely affect a holder of the Debentures or the Warrants. In addition, the tax consequences of the matters discussed herein are uncertain because of the lack of applicable legal authority and may be subject to administrative or judicial interpretations that differ from the discussion below. The Company has not requested a ruling from the Internal Revenue Service ("IRS") with respect to these matters. The summary is addressed to holders (but in the case of holders who are Foreign Persons, as defined below, only to those holders (i) who are not pass-through entities, (ii) for whom income, gain or loss with respect to the Debentures or the Warrants would not be effectively connected with the conduct of a trade or business in the United States and (iii) who are neither United States expatriates nor former United States residents) who will hold the Warrants, and who hold or held the Debentures, as "capital assets" within the meaning of section 1221 of the Code. The tax treatment of a holder of the Debentures or the Warrants may vary depending upon the particular situation of the holder. Certain holders (including, but not limited to, insurance companies, tax-exempt organizations and financial institutions) may be subject to special rules not discussed below. The discussion below also does not address the effect of any state, local or foreign tax law on a holder of the Debentures or the Warrants. The discussion does not constitute, and should not be considered as, legal or tax advice to holders of the Debentures or the Warrants. Each holder of Debentures and/or Warrants should consult a tax advisor as to the particular tax consequences to such holder with respect

to receipt, exercise and disposition of the Warrants and the ownership of the Debentures, including the applicability and effect of any state, local or foreign tax laws.

As used herein, the term "Foreign Person" means a person other than (i) an individual who is a citizen or resident of the United States, (ii) a partnership, corporation or other entity organized in or under the laws of the United States or any state thereof, or (iii) an estate or trust that is subject to United States federal income taxation without regard to the source of its income.

TAX CONSEQUENCES OF RECEIPT, EXERCISE AND DISPOSITION OF WARRANTS

While the law is unclear, persons who acquire Warrants in the Offering and who hold the Debentures with respect to which such Warrants are acquired should not recognize gain or loss or be required to include any amount in income as the result of the receipt of the Warrants in exchange for providing the Release. While the law is also unclear on this point, persons who acquire Warrants in the Offering but who no longer hold the Debentures with respect to which such Warrants are acquired should recognize capital gain equal to the fair market value of the Warrants acquired. All persons who acquire Warrants in the Offering should have a tax basis in each Warrant received equal to the fair market value of the Warrant on the date of issuance.

Upon exercise of a Warrant, holders should have an initial tax basis in each share of Class A Common Stock purchased equal to the sum of the tax basis of the Warrant (i.e., the fair market value of the Warrant on the date issued) plus the amount paid per share upon exercise of the Warrant. Cash received in lieu of a fractional share of Class A Common Stock should be treated as received in redemption of such fractional share deemed purchased upon exercise of the Warrants, and holders generally should recognize gain or loss equal to the difference between the amount received and their tax basis in such fractional share.

On the sale or exchange of a Warrant, holders should recognize capital gain or loss equal to the difference (if any) between the amount realized on the sale or exchange and the holder's tax basis in the Warrant. If the Warrants expire unexercised, and a registration statement relating to the Class A Common Stock underlying the Warrants has been effective prior to the Expiration Date so that no payment is received by holders on the Expiration Date, the loss realized upon expiration of the Warrants should be treated as capital loss. If such a registration statement has not been effective, so that the Company is required to redeem the Warrants on the Expiration Date for a cash payment equal to the Redemption Price, any loss realized (if a holder's basis in a Warrant exceeds the mandatory redemption payment) should also be treated as a capital loss, but any gain realized (if a holder's basis in a Warrant is less than the mandatory redemption payment) could be treated as ordinary income if the redemption of the Warrants does not constitute a sale or exchange of the Warrants. Holders should consult their tax advisors with respect to the treatment of gain or loss attributable to failure to exercise the Warrants.

Foreign Persons who receive, exercise or dispose of Warrants generally should not be subject to U.S. federal income tax on any gain recognized in the transactions described in this section. See "Tax Consequences to Foreign Persons" below.

TAX CONSEQUENCES TO HOLDERS OF DEBENTURES

As noted above, while the law is unclear, receipt of the Warrants should not be a taxable event to holders of the Debentures with respect to which the Warrants are received. Rather, such holders should reduce the tax basis of their Debentures by the fair market value, on the date of issuance, of the Warrants received with respect to such Debentures. Furthermore, while there is no authority on point, such basis reduction may be treated as "market discount" with respect to a Debenture for federal income tax purposes, and the Company intends to treat it as such. However, as noted below other treatments are possible, and there can be no assurance that the IRS would not take the position that the

basis reduction should be treated in some way other than as market discount. Holders of Debentures are urged to consult their own tax advisors with respect to the tax consequences of the receipt of the Warrants.

Under the market discount rules of the Code, a holder of Debentures generally would be required to treat any principal payment on a Debenture and any gain recognized on the sale, exchange, retirement or other disposition of a Debenture as ordinary income to the extent of the lesser of (i) the amount of such payment or recognized gain and (ii) the accrued market discount which has not previously been included in income. Also, upon conversion of the Debentures, any accrued but not previously included market discount would carry over to the Class A Common Stock received on conversion, and any gain recognized upon disposition of such Class A Common Stock would be required to be included as ordinary income to the extent of such accrued market discount. In general, such ordinary income is treated as interest income for federal income tax purposes. In addition, a holder might be required to defer, until the maturity of a Debenture or its earlier disposition in a taxable transaction, the deduction of a portion of the interest expense on any indebtedness incurred or continued to purchase or carry the Debenture.

Market discount would accrue ratably during the period from the date of issuance of the Warrants to the maturity date of the Debentures, unless a holder made an irrevocable election to accrue market discount under a constant yield method. A holder of a Debenture could elect to include market discount in income currently as it accrued (under either a ratable or constant yield method), in which case the rules described above regarding (i) the treatment as ordinary income of gain upon the disposition of the Debenture and upon the receipt of certain payments and (ii) the deferral of interest deductions, would not apply. The election to include market discount in income currently, once made, would apply to all market discount obligations acquired in or after the first taxable year to which the election applies and could not be revoked without the consent of the Internal Revenue Service. Such currently included market discount would increase the holder's tax basis in the Debenture and generally would be treated as ordinary interest income for federal income tax purposes.

Market discount with respect to a Debenture held by a Foreign Person is not subject to withholding of U.S. federal income tax.

Any gain recognized by a holder of Debentures in excess of the amount treated as ordinary income under the market discount rules would be taxed as capital gain, provided the holder held the Debentures as a capital asset. Such capital gain would be long-term capital gain if the holder held the Debentures for more than one year as of the date such gain is recognized. Gain recognized by holders of Debentures who are Foreign Persons will generally not be subject to U.S. federal income tax. See "Tax Consequences to Foreign Persons" below.

As noted above, because of a lack of authority, it is not certain that any basis reduction resulting from receipt of the Warrants will be treated as market discount. If such basis reduction were not treated as market discount, it could be treated as original issue discount ("OID"). In that case, the market discount rules described above would not apply, and holders of Debentures could be required to include the fair market value of the Warrants received in income on an accrual basis based on a constant yield, presumably over the remaining term of the Debentures. As noted above, Foreign Persons would generally not be subject to U.S. federal income tax on any such gain. See "Tax Consequences to Foreign Persons" below. Also, Foreign Persons would generally not be subject to withholding with respect to any OID on the Debentures, provided that the OID qualified as "portfolio interest" under the Code. Foreign Persons should consult their own tax advisors with respect to the application of the "portfolio interest" rules of the Code.

TAX CONSEQUENCES TO FOREIGN PERSONS

Foreign Persons (other than certain nonresident alien individuals who are present in the United States for more than 183 days in a taxable year) are generally not subject to United States federal income tax on capital gains recognized, unless such gains are effectively connected with the conduct of a trade or business in the United States. Consequently, such Foreign Persons should not be subject to tax in the United States upon (i) the receipt of Warrants, even if such Foreign Person no longer holds Debentures, (ii) the receipt of cash in lieu of a fractional share of Class A Common Stock upon exercise of the Warrants, (iii) the sale, exchange or redemption of the Warrants, or (iv) the sale or exchange of, or the receipt of principal payments on, the Debentures.

TAX CONSEQUENCES TO THE COMPANY

The Company should not recognize gain or loss or be required to include any amount in income with respect to the issuance of the Warrants in exchange for the Release. Also, the Company should not recognize gain or loss or be required to include any amount in income with respect to the issuance of its Class A Common Stock upon exercise of the Warrants.

ERISA CONSIDERATIONS

The Employee Retirement Income Security Act of 1974, as amended ("ERISA"), and the Internal Revenue Code of 1986, as amended (the "Code"), prohibit certain transactions between persons who are "parties in interest" under ERISA or "disqualified persons" under the Code, including the extension of credit between a plan subject to ERISA or the Code (a "Plan") and a party in interest or disqualified person. Any person proposing to purchase the Warrants for or on behalf of a Plan should consult with its counsel with respect to the potential applicability of ERISA and the Code to such investment and whether any exemption would be applicable, and should determine on its own whether all conditions have been satisfied.

Accordingly, each purchaser of Warrants from the Company, by its acceptance thereof, will be deemed to certify to the Company that either (i) no part of the funds used to purchase the Warrants constitutes assets of an employee benefit plan or (ii) that the use of such assets would not constitute a non-exempt prohibited transaction under ERISA or the Code. This representation shall be deemed to be based upon such purchaser's determination that a statutory or administrative exemption is applicable or that the issuer and its affiliates are not parties in interest or disqualified persons with respect to the employee benefit plan with respect to which the investment is being made.

Moreover, each person investing on behalf of a Plan should determine whether, under the general fiduciary standards of investment prudence and diversification, an investment in the Warrants is appropriate, taking into account the overall investment policy of the Plan and the composition of the Plan's portfolio.

INDEPENDENT ACCOUNTANTS

The consolidated financial statements of the Company and subsidiaries appearing elsewhere in this Offering Memorandum have been audited by KPMG Peat Marwick LLP, independent certified public accountants, to the extent and for the periods indicated in their report thereon. Such financial statements have been included in reliance upon the report of KPMG Peat Marwick LLP.

AVAILABLE INFORMATION

The Company is subject to the informational requirements of the Securities Exchange Act of 1934 (the "Exchange Act") and, in accordance therewith, files reports and other information with the SEC. The reports and other information filed by the Company may be inspected and copied at the public reference facilities maintained by the SEC at Judiciary Plaza, 450 Fifth Street, N.W., Washington D.C. 20549 and at the SEC's Regional Offices located at 7 World Trade Center, 13th Floor, New York, New York 10048 and 500 West Madison Street, Suite 1400, Chicago, Illinois 60661. Copies of such material can be obtained from the Public Reference Section of the SEC at Judiciary Plaza, 450 Fifth Street, N.W., Washington D.C. 20549, at prescribed rates. In addition, to the extent applicable, for so long as any of the Warrants remain outstanding, the Company will make available to any holder of the Warrants (a) the information required by Rule 144A(d)(4) under the Securities Act, until such securities are no longer restricted securities within the meaning of Rule 144 under the Securities Act and (b) upon request, any reports sent to the Company's holders of Class A Common Stock generally. The Company will also, upon reasonable request, deliver to each person to whom a copy of this Offering Memorandum has been delivered any reports previously filed with the SEC or any other information regarding the Company, including any agreements and contracts to which the Company is a party. The Company may require any person making such a request to execute a confidentiality agreement in favor of the Company.

INCORPORATION OF CERTAIN DOCUMENTS BY REFERENCE

The Company incorporates herein by reference all documents and reports subsequently filed by the Company with the SEC pursuant to Section 13(a), 13(c), 14 or 15(d) of the Exchange Act after the date of this Offering Memorandum and prior to termination of the offering of the Warrants. Such documents shall be deemed to be incorporated by reference in this Offering Memorandum and to be a part hereof from the date of filing of such documents or reports.

Any statement contained in a document incorporated or deemed to be incorporated by reference herein shall be deemed to be modified or superseded for purposes of this Offering Memorandum to the extent that a statement contained herein or in any other subsequently filed document which also is or is deemed to be incorporated by reference herein modifies or supersedes such statement. Any such statement so modified or superseded, except as so modified or superseded, shall not be deemed to constitute a part of this Offering Memorandum.

The Company will provide without charge to each person to whom a copy of this Offering Memorandum has been delivered, on the written or oral request of such person, a copy of any or all of the documents incorporated herein by reference, other than exhibits to such documents unless they are specifically incorporated by reference into such documents. Notwithstanding the foregoing, the Company incorporates herein by reference the list of exhibits set forth in the Company's Annual Report on Form 10-K for the fiscal year ended November 30, 1994, and will provide without charge to each person to whom a copy of this Offering Memorandum has been delivered, on the written or oral request of such person, a copy of any or all of such exhibits. Requests for such copies should be directed to: C. Michael Stoehr, Chief Financial Officer, Audiovox Corporation, 150 Marcus Boulevard, Hauppauge, New York 11788, telephone 516-231-7750. The Company may require any person making such a request to execute a confidentiality agreement in favor of the Company.

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Stockholders
AUDIOVOX CORPORATION:

We have audited the accompanying consolidated balance sheets of Audiovox Corporation and subsidiaries as of November 30, 1993 and 1994, and the related consolidated statements of earnings, stockholders' equity, and cash flows for each of the years in the three-year period ended November 30, 1994. 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, 1993 and 1994, and the results of their operations and their cash flows for each of the years in the three-year period ended November 30, 1994, in conformity with generally accepted accounting principles.

As discussed in Note 1(f) to the consolidated financial statements, the Company adopted the provisions of the Financial Accounting Standards Board's Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes" in 1994.

/S/KPMG PEAT MARWICK LLP

Jericho, New York
February 13, 1995

AUDIOVOX CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
NOVEMBER 30, 1993 AND 1994
(IN THOUSANDS)

	1993	1994
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 1,372	$ 5,495
Accounts receivable, net	73,208	94,242
Inventory, net	64,308	83,430
Income taxes receivable	228	--
Notes receivable from equity investment	7,973	--
Prepaid expenses and other current assets	3,668	6,065
Deferred income taxes	2,620	2,247
Total current assets	153,377	191,479
Restricted cash	--	6,559
Property, plant and equipment, net	6,083	6,180
Equity investments	7,240	25,902
Debt issuance costs, net	750	4,840
Excess cost over fair value of assets acquired and other intangible assets, net	1,031	1,032
Other assets	1,190	3,106
	$169,671	$239,098
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 17,762	$ 21,088
Accrued expenses and other current liabilities	10,841	13,063
Income taxes payable	2,250	834
Bank obligations	38,797	1,084
Documentary acceptances	10,833	--
Current installments of long-term debt	9,743	159
Total current liabilities	90,226	36,228
Bank obligations	--	29,100
Deferred income taxes	--	5,945
Long-term debt, less current installments	13,610	75,653
Total liabilities	103,836	146,926
Minority interest	42	138
Stockholders' equity:		
Preferred stock	2,500	2,500
Common Stock:		
Class A	68	68
Class B	22	22
Paid-in capital	39,171	39,715
Retained earnings	24,226	50,254
	65,987	92,559
Cumulative foreign currency translation and adjustment	(194)	(525)
Total stockholders' equity	65,793	92,034
Commitments and contingencies		
	$169,671	$239,098

See accompanying notes to consolidated financial statements.

AUDIOVOX CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF EARNINGS
YEARS ENDED NOVEMBER 30, 1992, 1993 AND 1994
(IN THOUSANDS, EXCEPT PER SHARE DATA)

	1992	1993	1994
Net sales	$343,905	$389,038	$486,448
Cost of sales	284,904	314,118	401,537
Gross profit	59,001	74,920	84,911
Operating expenses:			
Selling	16,699	23,191	31,925
General and administrative	25,202	28,096	33,114
Warehousing, assembly and repair	8,347	8,479	9,386
	50,248	59,766	74,425
Operating income	8,753	15,154	10,486
Other income (expenses):			
Interest and bank charges	(6,686)	(6,504)	(6,535)
Equity in income of equity investments	1,177	4,948	3,748
Management fees and related income	4,933	1,903	1,543
Gain on sale of equity investment	--	--	27,783
Gain on public offering of equity investment	--	--	10,565
Other, net	137	(259)	(1,056)
	(439)	88	36,048
Income before provision for income taxes, extraordinary item and cumulative effect of a change in an accounting principle	8,314	15,242	46,534
Provision for income taxes	2,495	5,191	20,328
Income before extraordinary item and cumulative effect of a change in accounting for income taxes	5,819	10,051	26,206
Extraordinary item--Tax benefits from utilization of net operating loss carryforwards	1,851	2,173	--
Cumulative effect of change in accounting for income taxes	--	--	(178)
Net income	$ 7,670	$ 12,224	$ 26,028
Income per common share (primary):			
Income before extraordinary item	$ 0.64	$ 1.11	$ 2.88
Extraordinary item	$ 0.21	$ 0.24	--
Cumulative effect of change in accounting for income taxes	--	--	$ (0.02)
Net income	$ 0.85	$ 1.35	$ 2.86
Income per common share (fully diluted):			
Income before extraordinary item	--	$ 1.03	$ 2.21
Extraordinary item	--	$ 0.22	--
Cumulative effect of change in accounting for income taxes	--	--	$ (0.01)
Net income	--	$ 1.25	$ 2.20

See accompanying notes to consolidated financial statements.

AUDIOVOX CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
YEARS ENDED NOVEMBER 30, 1992, 1993 AND 1994
(IN THOUSANDS)

	PREFERRED STOCK	COMMON STOCK	PAID-IN CAPITAL	UNEARNED COMPENSATION	RETAINED EARNINGS	CUMULATIVE FOREIGN CURRENCY TRANSLATION ADJUSTMENT	TOTAL STOCKHOLDERS' EQUITY
Balances at November 30, 1991.....	$ 2,500	$ 90	$38,854	--	$ 4,332	$ 920	$46,696
Net income.....	--	--	--	--	7,670	--	7,670
Equity adjustment from foreign currency translation.....	--	--	--	--	--	(909)	(909)
Balances at November 30, 1992.....	2,500	90	38,854	--	12,002	11	53,457
Net income.....	--	--	--	--	12,224	--	12,224
Equity adjustment from foreign currency translation.....	--	--	--	--	--	(205)	(205)
Grant of warrants.....	--	--	100	--	--	--	100
Stock issuance upon exercise of options.....	--	--	217	--	--	--	217
Balances at November 30, 1993.....	2,500	90	39,171	--	24,226	(194)	65,793
Net income.....	--	--	--	--	26,028	--	26,028
Equity adjustment from foreign currency translation.....	--	--	--	--	--	(331)	(331)
Unearned compensation relating to grant of options and non-performance restricted stock.....	--	--	864	(864)	--	--	--
Compensation expense.....	--	--	27	241	--	--	268
Stock issuance upon exercise of options.....	--	--	207	--	--	--	207
Issuance of warrants.....	--	--	69	--	--	--	69
Balances at November 30, 1994.....	$ 2,500	$ 90	$40,338	$ (623)	$ 50,254	$(525)	$92,034

See accompanying notes to consolidated financial statements.

AUDIOVOX CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED NOVEMBER 30, 1992, 1993 AND 1994
(IN THOUSANDS)

	1992	1993	1994
Cash flows from operating activities:			
Net income	$ 7,670	$ 12,224	$ 26,028
Adjustments to reconcile net income to net cash used in operating activities:			
Depreciation and amortization	3,067	3,863	4,299
Provision for bad debt expense	1,921	230	(21)
Equity in income of equity investments	(1,177)	(4,948)	(3,748)
Minority interest	(19)	(22)	96
Gain on sale of business	(263)	--	--
Gain on sale of equity investment	--	--	(27,783)
Gain on public offering of equity investment	--	--	(10,565)
Provision for deferred income taxes, net of extraordinary item	309	(2,311)	6,140
Provision for unearned compensation	--	--	268
Cumulative effect of change in accounting for income taxes	--	--	178
Changes in:			
Accounts receivable	(5,656)	(6,266)	(20,337)
Inventory	(4,533)	(13,849)	(18,701)
Income taxes receivable	2,064	451	229
Accounts payable, accrued expenses and other current liabilities	(5,407)	8,076	3,675
Income taxes payable	--	1,632	(1,395)
Prepaid expenses and other assets	(1,121)	(193)	(4,171)
Net cash used in operating activities	(3,145)	(1,113)	(45,808)
Cash flows from investing activities:			
Purchase of equity investments	(51)	--	(6,016)
Purchases of property, plant and equipment, net	(1,235)	(1,346)	(2,611)
Notes receivable from equity investment	(4,125)	--	7,973
Proceeds from sale of business	88	--	--
Net proceeds from sale of equity investment	--	--	29,433
Purchase of acquired business	--	--	(148)
Net cash (used in) provided by investing activities	(5,323)	(1,346)	28,631
Cash flows from financing activities:			
Net (repayments) borrowings under line of credit agreements	3,194	4,616	(8,613)
Net (repayments) borrowings under documentary acceptances	3,942	2,832	(10,833)
Principal payments on long-term debt	--	(6,127)	(17,411)
Debt issuance costs	(1,562)	(177)	(5,315)
Proceeds from exercise of stock options	--	176	170
Principal payments on capital lease obligation	--	(165)	(175)
Proceeds from issuance of long-term debt	--	--	65,000
Proceeds from issuance of notes payable	--	--	10,045
Payment of note payable	--	--	(5,000)
Restricted cash	--	--	(6,559)
Net cash provided by financing activities	5,574	1,155	21,309
Effect of exchange rate changes on cash	(73)	(10)	(9)
Net increase (decrease) in cash and cash equivalents	(2,967)	(1,314)	4,123
Cash and cash equivalents at beginning of period	5,653	2,686	1,372
Cash and cash equivalents at end of period	$ 2,686	$ 1,372	$ 5,495

See accompanying notes to consolidated financial statements.

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Description of Business

Audiovox Corporation and its subsidiaries (the Company) designs and markets 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 also sells cellular telephones in Europe, Latin America, Asia, the Middle East and Australia.

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; and cruise controls, 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 $100 at November 30, 1993 consisted of a certificate of deposit with an initial term 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) Inventory

Inventory consists principally of finished goods and is stated at the lower of cost (primarily on a weighted moving average basis) or market.

(e) 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.

(DOLLARS IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES--(CONTINUED)

(f) Income Taxes

Effective December 1, 1993, the Company adopted the provisions of Statement of Financial Accounting Standards Board No. 109, "Accounting for Income Taxes", and has reported the cumulative effect of that change in the method of accounting for income taxes in the 1994 consolidated statement of earnings. Under the asset and liability method of Statement 109, 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. Under Statement 109, 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.

Pursuant to the deferred method under APB Opinion 11, which was applied in 1993 and prior years, deferred income taxes are recognized for income and expense items that are reported in different years for financial reporting purposes and income tax purposes using the tax rate applicable for the year of the calculation. Under the deferred method, deferred taxes are not adjusted for subsequent changes in tax rates.

(g) Net Income Per Common Share

Primary earnings per share are computed based on the weighted average number of common shares outstanding and common stock equivalents. For the years ended November 30, 1993 and 1994, stock options, stock grants and stock warrants (Note 13) are common stock equivalents. The computation of fully diluted earnings per share assumes conversion of all outstanding debentures (Note 8) and exercise of common stock equivalents, stock options, performance accelerated grants and warrants. For purposes of this computation, net income was adjusted for the after-tax interest expense applicable to the convertible debentures.

The Company does not compute fully diluted earnings per share when 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,		
	1992	1993	1994
Primary	9,007,242	9,046,698	9,105,952
Fully diluted	9,007,242	10,077,685	12,769,221

(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 8) and the restructuring of bank obligations (Note 7) have been capitalized. These charges are amortized over the lives of the respective agreements. Amortization expense of these costs amounted to $501, $856 and $1,225 for the years ended November 30, 1992, 1993 and 1994, respectively.

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES--(CONTINUED)

(i) 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 $1,012 and $1,283 at November 30, 1993 and 1994, respectively. Amortization of the excess cost over fair value of assets acquired and other intangible assets amounted to $133, $164 and $271 for the years ended November 30, 1992, 1993 and 1994, respectively.

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

(j) 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, 1993 and 1994, the reserve for future warranty expense amounted to $2,170 and $1,665, respectively.

(k) 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.

(l) 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 inter-company 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, 1992, 1993 and 1994.

During 1993 and 1994, the Company entered into foreign exchange contracts denominated in the currency of its major suppliers. These contracts were purchased to hedge identifiable foreign currency commitments, principally purchases of inventory that are not denominated in U.S. Dollars. Accordingly, any gain or loss associated with the contracts was included as a component of inventory cost. Cash flows resulting from these contracts are included in the net change in inventory for purposes of the statements of cash flows. No foreign exchange contracts were purchased in 1992. There were no open foreign exchange contracts at November 30, 1993 and 1994.

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES--(CONTINUED)

(m) Equity Investments

The Company has common stock investments in five companies, which are accounted for by the equity method (Note 12).

(n) 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 $21,469, $30,150 and $51,793 for the years ended November 30, 1992, 1993 and 1994, respectively. Related commissions paid to outside selling representatives for cellular activations are reflected as cost of sales in the accompanying consolidated statements of earnings and amounted to $8,923, $10,969 and $17,848 for the years ended November 30, 1992, 1993 and 1994, respectively.

(o) Restricted Cash

At November 30, 1994, the Company has approximately $6,559 of restricted cash, classified as a non-current asset, which represents collateral for an irrevocable standby letter of credit in favor of the Series AA and Series BB Convertible Debentures. Currently, the cash is invested in short-term certificates of deposit.

(p) Supplementary Financial Statement Information

Advertising expenses approximated $4,467, $8,740 and $11,610 for the years ended November 30, 1992, 1993 and 1994, respectively.

Interest income of approximately $861, $837 and $540 for the years ended November 30, 1992, 1993 and 1994, respectively, is included in other in the accompanying consolidated financial statements.

Included in accrued expenses and other current liabilities is $3,696 of accrued wages and commissions at November 30, 1994.

(q) Reclassifications

Certain reclassifications have been made to the 1992 and 1993 consolidated financial statements in order to conform to the 1994 presentation.

(DOLLARS IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)

(2) BUSINESS ACQUISITIONS/DISPOSITIONS

In May 1992, the Company sold its interest in a 50% investment in Park Plus Corporation (Park Plus), which marketed and distributed mechanical parking equipment, for cash, accounts receivable and notes receivable aggregating $451. This transaction resulted in a gain of $263 which has been recognized as other income in the accompanying consolidated financial statements as of November 30, 1992.

On December 1, 1993, the Company acquired all of the assets and liabilities of H & H Eastern Distributors, Inc. (H&H) for $148 in cash and a warrant to purchase 50,000 shares of the Company's Class A Common Stock valued at approximately $69. The Company acquired assets of approximately $1,854, liabilities of approximately $1,922 and excess cost over fair value of net assets acquired of $285 which is being amortized on a straight-line basis over 20 years. Proforma financial information has not been reflected for this acquisition as the impact on the results of operations of the Company would not have been material.

In December, 1993, the Company formed Audiovox Singapore Pte. Ltd., a wholly-owned subsidiary of Audiovox Asia, Inc. (Audiovox Asia), which, in turn, is a wholly-owned subsidiary of the Company, as well as Audiovox Communications (Malaysia) Sdn. Bhd.(Audiovox Malaysia), which is an 80% owned subsidiary of Audiovox Asia. In July 1994, the Company formed Audiovox (Thailand) Co., Ltd., a 100% owned subsidiary of Audiovox Asia. The Company formed these subsidiaries to assist in its planned expansion of its international customer base.

(3) SUPPLEMENTAL CASH FLOW INFORMATION

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

	FOR THE YEARS ENDED NOVEMBER 30,		
	1992	1993	1994
Cash paid during the years for:			
Interest	$7,152	$5,985	$ 5,291
Income taxes	$ 650	$3,667	$15,409

During 1992, $3,848 of outstanding accounts receivable from CellStar Corporation (CellStar, the successor to National Auto Center, Inc. (National) and Audiomex Export Corp. (Audiomex)), one of the Company's equity investments, was converted to a note receivable (Note 12). During 1993, the Company entered into a lease agreement to acquire new computer equipment. As a result, a capital lease obligation of $646 was incurred (Note 11).

Stock warrants were issued pursuant to a consulting agreement entered into during 1993 (Note 13).

During 1993 and 1994, a reduction of $40 and $37 to income taxes payable was made due to the exercise of stock options.

During 1994, the Company acquired the assets and liabilities of H&H in exchange for cash and warrants to purchase the Company's common stock (Note 2).

(DOLLARS IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)

(4) ACCOUNTS RECEIVABLE

Accounts receivable is comprised of the following:

	NOVEMBER 30,	
	1993	1994
Trade accounts receivable	$68,570	$ 90,225
Receivables from equity investments (Note 12)	10,171	9,799
	78,741	100,024
Less:		
Allowance for doubtful accounts	2,063	1,623
Allowance for cellular deactivations	1,739	1,234
Allowance for co-operative advertising and cash discounts	1,731	2,925
	$73,208	$ 94,242

The provision for bad debt expense amounted to $1,921, $230 and a recovery of $21 for the years ended November 30, 1992, 1993 and 1994, respectively. See Note 14(b) for concentrations of credit risk.

(5) TRANSACTIONS WITH MAJOR SUPPLIERS

The Company engages in transactions with Shintom Co., Ltd (Shintom), a stockholder who owns approximately 3.5% at November 30, 1993 and 1994 of the outstanding Class A Common Stock and all of the outstanding Preferred Stock of the Company. These transactions include financing arrangements and inventory purchases which approximated 6%, 4% and 7% for the years ended November 30, 1992, 1993 and 1994, respectively, of total inventory purchases. During 1993, the Company terminated its $14,500 line of credit with Shintom. Included in accounts payable as of November 30, 1993 is $43 due to Shintom for trade purchases.

During 1993, defective product was returned to Shintom in exchange for tooling valued at $185. At November 30, 1993, tooling valued at $92 is outstanding and included in prepaid and other current assets.

During 1994, the Company formed a joint venture in Japan (Note 12) with Shintom and other companies and issued a note payable to a wholly-owned subsidiary of Shintom, in connection with the purchase, which was repaid during 1994.

The Company purchased a majority of its cellular products from another supplier. Inventory purchases from this supplier approximated 48%, 47% and 45% of total inventory purchases for the years ended November 30, 1992, 1993 and 1994, respectively.

Prior to fiscal 1993, the Company had an unwritten arrangement with its principal supplier of cellular telephone products pursuant to which the Company generally absorbed all repair costs to a maximum of 50% of the original value of the defective unit. The Company no longer utilizes its principal supplier of cellular telephone products for repairs as of November 30, 1993. During the fiscal year ended November 30, 1993, the Company began repairing cellular telephone products.

(DOLLARS IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)

(6) PROPERTY, PLANT AND EQUIPMENT

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

	NOVEMBER 30,	
	1993	1994
Land	$ 53	$ 53
Buildings	446	446
Furniture, fixtures and displays	2,930	3,467
Machinery and equipment	2,077	2,458
Computer hardware and software	10,105	10,981
Automobiles	394	649
Leasehold improvements	3,207	4,003
	19,212	22,057
Less accumulated depreciation and amortization	13,129	15,877
	$ 6,083	$ 6,180

At November 30, 1993 and 1994, included in computer hardware and software, is $846 pertaining to a capital lease. Amortization of such equipment is included in depreciation and amortization of plant and equipment, and accumulated amortization was $226 and $463 at November 30, 1993 and 1994, respectively.

Computer software includes approximately $2,564 and $1,305 of unamortized costs as of November 30, 1993 and 1994, 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 $2,433, $2,843 and $2,803 for the years ended November 30, 1992, 1993 and 1994, respectively, which includes amortization of computer software costs of $1,420, $1,439 and $1,259 for the years ended November 30, 1992, 1993 and 1994, respectively.

(7) FINANCING ARRANGEMENTS

(a) Bank Obligations

In connection with the completion of the sale of the Debentures (Note 8), the Company entered into an amended and restated revolving credit agreement (the Credit Agreement) with its financial institutions on March 15, 1994. Under the credit agreement, the Company may obtain credit through direct borrowings, Eurodollars, banker's acceptances and letters of credit. The obligations of the Company under the credit agreement have been guaranteed by certain of the Company's subsidiaries and have been secured by accounts receivable and inventory of the Company and those subsidiaries. The term of the Credit Agreement is for approximately two years, expiring on February 28, 1996. As a result of the new revolving credit agreement, bank obligations have been classified as long-term at November 30, 1994.

(DOLLARS IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)

(7) FINANCING ARRANGEMENTS--(CONTINUED)

The original amount of the aggregate direct borrowing and line of credit availability under the Credit Agreement was $20,000 and $50,000, respectively, which is subject to certain conditions and based upon a formula taking into account the amount and quality of its accounts receivable and inventory. On August 26, 1994, the Company executed an amendment to the Credit Agreement to increase amounts eligible for direct borrowing and lines of credit to $40,000 and $75,000, respectively. This amendment was extended on February 24, 1995, whereby direct borrowings and bank lines will be reduced to $20,000 and $50,000, respectively, on June 1, 1995.

Outstanding obligations under the Credit Agreement at November 30, 1993 and 1994 were as follows:

	NOVEMBER 30,	
	1993	1994
Bankers Acceptances	$20,000	$ 7,000
Revolving Credit Notes	18,797	400
Eurodollar Notes	--	21,700
	$38,797	$29,100

During 1993, interest on revolving credit notes was 1.625% above the prime rate, which was 6% at November 30, 1993, and interest on bankers acceptances was 3.25% above the discount rate, which was 3% at November 30, 1993. During 1994, interest on revolving credit notes was .25% above the prime rate which was 8.5% at November 30, 1994, interest on Eurodollar Notes was 2% above the three month Libor rate which was 6.2% at November 30, 1994, and interest on bankers acceptances was 2% above the discount rate which was 4.75% at November 30, 1994.

Prior to May 6, 1992, compensating balances were required by some financial institutions. The Company elected to pay a fee in lieu of these balances and such fees approximated $69 for the year ended November 30, 1992. Under the new Credit Agreement, the Company is required to pay quarterly commitment fees, as well as an annual administrative fee.

The Credit Agreement contains several covenants requiring, among other things, minimum annual levels of net income, and minimum quarterly levels of net worth and working capital. Additionally, the agreement includes restrictions and limitations on payments of dividends, stock repurchases and capital expenditures. At November 30, 1994, the Company was not in compliance with a covenant. The Credit Agreement was subsequently amended to eliminate the non-compliance.

During 1994, Audiovox Malaysia (Note 2) entered into a revolving credit facility for approximately $1,200 with a local Malaysian bank for additional working capital needs. The facility is secured by a Standby Letter of Credit issued under the Credit Agreement by the Company and is payable upon demand or upon expiration of the Standby Letter of Credit which has a term of one year. Outstanding obligations under this agreement at November 30, 1994 were $1,084 and annual interest was 1.5% above the Malaysian Base Lending Rate which was 6.6% at November 30, 1994.

The maximum month-end amounts outstanding under the above mentioned borrowing facilities during the years ended November 30, 1992, 1993 and 1994 were $41,047, $42,659 and $30,184, respectively. Average borrowings during the years ended November 30, 1992, 1993 and 1994 were

(DOLLARS IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)

(7) FINANCING ARRANGEMENTS--(CONTINUED)
$32,960, $28,895 and $16,929, respectively and the weighted average interest rates were 7.7%, 7.8% and 7.9%, respectively.

(b) Documentary Acceptances

Prior to August 1994, the Company had various unsecured documentary acceptance lines of credit with major suppliers. These lines of credit amounted to approximately $11,670 at November 30, 1993 to finance inventory purchases. Interest for certain documentary lines was at a fixed rate of 9% at November 30, 1993. In addition, during 1993, the Company entered into an agreement with a supplier to fund all merchandise from the supplier on a 60-day documentary acceptance line of credit at terms equal to the supplier's interest rate, which was 6.9% at November 30, 1993, plus a 1.1% fee. At November 30, 1993, $10,833 of documentary acceptances were outstanding.

The maximum month-end documentary acceptances outstanding during the years ended November 30, 1992, 1993 and 1994 were $9,099, $9,638 and $9,078, respectively. Average borrowings during the years ended November 30, 1992, 1993 and 1994 were $6,733, $6,883 and $3,787, respectively and the weighted average interest rates, including fees, were 8.5%, 11.2% and 11.0%, respectively.

(8) LONG-TERM DEBT

A summary of long-term debt follows:

	NOVEMBER 30,	
	1993	1994
Convertible subordinated debentures:		
6 1/4%, due 2001, convertible at $17.70 per share	$ --	$65,000
Series A 10.8%, due 1996, convertible at $5.34 per share	77	--
Series B 11.0%, due 1996, convertible at $5.34 per share	5,385	--
Convertible debentures:		
Series AA, 10.8%, due 1996, convertible at $5.34 per share	--	77
Series BB, 11.0%, due 1996, convertible at $5.34 per share	--	5,385
Subordinated Notes:		
Series A, 10.8%, due 1995	2,902	--
Series B, 11.0%, due 1995	14,509	--
Subordinated note payable	--	5,045
Capital lease obligations (Note 11)	480	305
	23,353	75,812
Less current installments	9,743	159
	$13,610	$75,653

(DOLLARS IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)

(8) LONG-TERM DEBT--(CONTINUED)

On March 15, 1994, the Company completed the sale of $65,000, 6 1/4% convertible subordinated debentures (Debentures) due 2001 (the Offering), and entered into an Indenture Agreement. The 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. Audiovox has been requested to consider, and is considering, certain modifications with respect to its Debentures. However, there can be no assurance that any such modification will be made.

A portion of the net proceeds of the Offering was used to repay existing subordinated notes. In connection with the Company's repayment of indebtedness, the Company exchanged its existing Series A and Series B Convertible Subordinated Debentures for Series AA and Series BB Convertible Debentures and entered into a Debenture Exchange Agreement dated March 8, 1994 (the Debenture Exchange Agreement). The Series AA and Series BB Convertible Debentures have the same maturity, interest rate, and conversion provision as the existing Series A and Series B Convertible Subordinated Debentures, but are not subordinated to other indebtedness of the Company. Future payments of principal and interest on the Series AA and Series BB Debentures are secured by a letter of credit (Note 1 (o)). The Series AA and Series BB Convertible Debentures are convertible at any time at $5.34 per share which is subject to adjustment in certain circumstances. Although the Debentures Exchange Agreement provides for optional prepayments, under certain circumstances, such payments are restricted by the Credit Agreement (Note 7).

On October 20, 1994, the Company issued a note payable for five hundred million Japanese Yen (approximately $5,045) to finance a foreign currency investment in TALK Corporation (TALK) (Note 12). 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.

At November 30, 1993 and 1994, current installments of long-term debt include current installments of $159 under capital lease obligations.

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

1995	$ 159
1996	5,608
1997	--
1998	--
1999	--

(DOLLARS IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)

(9) CAPITAL STRUCTURE

The Company's capital structure is as follows:

SECURITY	PAR VALUE	SHARES AUTHORIZED NOVEMBER 30, 1993	SHARES AUTHORIZED NOVEMBER 30, 1994	SHARES ISSUED AND OUTSTANDING NOVEMBER 30, 1993	SHARES ISSUED AND OUTSTANDING NOVEMBER 30, 1994	VOTING RIGHTS PER SHARE	LIQUIDATION RIGHTS
Class A Common Stock.....	$ 0.01	30,000,000	30,000,000	6,762,288	6,777,788	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
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	--	--	--	--

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. During 1993, 3,839,500 shares of Class B Common Stock were converted to shares of Class A Common Stock. During fiscal 1993 and 1994, 16,000 and 15,500 shares, respectively, of Class A Common Stock were issued due to the exercise of stock options, (Note 13).

The 50,000 shares of non-cumulative Preferred Stock outstanding are owned by Shintom and have preference over both classes of common stock in the event of liquidation or dissolution. The Company had the right, until January 1, 1993, which was not exercised, to redeem all or part of the Preferred Stock at its par value.

As of November 30, 1994, 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 (Note 13) and 4,845,345 for all convertible securities and warrants outstanding at November 30, 1994.

Undistributed earnings from equity investments included in retained earnings amounted to $7,149 and $20,526 at November 30, 1993 and 1994, respectively.

(10) INCOME TAXES

As discussed in Note 1, the Company adopted Statement 109 as of December 1, 1993. The cumulative effect of this change in accounting for income taxes of $178, or $.02 per share, is determined as of December 1, 1993 and is reported separately as a reduction to the consolidated statement of earnings for the year ended November 30, 1994. Prior years' financial statements have not been restated to apply the provisions of Statement 109.

(DOLLARS IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)

(10) INCOME TAXES--(CONTINUED)

The components of income before the provision for income taxes and extraordinary item are as follows:

	NOVEMBER 30,		
	1992	1993	1994
Domestic Operations	$8,655	$15,983	$47,032
Foreign Operations	(341)	(741)	(498)
	$8,314	$15,242	$46,534

Total income tax expense for the year ended November 30, 1994 was allocated as follows:

Income from continuing operations	$20,328
Stockholders' equity	
Additional paid in capital for compensation expense for tax purposes in excess of amounts recognized for financial reporting purposes	(37)
Total income tax expense	$20,291

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

	FEDERAL	FOREIGN	STATE	TOTAL
1992:				
Current	$ 2,953	$25	$ 905	$ 3,883
Deferred	(1,022)	--	(366)	(1,388)
	$ 1,931	$25	$ 539	$ 2,495
1993:				
Current	$ 4,535	$21	$1,068	$ 5,624
Deferred	(358)	--	(75)	(433)
	$ 4,177	$21	$ 993	$ 5,191
1994:				
Current	$12,042	$68	$2,078	$14,188
Deferred	5,365	--	775	6,140
	$17,407	$68	$2,853	$20,328

(DOLLARS IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)

(10) INCOME TAXES--(CONTINUED)

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

	NOVEMBER 30,					
	1992		1993		1994	
Tax provision at Federal statutory rates	$ 2,827	34.0%	$ 5,335	35.0%	$16,287	35.0%
Undistributed earnings from equity investments	(263)	(3.2)	(1,437)	(9.4)	1,558	3.4
Benefit for utilization of loses previously not consolidated for tax purposes	(666)	(8.0)	--	--	--	--
State income taxes, net of Federal benefit	372	4.5	645	4.2	1,854	4.0
Increase in beginning-of-the-year balance of the valuation allowance for deferred tax assets	--	--	--	--	306	.7
Foreign tax rate differential	91	1.1	238	1.6	(7)	(.1)
Other, net	134	1.6	410	2.7	330	.7
	2,495	30.0	5,191	34.1	20,328	43.7
Utilization of net operating loss carryforwards	(1,851)	(22.3)	(2,173)	(14.3)	--	--
	$ 644	7.7%	$ 3,018	19.8%	$20,328	43.7%

For the years ended November 30, 1992 and 1993, deferred income tax expense of $1,388 and $433, respectively, results from timing differences in the recognition of income and expense for income tax and financial reporting purposes. The sources and tax effects of those timing differences are presented below:

	NOVEMBER 30,	
	1992	1993
Uniform capitalization of inventory costs	$ (27)	$ (93)
Accounts receivable reserves	(632)	193
Warranty and inventory reserves	(623)	484
Depreciation and amortization	(190)	(646)
Insurance reserves	96	23
Cellular deactivation reserves	(237)	(439)
Other, net	225	45
	$(1,388)	$(433)

The significant components of deferred income tax expense for the year ended November 30, 1994 are as follows:

Deferred tax expense (exclusive of the effect of other component listed below)	$5,834
Increase in beginning-of-the-year balance of the valuation allowance for deferred tax assets	306
	$6,140

(DOLLARS IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)

(10) INCOME TAXES--(CONTINUED)

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred liabilities at November 30, 1994 are presented below:

	NOVEMBER 30 1994
Deferred tax assets:	
Accounts receivable, principally due to allowance for doubtful accounts and cellular deactivations	$ 968
Inventory, principally due to additional costs capitalized for tax purposes pursuant to the Tax Reform Act of 1986	387
Inventory, principally due to valuation reserve	436
Accrual for future warranty costs	658
Net operating loss carryforwards, state and foreign	859
Capital loss carryforward	--
Foreign tax credits	--
Other	193
Total gross deferred tax assets	3,501
Less: valuation allowance	(979)
Net deferred tax assets	2,522
Deferred tax liabilities:	
Plant, equipment and certain intangibles, principally due to depreciation and amortization	(71)
Equity investments, principally due to undistributed earnings	(6,149)
Total gross deferred tax liabilities	(6,220)
Net deferred tax liability	$(3,698)

The valuation allowance for deferred assets as of December 1, 1993 was $673. The net change in the total valuation allowance for the year ended November 30, 1994 was an increase of $306. 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 carryback future reversals of deferred tax assets to taxes paid in current and prior years and the Company's historical taxable income record, adjusted for extraordinary items, management believes it is likely that the Company will realize the benefit of the net deferred tax assets existing at November 30, 1994. 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.

At November 30, 1994, the Company has net operating loss carryforwards for state and foreign income tax purposes of approximately $7,504, which are available to offset future state and foreign taxable income, if any, which will expire through the year ended November 30, 2009.

(DOLLARS IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)

(10) INCOME TAXES--(CONTINUED)

The Company has not recognized a deferred tax liability of approximately $168 for the undistributed earnings of a foreign corporate joint venture that arose in 1994 and prior years because the Company currently does not expect those unremitted earnings to reverse and become taxable to the Company in the foreseeable future. A deferred tax liability will be recognized when the Company expects that it will recover those undistributed earnings in a taxable manner, such as through receipt of dividends or sale of the investments.

(11) LEASE OBLIGATIONS

At November 30, 1994, the Company was obligated under non-cancelable leases, for equipment and warehouse facilities for minimum annual rental payments as follows:

	CAPITAL LEASES	OPERATING LEASES
1995	$ 217	$ 2,557
1996	111	1,791
1997	--	898
1998	--	424
1999 and thereafter	--	165
Total minimum lease payments	$ 328	$ 5,835
Amounts representing interest	23	
Present value of future minimum lease payments	305	
Less current portion	159	
Obligations under leases excluding current installments	$ 146	

Rental expense for the above-mentioned operating lease agreements and other leases on a month-to-month basis approximated $2,594, $2,390 and $3,107 for the years ended November 30, 1992, 1993 and 1994, 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, 1994, minimum annual rental payments on these related party leases, which are included in the above table, are as follows:

1995	$646
1996	469
1997	82
1998	14

(12) EQUITY INVESTMENTS

As of November 30, 1994, the Company had 20.88% ownership interest in CellStar and a 33.33% ownership interest in TALK. Additionally, the Company had 50% non-controlling ownership in three

(12) EQUITY INVESTMENTS--(CONTINUED)
other companies: Protector Corporation (Protector) which acts as a distributor of chemical protection treatments and Audiovox Specialty Markets Co., L.P. (ASM), which acts a distributor to specialized markets for RV's, van conversions, televisions and other automotive sound, security and accessory products, and Audiovox Pacific Pty., Limited (Audiovox Pacific) which distributes cellular telephones and automotive sound and security products in Australia and New Zealand.

In January, 1992, the Company purchased a 50% equity investment in a newly formed company, ASM, for $51. Effective December 1, 1993, the Company acquired the remaining 50% interest in H&H which was a 50% owned joint venture in 1993 (Note 2).

The Company has an agreement for product marketing with Protector. Under the terms of this agreement, the Company was to receive monthly payments, as well as a fee based on a percentage of the sales of certain products. In 1992, 1993 and 1994, the Company waived its right to receive its monthly payments pursuant to the agreement. In 1992, 1993 and 1994, the Company also waived its right to principally all of the fees based on the percentage of the sales of certain products. However, in 1994, the Company recorded management fees of $1,108 for the Company's support to Protector through various marketing programs.

In December 1993, CellStar, the successor in interest to the Company's National and Audiomex joint ventures, completed an initial public offering (the CellStar Offering) of 7,935,000 shares of CellStar Common Stock. Of the total shares sold, the Company sold 2,875,000 shares of CellStar Common Stock at the initial public offering price (net of applicable underwriting discount) of $10.695 per share and received aggregate net proceeds of $29,433 (after giving effect to expenses paid by the Company in connection with the offering). As a result, the Company recorded a gain, before provision for income taxes, of $27,783. In addition, the Company recorded a gain, before provision for income taxes, of $10,565 on the increase in the carrying value of its remaining 3,875,000 shares of CellStar Common Stock due to the CellStar Offering. The closing price of CellStar stock on November 30, 1994 was $18.50.

Of the proceeds received by CellStar from its initial public offering, $13,656 was paid to the Company in satisfaction of amounts owed to the Company by CellStar (as successor to National) under certain promissory notes which evidenced National's liability to the Company for the payment of management fees and in satisfaction of past due trade receivables from National to the Company. As a result of the CellStar Offering, the Company will no longer receive management fees from CellStar.

In connection with the CellStar Offering, the Company also granted to the other 50% investor in CellStar (the Investor) an option (Initial Option), exercisable in whole or in part, on or before December 3, 1995, to purchase up to an aggregate of 1,500,000 shares of CellStar Common Stock owned by the Company. The Initial Option is exercisable during the first eighteen months at an exercise price of $11.50 per share and, thereafter, at an exercise price of $14.38. In addition, Audiovox granted the Investor a second option (Second Option), exercisable on or before December 3, 1996, to purchase 250,000 shares of CellStar Common Stock owned by the Company. The Second Option is exercisable, in whole and not in part, at an exercise price of $13.80 per share, and may only be exercised after the Initial Option has been exercised in full.

(DOLLARS IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)

(12) EQUITY INVESTMENTS--(CONTINUED)

In connection with the CellStar Offering, the Company also granted the Investor the right to vote up to 2,800,000 shares of CellStar Common Stock owned by the Company. The number of shares of CellStar Common Stock the Investor is entitled to vote is subject to reduction to the extent the Investor sells his shares of CellStar Common Stock (with certain exceptions) or exercises either the Initial Option or Second Option. The voting rights granted to the Investor by the Company expire on December 3, 1995. During the term of the Initial Option, the Second Option and the voting rights agreement, the Company cannot transfer its shares of CellStar Common Stock which are the subject of those Agreements.

On August 29, 1994, the Company and Shintom each invested six hundred million Japanese Yen (approximately $6,016) into a newly-formed company, TALK. In exchange for their investments, the Company and Shintom each received a 33% ownership in TALK, with the remaining 33% to be owned by others.

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 small 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.

The following table presents financial information relating to these equity investments:

	CELLSTAR YEAR ENDED NOVEMBER 30, 1994	PROTECTOR YEAR ENDED AUGUST 31, 1994 (UNAUDITED)
Assets	$ 192,418	$ 1,063
Liabilities	115,776	1,436
Equity (deficit)	76,642	(373)
Revenue	518,422	25
Gross Profit	69,642	--
Net income (loss)	16,248	5

	AUDIOVOX PACIFIC YEAR ENDED NOVEMBER 30, 1994	TALK FOUR MONTHS ENDED NOVEMBER 30, 1994 (UNAUDITED)	ASM TWELVE MONTHS ENDED NOVEMBER 30, 1994 (UNAUDITED)
Assets	$ 9,868	$25,613	$ 4,661
Liabilities	8,312	10,185	209
Equity (deficit)	1,556	15,428	4,452
Revenue	19,831	11,637	15,619
Gross profit	6,035	468	2,688
Net income (loss)	484	(2,456)	1,864

The Company's share of the change in the equity of these investments was $18,662 for the year ended November 30, 1994, which consists of $3,748 of earnings, $6,016 of an initial investment in

(DOLLARS IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)

(12) EQUITY INVESTMENTS--(CONTINUED)
TALK, gain on the CellStar public offering of $10,565, less the sale of CellStar stock of $1,650 and $17 of cumulative losses on foreign currency translations.

The Company received the following management fees and related income from its equity investments:

	NOVEMBER 30,		
	1992	1993	1994
CellStar	$4,334	$1,220	--
Pacific	514	613	435
H & H	85	70	--
Protector	--	--	1,108
	$4,933	$1,903	$1,543

The Company's sales to the equity investments amounted to $31,997, $21,368 and $32,630 for the years ended November 30, 1992, 1993 and 1994, respectively.

The Company's purchases from the equity investments amounted to $436, $2,585 and $5,715 for the years ended November 30, 1992, 1993 and 1994, respectively.

Included in accounts receivable at November 30, 1993 and November 30, 1994 are trade receivables due from its equity investments aggregating $8,217 and $8,691, respectively. In addition, included in accounts receivable at November 30, 1993 and November 30, 1994 are management fee receivables of $1,954 and $1,108, respectively. At November 30, 1993 and 1994, included in accounts payable and other accrued expenses were obligations to equity investments aggregating $891 and $207, respectively. At November 30, 1993 and November 30, 1994, other long-term assets include equity investment advances outstanding and management fee receivables of $185 and $1,138. For the years ended November 30, 1993 and November 30, 1994, interest income earned on equity investment notes and other receivables approximated $666 and $25, respectively.

(13) COMMON STOCK AND COMPENSATION PLANS

(a) Stock Option Plans

In April 1987, the Board of Directors approved the adoption of the 1987 Stock Option Plan for the granting of options to directors and key employees of the Company. Under the 1987 Stock Option Plan, the options can be either incentive or non-qualified.

In April 1987, non-qualified options to purchase 200,000 shares of Class A Common Stock were granted at $11 per share which represents the estimated fair market value at the date of grant. Such options became exercisable in full in October 1988 and expire in April 1997.

In May 1993, the stockholders approved the 1993 Stock Option Plan which authorizes the granting of incentive stock options to key employees and non-qualified stock options to employees and/or directors of the Company. The incentive stock options may be granted at a price not less than the market value of the Company's common stock on the date of grant and must be exercisable no later

(DOLLARS IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)

(13) COMMON STOCK AND COMPENSATION PLANS--(CONTINUED)
than ten years after the date of grant. The exercise price of non-qualified stock options may not be less than 50% of the market value of the Company's Class A Common Stock on the date of grant.

In December 1993, non-qualified options to purchase 113,500 shares of Class A Common Stock were granted at $13 per share which was less than the market value of $17 per share on the date of grant. No options can be exercised until June 14, 1995 or December 14, 1996 (as the case may be) after which they can be exercised in whole or in part until expiration on December 14, 2003. 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, under these options, for the year ended November 30, 1994 was $175.

In November 1994, non-qualified options to purchase 75,000 shares of Class A Common Stock were granted at $11 per share, which exceeded fair market value at the date of grant, to a director and officer of the Company. Such options will become exercisable in full on May 22, 1996 and expire on November 22, 2004.

In May 1994, the stockholders approved the 1994 Stock Option Plan which authorizes the granting of incentive stock options to key employees and non-qualified stock options to employees and/or directors of the Company. The incentive stock options may be granted at a price not less than 110% of the market value of the Company's common stock on the date of grant and must be exercisable no later than ten years after the date of grant. The exercise price of non-qualified stock options may not be less than 50% of market value of the Company's Class A Common Stock on the date of grant. No options were granted under this plan as of November 30, 1994.

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

	1987 STOCK OPTION PLAN	1993 STOCK OPTION PLAN
Shares under option:		
Outstanding at December 1, 1992	157,500	--
Granted	--	--
Exercised	(16,000)	--
Canceled	--	--
Outstanding at November 30, 1993	141,500	--
Granted	--	188,500
Exercised	(15,500)	--
Canceled	(1,000)	(500)
Outstanding at November 30, 1994	125,000	188,000
Options exercisable, November 30, 1994	125,000	--

(b) Restricted Stock Plan

In April 1987, the Board of Directors approved the adoption of the 1987 Restricted Stock Plan for the granting of restricted stock awards to directors and key employees of the Company. In May 1993,

(13) COMMON STOCK AND COMPENSATION PLANS--(CONTINUED)
the stockholders approved an amendment to the 1987 Restricted Stock Plan which provides that restrictions on stocks awarded pursuant to the Plan will lapse at the discretion of the Compensation Committee of the Company. In addition, the Plan's original expiration date of April 27, 1997 was extended through April 27, 2007.

In December 1993, 38,300 shares of Class A Common Stock were awarded under the 1987 Restricted Stock Plan, one half of such shares to be performance accelerated restricted stock and one half of such shares to be performance restricted stock. The performance accelerated shares will vest in five years or earlier depending upon whether the Company meets certain earnings per share goals. The performance restricted shares will only vest in five years or earlier if the Company meets certain earnings per share ratios.

In November 1994, 25,000 shares of Class A Common Stock were awarded under the 1987 Restricted Stock Plan to a director and officer of the Company. One half of such shares are to be performance accelerated restricted stock and one half of such shares are to be performance restricted stock. The terms of the grant are identical to the December 1993 grant as previously discussed.

In May 1994, the Board of Directors approved the adoption of the 1994 Restricted Stock Plan for the granting of restricted stock awards to directors and key employees of the Company. No awards were granted under this plan as of November 30, 1994.

Compensation expense is recorded with respect to the grants based upon the quoted market value of the shares on the date of grant for the performance accelerated shares and on the balance sheet date for the performance restricted shares. Compensation expense, for these grants, for the year ended November 30, 1994 was $93.

(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. The aggregate number of shares available for purchase under this plan shall not exceed 1,000,000.

(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, 1994. The consulting agreement, valued at $100, was being amortized over the two-year term thereof until 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 (Note 2). The per share purchase price and number of shares purchasable are each subject to adjustment upon the

(13) COMMON STOCK AND COMPENSATION PLANS--(CONTINUED)
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, on or after September 22, 1995, a registration statement relating to the sale by the holder of the Class A Common Stock purchasable pursuant to the warrant.

(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. In fiscal 1993 and 1994, a contribution of $200 and $225, respectively, was made by the Company to the United States plan. Contributions, required by law, to be made for eligible employees in Canada were not material.

(14) FINANCIAL INSTRUMENTS

(a) Off-Balance Sheet Risk

Letters of credit are issued by the Company during the ordinary course of business through major domestic banks as requested by certain suppliers. As of November 30, 1993 and 1994, the Company had open letters of credit of $15,000 and $17,000, respectively, of which $12,600 and $13,100, respectively, were recorded in accounts payable. No material loss is anticipated due to nonperformance by the counterparties to these agreements.

(b) 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, 1993, two customers, which included CellStar and a Bell Operating Company, accounted for approximately 9% and 8%, respectively, of accounts receivable. At November 30, 1994, three customers, which included CellStar, a Bell Operating Company and a mass merchandiser, each accounted for approximately 5% of accounts receivable, and one Bell Operating Company accounted for approximately 6% of accounts receivable.

Four customers, CellStar, two Bell Operating Companies and one other telephone company accounted for approximately 6%, 6%, 7% and 5%, respectively, of the Company's 1992 sales. During the year ended November 30, 1993, two Bell Operating Companies accounted for approximately 6% and 5% of the Company's sales. A Bell Operating Company accounted for approximately 7% of the Company's 1994 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, 1993 and 1994, 27 and 25 customers, respectively,

(DOLLARS IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)

(14) FINANCIAL INSTRUMENTS--(CONTINUED)
representing approximately 52% and 60%, 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.

(c) 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.

CASH AND CASH EQUIVALENTS, ACCOUNTS RECEIVABLE, RESTRICTED CASH, AND ACCOUNTS PAYABLE

The carrying amount approximates fair value because of the short maturity of these instruments.

LONG-TERM DEBT

The carrying amount of bank debt under the Company's revolving Credit Agreement approximates fair value because of the short maturity of the related obligations. With respect to the 6 1/4% convertible subordinated debentures, fair values are based on published statistical data. The Series AA and BB Convertible Debentures were valued at the closing market price of the Company's Class A Common Stock for the number of shares convertible at November 30, 1994. Other long-term borrowings are valued by the present value of future cash flows at current market interest rates.

The estimated fair value of the Company's financial instruments at November 30, 1994 is as follows:

	CARRYING AMOUNT	FAIR VALUE
Long-term obligations	104,912	86,662

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.

(15) COMMITMENTS AND CONTINGENT LIABILITIES

On February 5, 1993, Motorola, Inc., Mitsubishi Electronic Corp., Nokia Mobile Phones Company, Toshiba Corporation, Panasonic Communications and Systems Company, OKI Electric Industry Company, Ltd. and the Company, all suppliers or manufacturers of cellular telephones, were named as

(15) COMMITMENTS AND CONTINGENT LIABILITIES--(CONTINUED)
defendants in a class action complaint. The complaint contains several allegations, including negligence and breach of both implied and express warranties under the Uniform Commercial Code, arising from the sale of portable hand-held cellular telephones. The complaint seeks unspecified damages and attorney's fees. Discovery has not yet commenced. On August 12, 1993, a dismissal of the class allegation was granted. On August 20, 1993, an order was entered dismissing the complaint which included the Company as a defendant and permitting plaintiffs to file an amended complaint which does not include the Company as a defendant. Such order, effectively dismissing the Company as a defendant, is being appealed by the plaintiffs. The Company believes that its insurance coverage and rights of recovery against manufacturers of its portable hand-held cellular telephones relating to this case are sufficient to cover any reasonably anticipated damages. Management is of the opinion that there are meritorious defenses to the claims made in this case and that the ultimate outcome of this matter will not have a material adverse impact on the financial position of the Company. However, an estimate of the possible loss or range of loss cannot be made at this time.

In November 1991, the Company was named as a co-defendant in a class action suit against Protector, a 50% owned equity investment. The class action alleges unfair and deceptive practices and seeks, among other things, a refund of all warranty fees paid, interest, litigation costs and unspecified punitive damages. The action was settled and approved by the Court on June 29, 1994 without any payment by the Company.

The Company is a co-defendant in an action alleging, among other things, breach of contract and the plaintiff is seeking damages of approximately $1.2 million. The litigation is currently in the early discovery phase. Management is of the opinion that there are meritorious defenses to the claim made in this case and that the ultimate outcome of this matter will not have a material adverse impact on the financial position of the Company. However, an estimate of the possible loss or range of loss cannot be made at this time.

In February 1995, an action was commenced against the Comapny and others which alleges that the defendants have, among other things, violated federal anti-trust laws. The Complaint seeks, from all defendants, injunctive relief and damages of approximately $5 million. The litigation is currently in the early discover phase. Management intends to vigorously defend the action and is of the opinion that there are meritorious defenses to the claims made in this case and that the ultimate outcome of this matter will not have a material adverse impact on the financial position of the Company. However, an estimate of the possible loss or range of loss cannot be made at this time.

The Company is also a defendant in litigation arising from the normal conduct of its affairs. Management is of the opinion that any 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 impact on the financial position of the Company. However, an estimate of the possible loss or range of loss cannot be made at this time.

TRANSFEREE LETTER OF REPRESENTATION

Audiovox Corporation
150 Marcus Boulevard
Hauppauge, NY 11788
Attention: Chief Financial Officer

Dear Sirs:

In connection with our proposed purchase of [ ] Warrants ("Warrants") of Audiovox Corporation, a Delaware corporation (the "Company"), we confirm that:

1. We understand that the Warrants (the "Restricted Securities") have not been registered under the Securities Act of 1933, as amended (the "Securities Act"), and, unless so registered, may not be sold except as permitted in the following sentence. We agree on our own behalf and on behalf of any investor account for which we are purchasing Restricted Securities to offer, sell or otherwise transfer such Restricted Securities prior to the date which is three years after the later of the date of original issue and the last date on which the Company or any affiliate of the Company was the owner of such Restricted Securities (or any predecessor thereto) (the "Resale Restriction Termination Date") only: (a) to the Company, (b) pursuant to a registration statement which has been declared effective under the Securities Act, (c) so long as the Restricted Securities are eligible for resale pursuant to Rule 144A promulgated under the Securities Act ("Rule 144A"), to a person we reasonably believe is a qualified institutional buyer within the meaning of and in compliance with Rule 144A (a "QIB") that purchases for its own account or for the account of a QIB and to whom notice is given that the transfer is being made in reliance on Rule 144A, (d) pursuant to offers and sales that occur outside of the United States within the meaning of and in compliance with Regulation S promulgated under the Securities Act, (e) inside the United States to an institutional "accredited investor" within the meaning of subparagraph (a), (1), (2), (3) or (7) of Rule 501 promulgated under the Securities Act ("Rule 501") that is purchasing for its own account or for the account of such an institutional "accredited investor," or (f) pursuant to any other available exemption from the registration requirements of the Securities Act, subject in each of the foregoing cases to any requirement of law that the disposition of our property or the property of such investor account or accounts be at all times within our or their control and in compliance with any applicable state securities laws. The foregoing restrictions on resale will not apply subsequent to the Resale Restriction Termination Date. If any resale or other transfer of the Restricted Securities is proposed to be made pursuant to clause (e) above prior to the Resale Restriction Termination Date, the transferor shall deliver a letter from the transferee substantially in the form of this letter to the Warrant Agent, which shall provide, among other things, that the transferee is an institutional "accredited investor" within the meaning of subparagraph (a)(1), (2), (3) or (7) of Rule 501 and that it is acquiring such Restricted Securities for investment purposes and not for distribution in violation of the Securities Act. Each purchaser acknowledges that the Company and the Warrant Agent reserve the right prior to any offer, sale or other transfer prior to the Resale Restriction Termination Date of the Restricted Securities pursuant to clause (d), (e) or (f) above to require the delivery of any opinion of counsel, certifications and/or other information satisfactory to the Company and the Warrant Agent.

2. We are an institutional "accredited investor" (as defined in Rule 501(a)(1), (2), (3) or (7) of Regulation D promulgated under the Securities Act) purchasing for our own account or for the account of such an institutional "accredited investor," and we are acquiring the Restricted Securities for investment purposes and not with a view to, or for offer or sale in connection with, any distribution in violation of the Securities Act, and we have such knowledge and experience in financial and business matters as to be capable of evaluating the merits and risks of our investment in the Restricted Securities

and the Class A Common Stock of the Company for which they are exercisable, and we and any accounts for which we are acting are each able to bear the economic risk of our or its investment.

3. We are acquiring the Restricted Securities purchased by us for our own account or for one or more accounts as to each of which we exercise sole investment discretion.

4. You are entitled to rely upon this letter and you are irrevocably authorized to produce this letter or a copy hereof to any interested party in any administrative or legal proceeding or official inquiry with respect to the matters covered thereby.

Very truly yours,

(Name of Purchaser)

By:

Date:

Upon transfer the Restricted Securities would be registered in the name of the new beneficial owner as follows:

Name:

Address:

Taxpayer ID Number:

- --
- --

NO DEALER, SALESMAN OR OTHER PERSON HAS BEEN AUTHORIZED TO GIVE ANY INFORMATION OR TO MAKE ANY REPRESENTATIONS IN CONNECTION WITH THIS OFFERING MEMORANDUM, AND IF GIVEN OR MADE, SUCH INFORMATION OR REPRESENTATIONS MUST NOT BE RELIED UPON AS HAVING BEEN AUTHORIZED BY THE COMPANY. THIS OFFERING MEMORANDUM DOES NOT CONSTITUTE AN OFFER TO SELL, OR A SOLICITATION OF AN OFFER TO BUY, ANY OF THE SECURITIES OFFERED HEREBY IN ANY JURISDICTION WHERE, OR TO ANY PERSON TO WHOM, IT IS UNLAWFUL TO MAKE ANY SUCH OFFER OR SOLICITATION. NEITHER THE DELIVERY OF THIS OFFERING MEMORANDUM NOR ANY SALE MADE HEREUNDER SHALL, UNDER ANY CIRCUMSTANCES, CREATE ANY IMPLICATION THAT THE INFORMATION HEREIN IS CORRECT AS OF ANY TIME SUBSEQUENT TO THE DATE HEREOF OR THERE HAS BEEN NO CHANGE IN THE AFFAIRS OF THE COMPANY SINCE SUCH DATE.

TABLE OF CONTENTS

[LOGO]

AUDIOVOX CORPORATION

1,365,000 WARRANTS TO PURCHASE
CLASS A COMMON STOCK

OFFERING MEMORANDUM

APRIL 12, 1995

- --
- --

SUPPLEMENT NO. 1
DATED MAY 1, 1995
TO THE OFFERING MEMORANDUM
DATED APRIL 12, 1995

This Supplement No. 1 amends and supplements the Confidential Offering Memorandum (the "Offering Memorandum"), dated April 12, 1995, of Audiovox Corporation ("Audiovox" or the "Company"). The Offering Memorandum is in connection with the offering (the "Offering") by the Company in a private placement transaction of warrants to purchase one share of the Company's Class A Common Stock, par value $.01 per share (the "Class A Common Stock").

This Supplement No. 1 should be read in conjunction with the Offering Memorandum and is subject to the restrictions and limitations set forth on pages (i)-(vi) thereof as though such restrictions and limitations were set forth in full herein. Investors should carefully review all of the information contained in the Offering Memorandum and this Supplement No. 1 prior to making an investment in the Warrants.

Capitalized terms used herein and not otherwise defined herein shall have the meanings ascribed to them in the Offering Memorandum.

If you held the Debentures as of June 3, 1994 on behalf of a beneficial holder as nominee or otherwise, please forward this Supplement No. 1 to such beneficial holder as of such date as soon as possible.

If you have any questions or should you require additional copies of this Supplement No. 1 or the Offering Memorandum or any of the documents that need to be executed in connection with the Offering please contact C. Michael Stoehr, Chief Financial Officer of the Company, at (516) 231-7750.

REVISIONS TO THE TERMS OF THE OFFERING

The terms of the Offerings are as stated in the Offering Memorandum except for the following revisions:

Securities Offered	1,889,695 warrants (the "Warrants"), each Warrant entitling the holder thereof to purchase one share of class A Common Stock at any time (i) on or after the later of (x) one year after issuance and (y) the date a registration statement with respect to the Class A Common Stock issuable upon exercise of the Warrants has been filed and declared effective by the Securities and Exchange Commission and (ii) on or prior to March 15, 2001 unless the Warrants are terminated earlier in certain circumstances. The initial exercise price of each Warrant (the "Warrant Exercise Price") will be $7-1/8 (rather than $7-7/8) per share unless the closing sales price of the Class A Common Stock on the American Stock Exchange, Inc. (the "AMEX") is greater than $6-1/2 (rather than 7-1/8) per share of Class A Common Stock as of 5:00 p.m. on the date of the closing of the Offering in which case the exercise price of the Warrant will be 110% of the closing price of the Class A Common Stock on the AMEX as of such time. The Warrant Exercise Price must be at least 110% of the current market price of the Class A Common Stock on the date of the closing in order for the Warrants to be eligible to be traded under rule 144A under the Securities Act of 1933, as amended. On April 28, 1995, the closing sales price of the Class A Common Stock, as reported by the AMEX was $6-3/16 per share.
Offer to Beneficial Holders of Debentures	Except as set forth in the next sentence, each beneficial holder (a "Beneficial Holder") of the Company's 6-1/4% Convertible Subordinated Debentures due 2001 (the "Debentures") as of June 3, 1994 will be entitled to acquire 30 (rather than 21) Warrants per $1,000

	principal amount of Debentures beneficially owned as of such date in consideration for the delivery by such person of a Release. Oppenheimer & Co., Inc., the Beneficial Holder of approximately $12,065,000 of the Debentures as of June 3, 1994, will be entitled to acquire 25 Warrants per $1,000 principal amount of Debentures beneficially owned as of such date in consideration for the delivery by Oppenheimer & Co., Inc. of a Release.
Mandatory Redemption	If a registration statement relating to the Class A Common Stock underlying the Warrants has not been effective at any time on or prior to the Expiration Date of the Warrants, the Company will be required to redeem all of the outstanding Warrants for $1.60 (rather than $2.20) per Warrant (the "Redemption Price"). The Redemption Price is subject to adjustment in certain limited circumstances.
Expiration of the Offering	The expiration date of the Offering has been extended from 5:00 p.m. (New York City time) on May 1, 1995 to 5:00 p.m. (New York City time) on May 9, 1995. The Company does not presently intend to extend further the expiration date of the Offering.
Persons Who Have Already Accepted the Offer	Any persons who have already accepted the terms of the Offering described in the Offering Memorandum will be entitled to receive the benefits of the revised terms described above. Accordingly, in consideration for a Release such Beneficial Holders will receive 30 Warrants per $1,000 principal amount of Debentures beneficially owned as of such date and the Warrant Exercise Price will be as set forth above under "--Securities Offered."

All of the other terms of the Offering will be as set forth in the Offering Memorandum. Revised copies of the Subscription Agreement, the Warrant Agreement and Registration Rights Agreement marked to show changes from the previously distributed draft are enclosed herewith. In addition, for your convenience a copy of the Release and the Investor Suitability Questionnaire is also enclosed.

Instructions for Participation
- ------------------------------

All documents must be executed by the BENEFICIAL HOLDER of Debentures as of June 3, 1994. The documents must be received by 5:00 p.m. (New York City time) on or before May 9, 1995. The documents should be delivered to Fried, Frank, Harris, Shriver & Jacobson, One New York Plaza, New York, New York 10004, Attention: Stuart H. Gelfond, Esq. The Company will not accept subscriptions from any record holder of the Debentures as of such date unless such person was also the Beneficial Holder of the Debentures. Please execute the documents as follows:

A. The Subscription Agreement. Two copies of the signature page (page 16 of such agreement) must be completed and signed and returned to the Company. The signature must be notarized. The Subscription Agreement contains, among other things, certain representations and warranties by you to the Company, including a representation that you were the beneficial holder of the Debentures as of June 3, 1994 and certain agreements regarding each subscriber. You should carefully consider the accuracy of such representations and warranties and the other terms of such agreement prior to the execution of the Subscription Agreement.

B. The Registration Rights Agreement. Two copies of the signature page (page 15 of such agreement) must be completed and signed and returned to the Company. The signature must be notarized.

C. Investor Suitability Questionnaire. One copy must be completed and signed and returned to the Company. The signature must be notarized.

D. The Release. Four copies of the Release must be completed and signed and returned to the Company. The signature must be notarized. You should note that the Release will not be effective against you until you have received the Warrants to which you are entitled under the Subscription Agreement.

E. The Warrant Agreement. The Warrant Agreement will be executed by the Company and Continental Stock Transfer & Trust Company, as Warrant Agent. You do not have to execute the Warrant Agreement, although your Warrants will be subject to the terms thereof. Interests in the Warrants will be available initially only in book-entry form and you will receive confirmation from the Company upon consummation of the Offering of the number of Warrants you acquired in the Offering. You do not have to return any documents relating to the Warrant Agreement.

Exhibit 3

WARRANT AGREEMENT

between

AUDIOVOX CORPORATION

and

CONTINENTAL STOCK TRANSFER & TRUST COMPANY

1,889,695 Warrants to Purchase Class A Common Stock

Conformed Copy

WARRANT AGREEMENT

Agreement, dated as of the date set forth on the signature page, by and between Audiovox Corporation, a Delaware corporation with an office at 150 Marcus Boulevard, Hauppauge, New York 11788 (the "Company"), and Continental Stock Transfer & Trust Company, with an office at Two Broadway, New York, New York 10004 (the "Warrant Agent").

W I T N E S S E T H

WHEREAS, the Company is offering for sale warrants ("Warrants") to purchase up to 1,889,695 shares of Class A Common Stock, par value $.01 per share, of the Company; and

WHEREAS, the Company desires to appoint the Warrant Agent to act on its behalf in connection with the issuance, transfer, exchange and exercise of the certificates representing the Warrants and other matters as provided herein; and

WHEREAS, the Company and the Warrant Agent wish to define the terms and provisions of the Warrants and the respective rights and obligations thereunder of the Company and the holders of Warrants;

NOW, THEREFORE, in consideration of the premises and the mutual agreements set forth herein, the parties hereto hereby agree as follows:

Article 1

Definitions

Section 1.0. Definitions.

Capitalized terms used herein and not otherwise defined shall have the following meanings:

Business Day: Each Monday, Tuesday, Wednesday, Thursday and Friday which is not a day on which banking institutions in the City of New York are authorized or obligated by federal, state or local law or executive order to close.

CEDEL: Centrale de Livraison de Valeurs Mobilieres S.A.

Class A Common Stock: The Company's Class A Common Stock, par value $.01 per share or any class of securities into which all of such Class A Common Stock has been converted or combined.

Commission: Securities and Exchange Commission.

Common Stock: The Class A Common Stock, and any other stock of any class of the Company which has no preference in respect of dividends or of amounts payable in the event of any voluntary or involuntary liquidation, dissolution or winding up of the Company and which is not subject to redemption by the Company. However, subject to the provisions of Section 4.12, shares issuable on exercise of Warrants shall include only shares of Class A Common Stock or shares of any class or classes resulting from any reclassification or reclassifications thereof and which have no preference in respect of dividends or of amounts payable in the event of any voluntary or involuntary liquidation, dissolution or winding-up of the Company and which are not subject to redemption by the Company; provided that if at any time there shall be more than one such resulting class, the shares of each such class then so issuable shall be substantially in the proportion which the total number of shares of such class resulting from all such reclassifications bears to the total number of shares of all such classes resulting from all such reclassifications.

Corporate Trust Office: The principal office of the Warrant Agent at Two Broadway, New York, New York 10004, or such other address in New York, New York at which at any particular time its corporate trust business shall be administered.

Corporation: A corporation, association, company, joint-stock company or business trust.

Definitive Warrant Certificates: A Warrant Certificate that is in the form set forth in Section 3.3 and that does not include the information called for by footnote 1 of Section 3.3.

Depository: The Depository Trust Company as the depository with respect to the Warrants issuable or issued in whole or in part in global form, until a successor shall have been appointed and become such pursuant to the applicable provision of this Agreement, and thereafter "Depository" shall mean or include such successor.

Disadvantageous Condition: As defined in the Registration Statement.

Exchange Act: The Securities Exchange Act of 1934, as amended.

Global Warrant Certificate: A Warrant Certificate that is in the form set forth in Section 3.3 and that includes the information called for by footnote 1 of Section 3.3.

Holder: A Person in whose name a Warrant Certificate is registered in the Warrant Register.

Person: An individual, limited or general partnership, Corporation, joint venture, trust or unincorporated organization, or any other entity, including a government or agency or political subdivision thereof.

QIB: A "qualified institutional buyer" as defined in Rule 144A.

Redemption Date: With respect to any Warrant to be redeemed, means the date fixed for such redemption by or pursuant to this Agreement.

Redemption Price: With respect to any Warrant to be redeemed, means the price at which it is to be redeemed pursuant to this Agreement.

Registration Default: As defined in the Registration Rights Agreement.

Registration Rights Agreement: The Registration Rights Agreement, dated as of the date hereof, among the Company and the initial purchasers of the Warrants.

Rule 144: Rule 144 promulgated under the Securities Act.

Rule 144A: Rule 144A promulgated under the Securities Act.

Securities Act: The Securities Act of 1933, as amended.

Shelf Registration Statement: Any registration statement of the Company with respect to the Class A Common Stock issuable upon exercise of the Warrants that is filed pursuant to Section 3 of the Registration Rights Agreement.

Subsidiary: A Person more than 50% of the outstanding voting stock (or, if not a corporation, the equivalent common equity) of which is owned, directly or indirectly, by the Company or by one or more other Subsidiaries, or by the Company and one or more other Subsidiaries. For the purposes of this definition, "voting stock" or "common equity" means stock or another ownership interest which ordinarily has voting power for the election of directors (or other governing body that controls the management and policies

of such Person), whether at all times or only so long as no senior class of stock or common equity has such power by reason of any contingency.

Trading Day: Any day other than a Saturday or Sunday or a day on which securities are not traded on any national securities exchange.

Transfer Restricted Warrants: Each Warrant until the date on which such Warrant (i) has been disposed of pursuant to an effective registration statement under the Securities Act, (ii) is distributed to the public pursuant to Rule 144 or is salable pursuant to Rule 144(k) (or any similar provisions then in force), (iii) is otherwise freely tradeable or (iv) has been acquired by the Company.

Warrant Agent: Continental Stock Transfer & Trust Company until a successor Warrant Agent shall have become such pursuant to the applicable provisions of this Agreement, and thereafter "Warrant Agent" shall mean such successor Warrant Agent.

Warrant Certificate: A certificate representing Warrants issued under this Agreement.

Warrant Custodian: The Warrant Agent or such other entity that is a "fast agent" meeting the requirements of the Depository as the Warrant Agent shall designate from time to time, to act as custodian with respect to the Warrants in global form, or any successor entity thereto.

Article 2

The Warrant Agent

Section 2.1. Appointment of Warrant Agent.

The Company hereby appoints the Warrant Agent as its agent in respect of the Warrants and the Warrant Certificates, upon the terms and subject to the conditions set forth herein, and subject to resignation or removal of the Warrant Agent as provided herein. The Warrant Agent agrees to accept such appointment, upon the terms and subject to the conditions set forth herein. The Warrant Agent shall have the powers and authority granted to it by this Agreement and such further powers and authority to act on behalf of the Company as the Company may hereafter grant to or confer upon it.

Section 2.2. Duties of Warrant Agent.

The Warrant Agent accepts its obligations set forth herein upon the terms and conditions hereof, including the following, to all of which the Company agrees and to all of which the rights hereunder of the Holders from time to time of the Warrant Certificates shall be subject:

(a) The Warrant Agent shall act hereunder as agent and in a ministerial capacity for the Company, and its duties shall be determined solely by the provisions hereof. In acting under this Agreement and with respect to the Warrant Certificates, the Warrant Agent does not assume any obligation or relationship of agency or trust for or with any Holder.

(b) The Warrant Agent shall be obligated to perform such duties as are specifically set forth herein and in the Warrant Certificates and no implied duties or obligations shall be read into this Agreement or the Warrant Certificates against the Warrant Agent. The Warrant Agent shall have no duty or responsibility in case of any default by the Company in the performance of its covenants or agreements contained in this Agreement or the Warrant Certificates or in the case of the receipt of any written demand from any Holder with respect to such default, including, without limiting the generality of the foregoing, any duty or responsibility to initiate or attempt to initiate any proceeding at law or otherwise, or to make any demand upon the Company.

(c) The Warrant Agent is hereby authorized and directed to accept written instructions with respect to the performance of its duties hereunder from any one of the Chairman of the Board, the President, the Chief Financial Officer, the Chief Accounting Officer or Senior Vice President of the Company (each a "Responsible Officer"), and to apply to such Responsible Officers for advice or instructions in connection with its duties, and it shall not be liable for any action taken or suffered to be taken by it in good faith in accordance with instructions from any Responsible Officer with respect to any matter arising in connection with the Warrant Agent's duties and obligations arising under this Agreement.

(d) The Warrant Agent shall not be liable for any action taken, suffered or omitted to be taken by it in good faith in accordance with any notice, statement, instruction, request, direction, order or demand of a Responsible Officer of the Company believed by it to be genuine. Any such notice, statement, instruction, request, direction, order or demand of the Company shall be sufficiently evidenced by an instrument signed by a Responsible Officer.

(e) Whenever in the performance of its duties under this Agreement, the Warrant Agent shall deem it necessary or desirable that any fact or matter be proved or established

by the Company prior to taking or suffering any action hereunder, such fact or matter (unless other evidence in respect thereof be herein specifically prescribed) may be deemed to be conclusively proved and established by a certificate signed by a Responsible Officer, and such certificate shall be full authorization to the Warrant Agent for any action taken or suffered in good faith by it under the provisions of this Agreement in reliance upon such certificate.

(f) The Warrant Agent, to the extent permitted by applicable law, may engage or be interested in any financial or other transaction with the Company and may act on, or as depository, trustee or agent for, any committee or body of holders of shares or other obligations of the Company as freely as if it were not the Warrant Agent hereunder. Nothing in this Agreement shall be deemed to prevent the Warrant Agent from acting in any other capacity for the Company.

(g) The Warrant Agent shall not, by countersigning or delivering Warrant Certificates or by any other act hereunder, be deemed to make any representations as to the validity, value or authorization of the Warrant Certificates or the Warrants represented thereby or of any securities or other property issued or issuable upon exercise of any Warrant or whether any stock issued upon exercise of any Warrant is fully paid and nonassessable.

(h) The Warrant Agent shall not at any time be under any duty or responsibility to any Holder to determine whether any fact exists which may require any adjustment to the Exercise Price, or with respect to the nature or extent of any adjustment, when made, or with respect to the method employed in making the same.

(i) The Warrant Agent shall not be liable for any act or omission in connection with this Agreement except for its own negligence or willful misconduct.

(j) The Warrant Agent may at any time consult with counsel satisfactory to it and shall incur no liability or responsibility in respect of any action taken, suffered or omitted to be taken by it in good faith in accordance with the opinion or advice of such counsel.

(k) The Company agrees that it will perform, execute, acknowledge and deliver, or cause to be performed, executed, acknowledged and delivered, all such further and other acts, instruments and assurances as may reasonably be required by the Warrant Agent for the carrying out or performing by the Warrant Agent of the provisions of this Agreement.

(l) The Warrant Agent shall not be required to risk or expend its own funds in the performance of its obligations and duties hereunder unless it has obtained an indemnity reasonably satisfactory to it to reimburse it for such expenditure.

(m) The Warrant Agent shall not be under any liability for interest on, and shall not be required to invest, any monies at any time received by it pursuant to any of the provisions of this Agreement or of the Warrant Certificates. The Warrant Agent shall not be accountable for the use or application by the Company of the proceeds of the exercise of any Warrant.

Section 2.3. Compensation; Indemnification.

The Company agrees to pay the Warrant Agent from time to time such compensation as shall be agreed upon by the Company and the Warrant Agent, and the Company agrees to reimburse the Warrant Agent for its reasonable out-of-pocket expenses and disbursements incurred without negligence or willful misconduct on its part in connection with the services rendered by it hereunder.

The Company also agrees to indemnify the Warrant Agent for, and to hold it harmless against, any loss, liability or expense, including judgments, costs and reasonable counsel fees, incurred without negligence or willful misconduct on the part of the Warrant Agent, arising out of or in connection with its acting as Warrant Agent hereunder. The obligations of the Company under this Section shall survive the exercise and the expiration of the Warrants and the resignation and removal of the Warrant Agent.

Section 2.4. Resignation; Successor Warrant Agents.

The Warrant Agent may at any time resign as Warrant Agent and be discharged from all further duties and liabilities hereunder (except liabilities arising as a result of the Warrant Agent's own negligence or willful misconduct), by giving written notice to the Company and each holder of Warrants of such resignation, specifying the date on which such resignation shall be effective; provided, that such notice shall be given no less than ninety (90) days prior to such effective date. Upon receiving such notice of resignation, the Company shall promptly appoint a successor Warrant Agent by written instrument in duplicate signed on behalf of the Company by a Responsible Officer, one copy of which shall be delivered to the resigning Warrant Agent and one copy to the successor Warrant Agent. Such resignation shall become effective upon the acceptance of the appointment by the successor Warrant Agent.

The Company may, at any time and for any reason, remove the Warrant Agent and appoint a successor Warrant Agent by written instrument in duplicate, specifying such removal and the date on which it is to become effective, signed by a Responsible Officer of the Company, one copy of which shall be delivered to the Warrant Agent being removed and one copy to the successor Warrant Agent.

Upon resignation or removal of the Warrant Agent, if the Company shall fail to appoint a successor Warrant Agent within a period of ninety (90) days after receipt of such notice of resignation or removal, then any Holder may apply to a court of competent jurisdiction for the appointment of a successor to the Warrant Agent. Pending appointment of a successor to the Warrant Agent, either by the Company or by such a court, the duties of the Warrant Agent shall be carried out by the Company.

Any appointment of a successor Warrant Agent shall become effective upon acceptance of appointment by the successor Warrant Agent as provided in this Section. As soon as practicable after the appointment of the successor Warrant Agent, the Company shall cause written notice of the change in the Warrant Agent to be given to each of Holder.

Each successor Warrant Agent shall execute and deliver to its predecessor and to the Company an instrument accepting such appointment hereunder and all the provisions of this Agreement, and thereupon such successor Warrant Agent shall, without any further act, deed or conveyance, become vested with the same powers, rights, duties and responsibilities of its predecessor hereunder, with like effect as if it had been originally named herein, and the Warrant Agent shall thereupon become obligated to transfer, deliver and pay over, and such successor Warrant Agent shall be entitled to receive, all moneys, securities, records or other property on deposit with or held by the Warrant Agent hereunder.

Any Person into which the Warrant Agent may be converted or merged, or any corporation resulting from any consolidation to which the Warrant Agent shall be a party, or any corporation succeeding to the trust business of the Warrant Agent, shall be a successor Warrant Agent under this Agreement without any further act on the part of any party. Any such successor Warrant Agent shall promptly cause notice of its succession as Warrant Agent to be mailed to the Company and to each Holder.

Article 3

The Warrants

Section 3.1. Number of Warrants.

The number of Warrants which may be issued and delivered under this Agreement is limited to 1,889,695 Warrants, except for Warrants issued and delivered in connection with any transfer of, in exchange for, or in lieu of, other Warrants (which shall be canceled) in accordance with the terms of this Agreement.

Section 3.2. Issuance of Warrants.

Warrants offered and sold in reliance on Regulation S will be issued, except as provided in the last paragraph of this Section 3.2, initially in the form of a single, permanent Global Warrant Certificate in definitive, fully registered form, in substantially the form set forth in Section 3.3 (including the information called for by footnotes 1, 2, 3 and 4 thereof) (the "Regulation S Global Warrant Certificate"), which will be deposited on behalf of the purchasers of the Warrants represented thereby with the Warrant Custodian and registered in the name of the Depository or the nominee of the Depository for the account of Citibank, N.A. as depository of CEDEL. Warrants offered and sold to QIBs will be, except as provided in the last paragraph of this Section 3.2, issued initially in the form of a single, permanent Global Warrant Certificate in definitive, fully registered form, in substantially the form set forth in Section 3.3 (including the information called for by footnotes 1, 2, 3, and 4 thereof) (the "Restricted Global Warrant Certificate"), which will be deposited with the Warrant Custodian and registered in the name of the Depository or a nominee of the Depository.

Warrants transferred pursuant to an effective registration statement under the Securities Act or in reliance on Rule 144 (and, in each such case, in accordance with Section 3.4) will be, upon request of the transferor, represented by a single, permanent Global Warrant Certificate in definitive, fully registered form without interest coupons, in substantially the form set forth in this Section (including the information called for by footnotes 1, 3 and 4 thereof) (the "Unrestricted Global Warrant Certificate"), which will be held by the Warrant Custodian and registered in the name of the Depository or a nominee of the Depository.

Each Global Warrant Certificate shall represent such of the outstanding Warrants as shall be specified therein and each shall provide that it shall represent the aggregate number of outstanding Warrants from time to time endorsed thereon and that the aggregate amount of outstanding Warrants represented thereby may from time to time be reduced or increased, as appropriate, to reflect exchanges, transfers and exercises. Any endorsement of a Global Warrant Certificate to reflect the amount of any increase or decrease in the amount of outstanding Warrants represented thereby shall be made by the Warrant Agent or the Warrant Custodian, at the direction of the Warrant Agent, in accordance with instructions given by the Holder of the Global Warrant Certificate and in accordance with Section 3.4.

Warrants offered and sold (i) to "accredited investors" (as defined under the Securities Act) who are not QIBs, (ii) to QIBs who elect by written notice to the Company to take physical delivery of Definitive Warrant Certificates rather than a beneficial interest in a Global Warrant Certificate or (iii) in reliance on Regulation S

under the Securities Act to Persons who elect by written notice to the Company to take physical delivery of Definitive Warrant Certificates rather than a beneficial interest in a Global Warrant Certificate, will be issued initially in the form of Definitive Warrant Certificates. Definitive Warrant Certificates may also be issued in accordance with Section 3.4.

Section 3.3. Form of Warrant Certificate.

Certificate Number

_____ Warrants

- ------------------

VOID AFTER MARCH 15, 2001
(OR SUCH EARLIER DATE AS SET FORTH
IN THE WARRANT AGREEMENT)

WARRANTS TO PURCHASE
SHARES OF CLASS A COMMON STOCK

AUDIOVOX CORPORATION

1UNLESS AND UNTIL EXCHANGED IN WHOLE OR IN PART FOR SECURITIES IN DEFINITIVE FORM, THE SECURITIES EVIDENCED HEREBY MAY NOT BE TRANSFERRED EXCEPT AS A WHOLE BY THE DEPOSITORY TO A NOMINEE OF THE DEPOSITORY OR BY A NOMINEE OF THE DEPOSITORY TO THE DEPOSITORY OR ANOTHER NOMINEE OF THE DEPOSITORY OR BY THE DEPOSITORY OR ANY SUCH NOMINEE TO A SUCCESSOR DEPOSITORY OR A NOMINEE OF SUCH SUCCESSOR DEPOSITORY. UNLESS THIS CERTIFICATE IS PRESENTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITORY TRUST COMPANY (55 WATER STREET, NEW YORK, NEW YORK) ("DTC") TO THE ISSUER OR ITS AGENT FOR REGISTRATION OF TRANSFER, EXCHANGE OR PAYMENT, AND ANY CERTIFICATE ISSUED IS REGISTERED IN THE

- --------------------

1 Paragraph to be included in a Warrant Certificate issued in the form of a Global Warrant Certificate.

NAME OF CEDE & CO. OR SUCH OTHER NAME AS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC (AND ANY PAYMENT IS MADE TO CEDE & CO. OR SUCH OTHER ENTITY AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC), ANY TRANSFER, PLEDGE OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL INASMUCH AS THE REGISTERED OWNER HEREOF, CEDE & CO., HAS AN INTEREST HEREIN.

2THE SECURITIES EVIDENCED HEREBY HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR ANY STATE SECURITIES LAWS. NEITHER THE SECURITIES EVIDENCED HEREBY NOR ANY INTEREST OR PARTICIPATION HEREIN MAY BE OFFERED, SOLD, ASSIGNED, TRANSFERRED, PLEDGED, ENCUMBERED OR OTHERWISE DISPOSED OF IN THE ABSENCE OF SUCH REGISTRATION OR UNLESS SUCH TRANSACTION IS EXEMPT FROM, OR NOT SUBJECT TO, REGISTRATION.

THE HOLDER OF THIS CERTIFICATE BY ITS ACCEPTANCE HEREOF AGREES TO OFFER, SELL OR OTHERWISE TRANSFER ANY SECURITY EVIDENCED HEREBY, PRIOR TO THE DATE (THE "RESALE RESTRICTION TERMINATION DATE") WHICH IS THREE YEARS AFTER THE LATER OF (X) THE ORIGINAL ISSUE DATE HEREOF AND (Y) THE LAST DATE ON WHICH THE COMPANY OR ANY AFFILIATED PERSON OF THE COMPANY WAS THE OWNER OF SUCH SECURITY (OR ANY PREDECESSOR OF SUCH SECURITY) ONLY (A) TO THE COMPANY, (B) PURSUANT TO A REGISTRATION STATEMENT WHICH HAS BEEN DECLARED EFFECTIVE UNDER THE SECURITIES ACT, (C) FOR SO LONG AS THE SECURITY IS ELIGIBLE FOR RESALE PURSUANT TO RULE 144A, TO A PERSON IT REASONABLY BELIEVES IS A "QUALIFIED INSTITUTIONAL BUYER," AS SUCH TERM IS DEFINED IN, AND IN COMPLIANCE WITH, RULE 144A PROMULGATED UNDER THE SECURITIES ACT, THAT PURCHASES FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER TO WHOM NOTICE IS GIVEN THAT THE TRANSFER IS BEING MADE IN RELIANCE ON RULE 144A, (D) PURSUANT TO OFFERS AND SALES THAT OCCUR OUTSIDE THE UNITED STATES WITHIN THE MEANING OF AND IN COMPLIANCE WITH REGULATION S PROMULGATED UNDER THE SECURITIES ACT, (E) TO AN INSTITUTIONAL "ACCREDITED INVESTOR" WITHIN THE MEANING OF SUBPARAGRAPH (A)(1), (2), (3) OR (7) OF RULE

- ----------

2 Paragraph to be included in a Warrant Certificate representing Transfer Restricted Warrants.

501 PROMULGATED UNDER THE SECURITIES ACT THAT IS ACQUIRING THE SECURITY FOR ITS OWN ACCOUNT, OR FOR THE ACCOUNT OF SUCH AN INSTITUTIONAL "ACCREDITED INVESTOR," FOR INVESTMENT PURPOSES AND NOT WITH A VIEW TO, OR FOR OFFER OR SALE IN CONNECTION WITH, ANY DISTRIBUTION IN VIOLATION OF THE SECURITIES ACT, OR (F) PURSUANT TO ANOTHER AVAILABLE EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT, SUBJECT TO THE COMPANY'S AND THE WARRANT AGENT'S RIGHT PRIOR TO ANY SUCH OFFER, SALE OR TRANSFER PURSUANT TO CLAUSES (D), (E) OR (F), TO REQUIRE THE DELIVERY OF AN OPINION OF COUNSEL, CERTIFICATIONS AND OTHER INFORMATION SATISFACTORY TO EACH OF THEM. THIS LEGEND WILL BE REMOVED UPON THE REQUEST OF THE HOLDER AFTER THE RESALE RESTRICTION TERMINATION DATE.

This Warrant Certificate certifies that _____, or registered assigns, is the Holder of _____ Warrants (the "Warrants") to purchase shares of Class A Common Stock, par value $.01 per share (the "Class A Common Stock"), of Audiovox Corporation, a Delaware corporation (the "Company"). Each Warrant entitles the Holder, at any time on any Business Day during the period commencing on the date of the Warrant Agreement (as defined below) and ending 5:00 p.m., New York City time, on March 15, 2001 (or such earlier date as set forth in the Warrant Agreement) (the "Expiration Date") to purchase from the Company one share of Class A Common Stock of the Company at an Exercise Price of $7-1/8 per share (as such Exercise Price may be amended in accordance with this Warrant Certificate or the Warrant Agreement) upon surrender of this Warrant Certificate and payment of the Exercise Price at any office or agency maintained for that purpose by the Company; provided, however, that (a) Warrants may only
-------- -------
be exercised if a Shelf Registration Statement is effective under the Securities Act at the time of such exercise, (b) the Exercise Price shall decrease by $1/8 per share (the "Reduction Amount") of Class A Common Stock if (i) the Shelf Registration Statement has not been filed with the Commission within 300 days after the date hereof or declared effective within 365 days after the date hereof, or (ii) if the Shelf Registration Statement is filed and declared effective but shall thereafter cease to be effective (without being succeeded immediately by an additional effective Shelf Registration Statement for a period which shall exceed 90 days (or 180 days in the event of a Disadvantageous Condition) in the aggregate per year (defined as a period of 365 days commencing on the date that the applicable Registration Statement is declared effective), such exercise price to decline an additional Reduction Amount per share of Class A Common Stock for each subsequent six-month period until the applicable Registration Statement is filed, declared effective or becomes effective again, (c) notwithstanding the foregoing, in no event shall there be more than (i) 10 reductions in the Exercise Price during the period beginning on

the date of the initial issuance of Warrants under the Warrant Agreement and ending on the Expiration Date or (ii) one reduction in the Exercise Price during any six-month period during the Exercise Period, in either case, in respect of the events described in clause (b) above and (d) such Exercise Price shall not decrease with respect to any Warrants which the Company is not required to register under the Registration Rights Agreement if the Commission has declared effective a registration statement with respect to other shares of Class A Common Stock.

In the event of an Exercise Price Adjustment (as defined in the Warrant Agreement), the Reduction Amount as then in effect shall also be adjusted so that the same shall equal the Reduction Amount as then in effect multiplied by a fraction of which the numerator shall be the Exercise Price in effect immediately following the Exercise Price Adjustment and the denominator shall be the Exercise Price immediately prior to such Exercise Price Adjustment.

Any Warrants not exercised on or prior to 5:00 p.m., New York City time, on the Expiration Date shall thereafter be null and void, subject to the rights of redemption set forth in Section 5.

THIS WARRANT CERTIFICATE SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK, WITHOUT REGARD TO THE CONFLICT OF LAW PROVISIONS THEREOF.

Reference is hereby made to the further provisions of this Warrant Certificate on the reverse hereof which provisions shall for all purposes have the same effect as though fully set forth at this place.

This Warrant Certificate shall not be entitled to any benefit under the Warrant Agreement between the Company and Continental Stock Transfer & Trust Company, as Warrant Agent (the "Warrant Agreement") or valid for any purpose unless countersigned by the Warrant Agent.

IN WITNESS WHEREOF, the Company has caused this Warrant Certificate to be duly executed and a facsimile of its corporate seal to be imprinted thereon.

Dated:

AUDIOVOX CORPORATION

By:_____

Attest:

_____

CONTINENTAL STOCK TRANSFER
& TRUST COMPANY, as
Warrant Agent

By:_____
Authorized Officer

[Reverse Side]

The Warrants represented by this Warrant Certificate are part of a duly authorized issue of Warrants of Audiovox Corporation (the "Company") expiring 5:00 p.m., New York City time, on the Expiration Date. The Warrants represented hereby are issued pursuant to and are subject in all respects to the terms and conditions set forth in the Warrant Agreement (the "Warrant Agreement"), by and between the Company and Continental Stock Transfer & Trust Company (the "Warrant Agent"), which Warrant Agreement and any amendments thereto are hereby incorporated by reference in and made a part of this instrument, and to which reference is hereby made for a description of the respective rights, limitations of rights, obligations, duties and immunities thereunder of the Company, the Warrant Agent and the Holders of Warrants. A copy of the Warrant Agreement may be obtained from the Company at 150 Marcus Boulevard, Hauppauge, New York 11788 or the Warrant Agent at Two Broadway, New York, New York 10004, by a written request from the Holder hereof or which may be inspected by any Holder or such Holder's agent at the principal office of the Company or the Warrant Agent. [The Warrants represented hereby are entitled to the benefits of a Registration Rights Agreement dated as of _____, 1995.]3

Subject to and upon compliance with the provisions of the Warrant Agreement, each Warrant entitles the Holder, at any time on any Business Day during the period commencing on the date of the issuance of the Warrant and ending 5:00 p.m., New York City time, on the Expiration Date, to purchase from the Company one share of Class A Common Stock, $.01 par value ("Class A Common Stock")(or such other number of shares of Common Stock if an adjustment has been made as provided in the Warrant Agreement), of the Company at an Exercise Price of $7-1/8 per share (or at the current adjusted Exercise Price if an adjustment has been made as provided in the Warrant Agreement); provided, however, that
----
Warrants may only be exercised if a Shelf Registration Statement is effective under the Securities Act at the time of such exercise. The Warrants may be exercised upon the presentation and surrender of this Warrant Certificate to the Company at its office or agency maintained for that purpose, with the form of Notice of Exercise set forth hereon duly completed and executed, accompanied by payment of the Exercise Price for each such Warrant exercised and any other amounts required to be paid, as provided in the Warrant Agreement. In the event the holder exercising its Warrants holds an interest in a Global Warrant Certificate, such holder shall obtain a Definitive Warrant Certificate in accordance with Section 3.4(c) of the Warrant Agreement prior to the exercise of such Warrants or, with the consent of the Company, exercise Warrants owned of record by such holder and represented by a Global Warrant Certificate by delivering (i) proof of record ownership of such Warrants if required by the

- ----------

3 Bracketed language to be included if the Warrant Certificate represents Transfer Restricted Warrants.

Company and (ii) a notice of exercise in substantially the form set forth below as appropriately adjusted. The Exercise Price shall be payable by certified check or official bank check or by such other means as is acceptable to the Company in the lawful currency of the United States of America which as of the time of payment is legal tender for payment of public or private debts. The Exercise Price and the number and kind of securities or other property issuable upon exercise of each Warrant is subject to adjustment as provided in the Warrant Agreement.

The Warrant is subject to mandatory redemption at a price of $1.60 per Warrant (as such price may be adjusted as set forth in the Warrant Agreement) if the Shelf Registration Statement has not been declared effective at any time on or prior to the Expiration Date.

As soon as practicable after the exercise of any Warrants, the Company shall issue and deliver, or cause to be delivered, to the Holder, at such office or agency maintained for such purpose pursuant to the Warrant Agreement, a certificate or certificates evidencing the number of full shares of Class A Common Stock to which such Holder is entitled, registered in such name or names as may be directed by such Holder pursuant to the Notice of Exercise set forth on this Warrant Certificate. No fractional shares of Class A Common Stock will be issued upon exercise of any Warrant, but instead of any fractional interest, the Company shall pay to the Holder a cash adjustment as provided in the Warrant Agreement.

In the case of the exercise of less than all the Warrants represented hereby, this Warrant Certificate shall be canceled upon the surrender hereof and a new Warrant Certificate or Warrant Certificates shall be issued and delivered for the balance of such Warrants represented hereby.

Prior to the exercise of any Warrant represented hereby, the Holder shall not be entitled to any rights of a stockholder of the Company by reason of such Person being a Holder, including, without limitation, the right to vote or to receive dividends or other distributions, and shall not be entitled to receive any notice of any proceedings of the Company, except as provided in the Warrant Agreement.

The Warrant Agreement permits, with certain exceptions as therein provided, the amendment thereof and the modification of the rights and obligations of the Company and the rights of the Holders of Warrants under the Warrant Agreement at any time by the Company and the Warrant Agent with the consent of the Holders of at least a majority of the Warrants at the time outstanding. Any such consent shall be conclusive and binding upon the Holder of this Warrant Certificate and upon all future Holders of any Warrant Certificate issued upon the registration of transfer of the Warrants evidence hereby, or in

exchange hereof or in lieu hereof, whether or not notation of such consent or waiver is made thereon.

As provided in the Warrant Agreement and subject to the limitations set forth therein, transfer of the Warrants represented by this Warrant Certificate is registrable upon surrender of this Warrant Certificate at the office or agency of the Company maintained for that purpose, and thereupon one or more new Warrant Certificates representing the Warrants so transferred will be issued to the designated transferee or transferees. As provided in the Warrant Agreement and subject to the limitations set forth therein, this Warrant Certificate is exchangeable for new Warrant Certificates representing a like number of Warrants, as requested by the Holder surrendering the same.

In the event that less than 5% of the aggregate number of Warrants issued under the Warrant Agreement remain outstanding, the Company shall have the right to cause the Warrants remaining outstanding to expire at 5:00 p.m. (New York City time) on the 30th day (or such later date as set forth in the Termination Notice (as defined below) (the "New Termination Date")) after the date of delivery of a notice to such holders of Warrants setting forth the information required by Section 6.2 of the Warrant Agreement and delivered in accordance with Section 7.4 of the Warrant Agreement. Any Warrants not properly exercised prior to the New Termination Date shall expire and be null and void.

No service charge shall be payable by a Holder for any such registration of transfer or exchange, but the Company may require payment of a sum sufficient to cover any tax or other governmental charge payable in connection therewith.

Prior to due presentment of this Warrant Certificate for registration of transfer, the Company and the Warrant Agent and any agent of the Company or the Warrant Agent may treat the Person in whose name this Warrant Certificate is registered as the absolute, true and lawful owner hereof and of the Warrants represented hereby (notwithstanding any notation or ownership or other writing hereon made by any Person) for all purposes, and shall not be affected by any notice or knowledge to the contrary.

All terms used in this Warrant Certificate which are defined in the Warrant Agreement shall have the meanings assigned to them in the Warrant Agreement.

NOTICE OF EXERCISE

The undersigned hereby irrevocably elects to exercise _____ of the Warrants represented by this Warrant Certificate and purchase the whole number of shares issuable and deliverable upon exercise of such Warrants, and herewith tenders payment for such shares in accordance with the terms of the Warrant Agreement. The undersigned hereby directs that the certificate or certificates for the shares issuable and deliverable upon exercise, together with any check in payment for fractional shares and any Warrant Certificate representing any unexercised Warrants represented by this Warrant Certificate, be issued in the name of and delivered to the undersigned, unless a different name is indicated below. The undersigned will pay any transfer taxes or other governmental charge payable with respect to any such shares to be issued in the name of a person other than the undersigned.

INSTRUCTIONS FOR REGISTRATION OF SHARES
(please typewrite or print)

Name_____

Address_____

Social Security or Other
Taxpayer Identification Number_____

Dated:_____

Signature:_____
Note: signature must conform to
name of Holder appearing on face
hereof)

Signature must be guaranteed by a member
of an accepted medallion guarantee program
if shares of Class A Common Stock are to be
issued, or Warrant Certificate(s) are to be
delivered, other than to and in the name of
the Holder.

- ---------------
Signature Guarantee

Fill in for registration of shares of Class A Common Stock and Warrant Certificate(s) if to be issued otherwise than to the Holder:

Social Security or other

- -------------------------
(Name) Taxpayer Identification Number:

- ------------------------- ---------- (Name)

- -------------------------
Please print name and address
(including zip code)

Section 3.4. Registration of Transfer and Exchange.

(a) General. The Company shall cause to be kept at the Corporate Trust Office of the Warrant Agent a register (the register maintained in such office and in any other office or agency designated pursuant to Section 7.5 being herein collectively referred to as the "Warrant Register") in which the Warrant Agent shall provide for the registration of Warrant Certificates and of transfers and exchanges of Warrants.

(b) Transfer of a Beneficial Interest in a Global Warrant Certificate.

The transfer and exchange of a beneficial interest in a Global Warrant Certificate shall be effected through the Depository or CEDEL, as the case may be, in accordance with this

Agreement (including the restrictions on transfer set forth herein) and the procedures of the Depository or CEDEL, as the case may be, therefor.

(c) Transfer and Exchange of Definitive Warrant Certificates. A Holder of a Definitive Warrant Certificate may at any time transfer such Definitive Warrant Certificate or exchange such Definitive Warrant Certificate for Definitive Warrant Certificates representing an equal number of Warrants in accordance with this subsection (c). Upon receipt by the Warrant Agent of:

(i) a Definitive Warrant Certificate, duly endorsed or accompanied by appropriate instruments of transfer, in form reasonably satisfactory to the Warrant Agent, and

(ii) if such Definitive Warrant Certificate represents Transfer Restricted Warrants, a certificate in substantially the form set forth in subsection (o) of this Section 3.4 from the Holder thereof requesting Definitive Warrant Certificates and stating that such Warrants are being:

(A) delivered to the Warrant Agent for registration in the name of such Holder, without transfer; or

(B) transferred pursuant to an effective registration statement under the Securities Act; or

(C) transferred to a QIB in accordance with Rule 144A; or

(D) transferred in reliance on Regulation S or an exemption from the registration requirements of the Securities Act other than that provided by Rule 144A (in which case the Definitive Warrant Certificate surrendered shall also be accompanied by an opinion of counsel reasonably acceptable to the Company and the Warrant Agent to the effect that such transfer is in compliance with the Securities Act),

then the Warrant Agent will cancel the surrendered Definitive Warrant Certificate, the Company will execute one or more Definitive Warrant Certificates representing the amount of Warrants to be transferred or exchanged and the Warrant Agent will countersign and deliver to the transferee or Holder such Definitive Warrant Certificates and the Warrant Agent will register such Definitive Warrant Certificates in the name of the transferee or Holder.

(d) Transfer of a Definitive Warrant Certificate for a Beneficial Interest in a Global Warrant Certificate. A Holder of a Definitive Warrant Certificate may at any

time, subject to the rules and procedures of CEDEL and the Depository, transfer such Definitive Warrant Certificate for an equivalent beneficial interest in the appropriate Global Warrant Certificate in accordance with this subsection (d). Upon receipt by the Warrant Agent of:

(i) a Definitive Warrant Certificate, duly endorsed or accompanied by appropriate instruments of transfer, in form reasonably satisfactory to the Warrant Agent, together with an instruction of the transferor thereof requesting an equivalent beneficial interest in the appropriate Global Warrant Certificate; and

(ii) if such Definitive Warrant Certificate represents Transfer Restricted Warrants, a certificate in substantially the form set forth in subsection (o) of this Section 3.4 from the transferor thereof stating that such Warrants are being transferred:

(A) to a QIB in accordance with Rule 144A (in which case the appropriate Global Warrant Certificate shall be the Restricted Global Warrant Certificate);

(B) pursuant to an exemption from registration in accordance with Regulation S under the Securities Act (in which case the appropriate Global Warrant Certificate shall be the Regulation S Global Warrant Certificate and the Warrant Agent shall also receive an opinion of counsel reasonably acceptable to the Company and to the Warrant Agent to the effect that such transfer is in compliance with the Securities Act); or

(C) pursuant to an effective registration statement under the Securities Act or in reliance on Rule 144 (in each of which cases the appropriate Global Warrant Certificate shall be the Unrestricted Global Warrant Certificate and, in the case of a transfer in reliance on Rule 144, the Warrant Agent shall also receive an opinion of counsel reasonably acceptable to the Company and to the Warrant Agent to the effect that such transfer is in compliance with the Securities Act),

then the Warrant Agent will cancel the surrendered Definitive Warrant Certificate, the Warrant Custodian, in accordance with the standing instructions and procedures existing among the Depository, CEDEL and the Warrant Custodian, will increase the aggregate number of Warrants covered by the appropriate Global Warrant Certificate in the amount to be transferred, and the Depository or CEDEL, as the case may be, will effect the transfer in accordance with its procedures therefor.

(e) Transfer or Exchange of a Beneficial Interest in a Global Warrant Certificate for a Definitive Warrant Certificate. A Holder of a beneficial interest in a Global Warrant Certificate may at any time, subject to the rules and procedures of CEDEL and the Depository, transfer or exchange such beneficial interest for one or more Definitive Warrant Certificates in accordance with this subsection (e). Upon receipt by the Warrant Custodian of:

(i) an instruction given in accordance with the procedures of the Depository or CEDEL, as the case may be, on behalf of a Holder of a beneficial interest in a Global Warrant Certificate to reduce the Global Warrant Certificate by the number of Warrants to be transferred or exchanged; and

(ii) if such Global Warrant Certificate is the Regulation S Global Warrant Certificate or the Restricted Global Warrant Certificate, a certificate (which may be submitted by facsimile promptly followed by an original) in substantially the form set forth in subsection (o) of this Section 3.4 from the Holder of such beneficial interest stating that such Warrants are being:

(A) delivered to the Warrant Agent for registration in the name of such Holder, without change of beneficial ownership; or

(B) transferred pursuant to an effective registration statement under the Securities Act; or

(C) transferred to a QIB in accordance with Rule 144A; or

(D) transferred in reliance on Regulation S or an exemption from the registration requirements of the Securities Act other than that provided by Rule 144A (in which case the Warrant Custodian shall also receive an opinion of counsel reasonably acceptable to the Company and to the Warrant Custodian to the effect that such transfer is in compliance with the Securities Act),

then the Warrant Custodian, in accordance with the standing instructions and procedures existing among the Depository, CEDEL and the Warrant Custodian, will reduce the amount of Warrants covered by the appropriate Global Warrant Certificate, the Company will execute one or more Definitive Warrant Certificates in the aggregate amount of Warrants to be transferred or exchanged and the Warrant Agent will countersign and deliver to the transferee or Holder such Definitive Warrant Certificates and the Warrant Agent shall register the Definitive Warrant Certificates in the name of such transferee or Holder.

(f) Transfer of a Beneficial Interest in the Regulation S Global Warrant Certificate for a Beneficial Interest in the Restricted Global Warrant Certificate. A Holder of a beneficial interest in the Regulation S Global Warrant Certificate may at any time, subject to the rules and procedures of CEDEL and the Depository, transfer all or part of its interest in the Regulation S Global Warrant Certificate for an equivalent interest in the Restricted Global Warrant Certificate in accordance with this subsection (f). Upon receipt by the Warrant Custodian of:

(i) an instruction given in accordance with the procedures of CEDEL on behalf of a Holder of a beneficial interest in the Regulation S Global Warrant Certificate, to reduce the Regulation S Global Warrant Certificate by the amount of the interest to be transferred and increase the Restricted Global Warrant Certificate by a like amount, and

(ii) a certificate (which may be submitted by facsimile promptly followed by an original) in substantially the form set forth in subsection (o) of this Section 3.4 from the Person designated by CEDEL as such Holder, stating that such beneficial interest is being transferred to a QIB in accordance with Rule 144A,

then the Warrant Custodian, in accordance with the standing instructions and procedures existing among the Depository, CEDEL and the Warrant Custodian, will so reduce the Regulation S Global Warrant Certificate and increase the Restricted Global Warrant Certificate, and the transfer and exchange of such beneficial interest shall be effected through the Depository, the Warrant Custodian and CEDEL, as the case may be, in accordance with this Agreement and the procedures of the Depository, the Warrant Custodian and CEDEL, as the case may be, therefor.

(g) Transfer of a Beneficial Interest in the Restricted Global Warrant Certificate for a Beneficial Interest in the Regulation S Global Warrant Certificate. A Holder of a beneficial interest in the Restricted Global Warrant Certificate may at any time, subject to the rules and procedures of CEDEL and the Depository, transfer all or part of its interest in the Restricted Global Warrant Certificate for an equivalent interest in the Regulation S Global Warrant Certificate in accordance with this subsection (g). Upon receipt by the Warrant Custodian of:

(i) an instruction given in accordance with the procedures of the Depository on behalf of a Holder of a beneficial interest in the Restricted Global Warrant Certificate to reduce the Restricted Global Warrant Certificate by the amount of the interest to be transferred and increase the Regulation S Global Warrant Certificate by a like amount, and

(ii) a certificate (which may be submitted by facsimile promptly followed by an original) in substantially the form set forth in subsection (o) of this Section 3.4 from the Person designated by the Depository as such Holder, to the effect that such interest is being transferred pursuant to an exemption from registration in accordance with Regulation S under the Securities Act, and an opinion of counsel reasonably acceptable to the Company and the Warrant Custodian to the effect that such transfer is in compliance with the Securities Act,

then the Warrant Custodian, in accordance with the standing instructions and procedures existing among the Depository, CEDEL and the Warrant Custodian, will so reduce the Restricted Global Warrant Certificate and increase the Regulation S Global Warrant Certificate, and the transfer and exchange of such beneficial interest shall be effected through the Depository, the Warrant Custodian and CEDEL, as the case may be, in accordance with this Agreement and the procedures of the Depository, the Warrant Custodian and CEDEL, as the case may be, therefor.

(h) Transfer of a Beneficial Interest in the Regulation S Global Warrant Certificate or the Restricted Global Warrant Certificate for a Beneficial Interest in the Unrestricted Global Warrant Certificate. A Holder of a beneficial interest in the Regulation S Global Warrant Certificate or the Restricted Global Warrant Certificate may at any time, subject to the rules and procedures of Euroclear, CEDEL and the Depository, transfer all or part of its interest in the Regulation S Global Warrant Certificate or the Restricted Global Warrant Certificate, as the case may be, for an equivalent interest in the Unrestricted Global Warrant Certificate in accordance with this subsection (h). Upon receipt by the Warrant Custodian of:

(i) an instruction given in accordance with the procedures of the Depository on behalf of a Holder of a beneficial interest in the Regulation S Global Warrant Certificate or the Restricted Global Warrant Certificate, as the case may be, to reduce such Global Warrant Certificate by the amount of the interest to be transferred and increase the Unrestricted Global Warrant Certificate by a like amount, and

(ii) a certificate (which may be submitted by facsimile promptly followed by an original) in substantially the form set forth in subsection (o) of this Section 3.4 from the Person designated by the Depository as such Holder, to the effect that such interest is being transferred in reliance on Rule 144 (in which case the Warrant Custodian shall also receive an opinion of counsel reasonably acceptable to the Company and to the Warrant Custodian to the effect that such transfer is in compliance with the Securities Act) or pursuant to an effective registration statement under the Securities Act,

then the Warrant Custodian, in accordance with the standing instructions and procedures existing among the Depository, CEDEL and the Warrant Custodian, will so reduce the Regulation S Global Warrant Certificate or the Restricted Global Warrant Certificate, as the case may be, and increase the Unrestricted Global Warrant Certificate, and the transfer and exchange of such beneficial interest shall be effected through the Warrant Custodian , the Depository and CEDEL, as the case may be, in accordance with this Agreement and the procedures of the Depository, the Warrant Custodian and CEDEL, as the case may be, therefor.

(i) Restrictions on Transfer of Global Warrant Certificates.

Notwithstanding any other provisions of this Agreement (other than the provisions set forth in subsection (j) of this Section 3.4), a Global Warrant Certificate may not be transferred except as a whole by the Depository to a nominee of the Depository or by a nominee of the Depository to the Depository or another nominee of the Depository or by the Depository or any such nominee to a successor Depository or a nominee of such successor Depository.

(j) Issuance of Definitive Warrant Certificates in the Absence of a Depository. If at any time the Depository notifies the Company that the Depository is unwilling or unable to continue as Depository for the Global Warrant Certificates and a successor Depository for the Global Warrant Certificates is not appointed by the Company within 90 days after delivery of such notice, then the Warrant Custodian, in accordance with the standing instructions and procedures existing among the Depository, CEDEL and the Warrant Custodian, will cancel the Global Warrant Certificates, the Company will execute Definitive Warrant Certificates representing an aggregate number of Warrants equal to the aggregate number of Warrants evidenced by the Global Warrant Certificates, and the Warrant Agent countersign and deliver to each Person designated by the Depository and CEDEL and Euroclear as a Holder of a beneficial interest in the Global Warrant Certificates a Definitive Warrant Certificate evidencing a number of Warrants equal to such interest.

(k) Legends. Except as permitted by this subsection (k), the Regulation S Global Warrant Certificate, the Restricted Global Warrant Certificate and the Definitive Warrant Certificates (and all Warrant Certificates issued in exchange therefor or substitution thereof) shall bear a legend in substantially the form set forth in Section 3.3. A Definitive Warrant Certificate that does not bear the legends set forth above will be executed, countersigned and delivered in the case of (i) a transfer pursuant to an effective registration statement under the Securities Act of a Transfer Restricted Warrant in accordance with subsection (c)(ii)(B) of this Section 3.4, (ii) a transfer in reliance on Rule 144 of a Transfer Restricted Warrant in accordance with subsection (c)(ii)(D) of this Section 3.4; (iii) a transfer pursuant to an effective registration statement under the Securities Act of a beneficial interest in the Regulation S Global Warrant Certificate or the Restricted Global Warrant Certificate in accordance with subsection (e)(ii)(D) of this

Section 3.4; (iv) a transfer in reliance on Rule 144 of a beneficial interest in the Regulation S Global Warrant Certificate or the Restricted Global Warrant Certificate in accordance with subsection (e)(ii)(D) of this Section 3.4; or (v) a transfer or exchange of a beneficial interest in the Unrestricted Global Warrant Certificate or of a Warrant represented by a Definitive Warrant Certificate that is not a Transfer Restricted Warrant.

(l) Cancellation and/or Adjustment of Global Warrant Certificate. At such time as all interests in a Global Warrant Certificate have either been exchanged for Definitive Warrant Certificates, exercised for shares of Class A Common Stock or canceled, such Global Warrant Certificate shall be returned to or retained and canceled by the Warrant Agent. At any time prior to such cancellation, if any beneficial interest in a Global Warrant Certificate is exchanged for Definitive Warrant Certificates, exercised for shares of Class A Common Stock or canceled, the number of Warrants represented by such Global Warrant Certificate shall be reduced and an endorsement shall be made on such Global Warrant Certificate, by the Warrant Agent or the Warrant Custodian, at the direction of the Warrant Agent, to reflect such reduction.

(m) No service charge shall be payable by any Holder for any registration of transfer or exchange of Warrant Certificates, but the Company may require payment of a sum sufficient to cover any tax or other governmental charge that may be imposed in connection with any registration of transfer or exchange of, Warrant Certificates other than exchanges not involving any transfer.

(n) The certificate required by subsections (c), (d),(e),(f),(g) and (h) of this Section 3.4 shall be in substantially the following form:

RE: AUDIOVOX CORPORATION - WARRANTS

Reference is made to the Warrant Agreement dated as of _____, 1995 relating to the Warrants (the "Agreement"). This Instruction and Certification relates to Warrants held by _____ (the "Transferor/Holder"). Capitalized terms not otherwise defined herein have the meanings set forth in the Agreement.

Instruction of Transfer or Exchange

(to be completed whether or not the Warrants to be transferred or exchanged are Transfer Restricted Warrants)

1. The Transferor/Holder hereby instructs the Warrant Agent to (check one box):

[] Transfer or exchange one or more Definitive Warrant Certificates in accordance with Section 3.4(c) of the Agreement; or

[] Transfer one or more Definitive Warrant Certificates for a beneficial interest in a Global Warrant Certificate in accordance with Section 3.4(d) of the Agreement; or

[] Transfer or exchange a beneficial interest in a Global Warrant Certificate for one or more Definitive Warrant Certificates in accordance with Section 3.4(e) of the Agreement; or

[] Transfer a beneficial interest in the Regulation S Global Warrant Certificate for a beneficial interest in the Restricted Global Warrant Certificate in accordance with Section 3.4(f) of the Agreement; or

[] Transfer a beneficial interest in the Restricted Global Warrant Certificate for a beneficial interest in the Regulation S Global Warrant Certificate in accordance with Section 3.4(g) of the Agreement; or

[] Transfer a beneficial interest in the Regulation S Global Warrant Certificate or the Restricted Global Warrant Certificate for a beneficial interest in the Unrestricted Global

Warrant Certificate in accordance with Section 3.4(h) of the Agreement.

2. The Transferor/Holder has requested Definitive Warrant Certificates above and hereby further instructs the Warrant Agent to issue such Definitive Warrant Certificates without the restrictive legends referenced in Section 3.4(k) of the Agreement (check box if applicable): []

Certification

(to be completed for a transfer or exchange of Transfer Restricted Warrants only)

3. In connection with the transfer or exchange requested above, the Transferor/Holder does hereby certify that (check one box):

[] One or more Definitive Warrant Certificates, or an interest in a Global Warrant Certificate, is being obtained by the Transferor/Holder, without transfer or change in beneficial ownership (in accordance with Section 3.4(c)(ii)(A) or Section 3.4(e)(ii)(A) of the Agreement); or

[] one or more Definitive Warrant Certificates, or an interest in a Global Warrant Certificate, is being transferred pursuant to an effective registration statement under the Securities Act (in satisfaction of Section 3.4(c)(ii)(B), Section 3.4(d)(ii)(C), Section 3.4(e)(ii)(B) or Section 3.4(h) of the Agreement).

[] one or more Definitive Warrant Certificates, or an interest in a Global Warrant Certificate, is being transferred to a "qualified institutional buyer" (as defined in Rule 144A) in reliance on Rule 144A (in satisfaction of Section 3.4(c)(ii)(C), Section 3.4(d)(ii)(A), Section 3.4(e)(ii)(C) or Section 3.4(f) of the Agreement); or

[] one or more Definitive Warrant Certificates, or an interest in a Global Warrant Certificate, is being transferred pursuant to an exemption from registration in accordance with Regulation S under the Securities Act, and an opinion of counsel to the effect that such transfer does not require registration under the Securities Act accompanies this Instruction and Certification (in satisfaction of Section 3.4(c)(ii)(D), Section 3.4(d)(ii)(B), Section 3.4(e)(ii)(D) or Section 3.4(g) of the Agreement); or

[] one or more Definitive Warrant Certificates, or an interest in a Global Warrant Certificate, is being obtained in reliance on and in compliance with an exemption from the registration requirements of the Securities Act, other than Rule 144A or Regulation S under the Securities Act, and an opinion of counsel to the effect that such transfer complies with, and does not require registration under, the Securities Act accompanies this Instruction and Certification (in satisfaction of Section 3.4(c)(ii)(D), Section 3.4(d)(ii)(C), Section 3.4(e)(ii)(D) or Section 3.4(h) of the Agreement).

[INSERT NAME OF TRANSFEROR/HOLDER]

Date: ---------- By: ----------

Section 3.5 Execution and Delivery.

The Warrant Certificates shall be executed on behalf of the Company by its Chairman of the Board, its President or one of its Vice Presidents, under its corporate seal reproduced thereon, attested by its Secretary or one of its Assistant Secretaries. The signature of any of these officers on the Warrant Certificates may be manual or facsimile. Warrant Certificates bearing the manual or facsimile signatures of individuals who were at any time the proper officers of the Company shall bind the Company, notwithstanding that such individuals or any of them have ceased to hold such offices prior to the delivery of such Warrant Certificates or the date they are countersigned by the Warrant Agent.

No Warrant Certificate or the Warrants represented thereby shall be valid or be entitled to any benefit under this Agreement unless such Warrant Certificate has been countersigned by an authorized officer of the Warrant Agent by manual signature. All Warrant Certificates shall be dated the date they are countersigned by the Warrant Agent.

At any time and from time to time after the execution and delivery of this Agreement, the Company shall deliver Warrant Certificates executed by the Company in accordance with this Section to the Warrant Agent. Subject to Section 3.1, the Warrant Agent shall, upon the written request of a Responsible Officer of the Company, countersign and deliver Warrant Certificates representing such number of Warrants,

registered in such names and such legends as may be specified in such request. The Warrant Agent shall also countersign and deliver Warrant Certificates as otherwise provided in this Agreement.

Section 3.6. Destroyed, Lost, Mutilated or Stolen Warrant Certificates.

If there shall be delivered to the Company and the Warrant Agent evidence to their satisfaction of the destruction, loss, mutilation or theft of any Warrant Certificate and such security and indemnity as may be required by them to save each of them and any agent of either of them harmless, then, in the absence of notice to the Company or the Warrant Agent that such Warrant Certificate has been acquired by a bona fide purchaser, and in the case of mutilation, upon surrender of such Warrant Certificate to the Warrant Agent for cancellation, the Company shall execute and the Warrant Agent shall countersign and deliver, in lieu of or exchange for any such destroyed, lost, mutilated or stolen Warrant Certificate, a new Warrant Certificate for a like number of Warrants, bearing a number not contemporaneously outstanding.

Upon the issuance of any new Warrant Certificate under this Section, the Company may require the payment of a sum sufficient to cover any tax or other governmental charge that may be imposed in relation thereto and any other expenses (including the fees and expenses of the Warrant Agent) connected therewith.

Every substitute Warrant Certificate issued and delivered pursuant to this Section in lieu of any destroyed, lost or stolen Warrant Certificate shall constitute an original additional contractual obligation of the Company, whether or not the destroyed, lost or stolen Warrant Certificate shall be at any time enforceable by anyone, and shall be entitled to all the benefits of, and be subject to all the limitations of rights set forth in, this Agreement equally and proportionately with any and all other Warrant Certificates duly issued and delivered hereunder.

The provisions of this Section are exclusive and shall preclude (to the extent lawful) any and all other rights and remedies with respect to the replacement of destroyed, lost, mutilated or stolen Warrant Certificates notwithstanding any law or statute existing or hereafter enacted to the contrary.

Section 3.7. Persons Deemed Owners.

The Company and the Warrant Agent, and any agent of the Company or the Warrant Agent, may deem and treat the Person in whose name a Warrant Certificate is registered in the Warrant Register as the absolute, true and lawful owner of such Warrant Certificate and the Warrants represented thereby (notwithstanding any notation or ownership or other writing thereon made by any Person) for all purposes, and neither the

Company nor the Warrant Agent nor any of their respective agents shall be affected by any notice or knowledge to the contrary.

Section 3.8. Cancellation of Warrant Certificates.

All Warrant Certificates surrendered for registration of transfer, exchange or exercise shall be delivered to the Warrant Agent and shall be promptly canceled by the Warrant Agent. The Company may at any time deliver to the Warrant Agent for cancellation any Warrant Certificates previously delivered hereunder which the Company may have acquired in any manner whatsoever, and all Warrant Certificates so delivered shall be promptly canceled by the Warrant Agent. No Warrant Certificates shall be delivered in lieu of or in exchange for any Warrant Certificates canceled by the Warrant Agent, except as expressly permitted by this Agreement.

Section 3.9. No Rights as Stockholders.

Nothing contained in this Agreement or in the Warrant Certificates shall be construed as conferring upon the Holders or any transferees any of the rights of stockholders of the Company, including without limitation, the right to vote or to receive dividends or to receive notice as stockholders in respect of any meeting of stockholders for the election of directors of the Company or any other matter. Nothing contained in this Agreement shall be construed as imposing any liabilities on such holder to purchase any securities or as a stockholder of the Company, whether such liabilities are assumed by the Company or by creditors or stockholders of the Company or otherwise.

Article 4

EXERCISE OF WARRANTS

Section 4.1. Exercise Period.

Subject to and upon compliance with the provisions of this Agreement, at the option of the Holder thereof, a Warrant may be exercised at the Exercise Price in effect at the time of exercise, at any time on any Business Day during the period (the "Exercise Period") commencing on the date of issuance of the Warrant and ending 5:00 P.M., New York time, on March 15, 2001 (unless such Warrant is sooner terminated in accordance with Section 6 hereof) (the "Expiration Date"), unless the Exercise Period is extended by the Company; provided, however, that Warrants may only be exercised if a Shelf Registration
- -------- -------
Statement is effective under the Securities Act at the time of such exercise. Following the Expiration Date, any Warrant not previously exercised shall expire and be

null and void, and all rights of the Holder under the Warrant Certificate evidencing such Warrant and under this Agreement shall cease.

Section 4.2. Shares Issuable Upon Exercise; Exercise Price.

Subject to and upon compliance with the provisions of this Agreement, each Warrant shall entitle the Holder thereof to purchase from the Company one share of Class A Common Stock of the Company at an exercise price (the "Exercise Price") of $7-1/8 per share of Class A Common Stock; provided, however, that (a) Warrants may only be exercised if a Shelf Registration Statement is effective under the Securities Act at the time of such exercise, (b) the Exercise Price shall decrease by $1/8 per share (the "Reduction Amount") of Class A Common Stock if (i) the Shelf Registration Statement has not been filed with the Commission within 300 days after the date hereof or declared effective within 365 days after the date hereof, or (ii) if the Shelf Registration Statement is filed and declared effective but shall thereafter cease to be effective (without being succeeded immediately by an additional effective Shelf Registration Statement for a period which shall exceed 90 days (or 180 days in the event of a Disadvantageous Condition) in the aggregate per year (defined as a period of 365 days commencing on the date that the applicable Registration Statement is declared effective), such exercise price to decline an additional Reduction Amount per share of Class A Common Stock for each subsequent six-month period until the applicable Registration Statement is filed, declared effective or becomes effective again, (c) notwithstanding the foregoing, in no event shall there be more than (i) 10 reductions in the Exercise Price during the period beginning on the date of the initial issuance of Warrants under the Warrant Agreement and ending on the Expiration Date or (ii) one reduction in the Exercise Price during any six-month period during the Exercise Period, in either case in respect of the events described in clause (b) above and (d) such Exercise Price shall not decrease with respect to any Warrants which the Company is not required to register under the Registration Rights Agreement if the Commission has declared effective a registration statement with respect to other shares of Class A Common Stock. The Exercise Price and the number and kind of securities or other property issuable upon exercise of the Warrants shall also be adjusted in certain instances as provided in Section 4.6.

In the event of an Exercise Price Adjustment (as defined in the Warrant Agreement), the Reduction Amount as then in effect shall also be adjusted so that the same shall equal the Reduction Amount as then in effect multiplied by a fraction of which the numerator shall be the Exercise Price in effect immediately following the Exercise Price Adjustment and the denominator shall be the Exercise Price immediately prior to such Exercise Price Adjustment.

Section 4.3. Method of Exercise.

Each Warrant may be exercised in whole or in part. In order to exercise any Warrants, the Holder thereof shall present and surrender the Warrant Certificate evidencing the Warrants to the Warrant Agent at the office or agency of the Company maintained for that purpose pursuant to Section 7.5, with the Notice of Exercise on the Warrant Certificate duly completed and executed by the Holder or by the Holder's legal representative or attorney duly authorized in writing to the satisfaction of the Warrant Agent, and accompanied by payment in full of the aggregate Exercise Price for the number of shares of Class A Common Stock specified in the Notice of Exercise, and of any other amounts required to be paid in connection with such exercise, by certified or official bank check or by such other means as is acceptable to the Company in the lawful currency of the United States of America which as of the time of payment is legal tender for payment of public or private debts. In the event the holder exercising its Warrants holds an interest in a Global Warrant Certificate, such holder shall obtain a Definitive Warrant Certificate in accordance with Section 3.4(c) of the Warrant Agreement prior to the exercise of such Warrants or, with the consent of the Company, exercise Warrants owned of record by such holder and represented by a Global Warrant Certificate by delivering (i) proof of record ownership of such Warrants if required by the Company and (ii) a notice of exercise in substantially the form set forth in the Warrant as appropriately adjusted. No payment or adjustment shall be made on account of any dividends on the shares of Class A Common Stock issued upon exercise of any Warrants.

Warrants shall be deemed to have been exercised immediately prior to the close of business on the date of surrender of the Warrant Certificate representing such Warrants for exercise in accordance with the foregoing provisions, and at such time the Person or Persons entitled to receive the Class A Common Stock issuable upon exercise shall be treated for all purposes as the record holder or holders of such Class A Common Stock at the close of business on the date of such surrender, notwithstanding that the stock transfer books of the Company shall then be closed or that certificates representing such shares of Class A Common Stock shall not then be actually delivered to such Person or Persons.

If any Warrant Certificate is surrendered for the exercise of less than all the Warrants represented thereby, the Company shall execute, and the Warrant Agent shall countersign and deliver to the Holder thereof, at the expense of the Company, a new Warrant Certificate, dated the date of such exercise, evidencing the number of Warrants remaining unexercised unless such Warrants shall have expired.

Section 4.4. Issuance of Class A Common Stock.

Upon the exercise of any Warrants, the Warrant Agent shall (i) cause an amount equal to the amount paid by the Holder upon exercise to be paid to the Company by

depositing the same in an account designated by the Company for that purpose or delivering such payment in such other manner as is acceptable to the Company, and (ii) immediately inform the Company in writing of such exercise and deposit or delivery, including the number of Warrants exercised and the instructions of the exercising Holder with respect to delivery of the shares of Class A Common Stock issuable upon such exercise. The Company shall then issue within five days and deliver or cause to be delivered at such office or agency maintained pursuant to Section 7.5 a certificate or certificates evidencing the number of full shares of Class A Common Stock issuable upon exercise of such Warrants, registered in such name or names as may be directed by such Holder in the Notice of Exercise, together with a check for payment in lieu of any fractional share, as provided in Section 4.5.

Section 4.5. Fractions of Shares.

No fractional shares of Class A Common Stock shall be issued upon exercise of any Warrants. If more than one Warrant shall be exercised at one time by the same Holder, the number of full shares which shall be issuable upon exercise thereof shall be computed on the basis of the aggregate number of shares of Class A Common Stock issuable under the Warrants so exercised. In lieu of any fractional share of Class A Common Stock which would otherwise be issuable upon exercise of any Warrant or Warrants, the Company shall pay a cash adjustment in respect of such fraction in an amount equal to the same fraction of the market price per share of Class A Common Stock (as determined by the Board of Directors of the Company or in any manner prescribed by the Board of Directors) at the close of business on the day such exercise is deemed to have occurred.

Section 4.6. Adjustment of Exercise Price.

The Exercise Price and the number and kind of securities or other property issuable upon exercise of any Warrant shall be subject to adjustment and modification as follows in the circumstances provided:

(a) In case the Company shall pay or make a dividend or other distribution on or in respect of any class of Class A Common Stock in shares of Class A Common Stock, the Exercise Price in effect at the opening of business on the day following the date fixed for the determination of stockholders entitled to receive such dividend or other distribution shall be reduced by multiplying such Exercise Price by a fraction of which the numerator shall be the number of shares of Class A Common Stock outstanding at the close of business on the date fixed for such determination and the denominator shall be the sum of such number of shares of Class A Common Stock and the total number of shares of Class A Common Stock constituting such dividend or other distribution, such reduction to become effective immediately after the opening of business on the day

following the date fixed for such determination. For the purposes of this paragraph (a), the number of shares of Class A Common Stock at any time outstanding shall not include shares held in the treasury of the Company or shares of Class A Common Stock issuable pursuant to any right, option, warrant or convertible security (including the Warrants) but shall include shares issuable in respect of scrip certificates issued in lieu of fractions of shares of Class A Common Stock. The Company will not pay any dividend or make any distribution on shares of Class A Common Stock held in the treasury of the Company.

(b) In case outstanding shares of Class A Common Stock shall be subdivided into a greater number of shares of Class A Common Stock, the Exercise Price in effect at the opening of business on the day following the day upon which such subdivision becomes effective shall be proportionately reduced, and, conversely, in case outstanding shares of Class A Common Stock shall be combined into a smaller number of shares of Class A Common Stock, the exercise price in effect at the opening of business on the day following the day upon which such combination becomes effective shall be proportionately increased, such reduction or increase, as the case may be, to become effective immediately after the opening of business on the day following the day upon which such subdivision or combination becomes effective.

(c) The reclassification of shares of Class A Common Stock into securities of the Company other than Class A Common Stock (other than any reclassification upon a consolidation or merger to which Section 4.12 applies) shall (x) be deemed to involve (i) a distribution of Class A Common Stock to all holders of Class A Common Stock (and the effective date of such reclassification shall be deemed to be "the date fixed for the determination of stockholders entitled to receive such distribution" and "the date fixed for such determination" within the meaning of paragraph (a) of this Section), and (ii) if the number of shares of Class A Common Stock outstanding is changed as a result of such reclassification, then a subdivision or combination, as the case may be, of the number of shares of Class A Common Stock outstanding immediately prior to such reclassification into the number of shares of Class A Common Stock outstanding immediately thereafter (and the effective date of such reclassification shall be deemed to be "the day upon which such subdivision becomes effective" or "the day upon which such combination becomes effective," as the case may be, and "the day upon which such subdivision or combination becomes effective" within the meaning of paragraph (b) of this Section) and (y) result in the Warrants becoming exercisable for the securities to which the Class A Common Stock was reclassified as if originally exercisable for such securities and such security shall be deemed substituted for the phrase "Class A Common Stock" for all purposes under this Warrant Agreement and the Warrants.

(d) The Company may, in its sole discretion, make such reductions in the Exercise Price, in addition to those required by paragraphs (a) or (b) of this Section, as it considers to be advisable.

(e) No adjustment will be made in the Exercise Price as required by paragraphs (a) or (b) of this Section unless such adjustment would require a change of at least 1% in the Exercise Price then in effect, but any adjustment that would otherwise be required to be made shall be carried forward and taken into account in any subsequent adjustment.

(f) If any adjustment in the Exercise Price is made pursuant to a provision of this Section 4.6, no further adjustment in the Exercise Price shall be made on account of the same event.

(g) In the event of an adjustment in the Exercise Price pursuant to this Section 4.6 (a) or (b) (an "Exercise Price Adjustment"), the number of shares of Class A Common Stock issuable upon exercise of such Warrant shall also be adjusted so that the same shall equal (i) the number of shares of Class A Common Stock for which the Warrant was exercisable immediately prior to the Exercise Price Adjustment, multiplied by (ii) a fraction, of which the numerator shall be the Exercise Price in effect immediately prior to the Exercise Price Adjustment, and the denominator shall be the Exercise Price immediately following such Exercise Price Adjustment. Any adjustment to the number of shares of Class A Common Stock pursuant to this paragraph (g) shall become effective at the same time as such Exercise Price Adjustment.

Section 4.7. Notice of Adjustments of Exercise Price, the Reduction Amount and the Redemption Price.

Whenever the Exercise Price, the number of shares of Class A Common Stock issuable upon exercise of a Warrant (the "Warrant Shares"), the Reduction Amount or the Redemption Price is adjusted pursuant to Section 4.6 or otherwise or other rights are granted as herein provided:

(a) the Company shall compute the adjusted Exercise Price and, if applicable, number of Warrant Shares in accordance with Section 4.2 or 4.6, as applicable, and the adjusted Reduction Amount and Redemption Price and shall prepare a certificate signed by the Chief Financial Officer, Chief Accounting Officer or Controller of the Company setting forth the adjusted Exercise Price and number of Warrant Shares and the adjusted Reduction Amount and Redemption Price and in the case of an adjustment pursuant to Section 4.6 showing in reasonable detail the facts upon which such adjustment is based, and such certificate shall forthwith be filed with the Warrant Agent and, at each office or agency maintained for the purpose of exercise of Warrants pursuant to Section 7.5; and

(b) a notice stating that the Exercise Price and, if applicable, the number of Warrant Shares, the Reduction Amount and the Redemption Price has been adjusted and setting forth the adjusted Exercise Price, Warrant Shares, Reduction Amount and Redemption Price shall forthwith be prepared by the Company, and as soon as practicable after it is prepared, such notice shall be mailed by the Company to all Holders at their last addresses as they shall appear in the Warrant Register. The Warrant Agent shall not be responsible for determining when such notice is required to be given or for verifying the computation of the adjusted Exercise Price, Warrant Shares, Reduction Amount and Redemption Price .

Section 4.8. Notice of Certain Corporate Action.

In case:

(a) the Company shall declare a dividend (or any other distribution) on the Class A Common Stock payable otherwise than exclusively in cash; or

(b) the Company shall authorize the granting to the holders of the Class A Common Stock of rights, options or warrants to subscribe for or purchase any shares of capital stock of any class or of any other rights; or

(c) of any reclassification of the Class A Common Stock of the Company (other than a merger which is effected solely to change the jurisdiction of incorporation of the Company), or of any consolidation or merger to which the Company is a party and for which approval of any stockholders of the Company is required, or of the sale or transfer of all or substantially all of the assets of the Company; or

(d) of the voluntary or involuntary dissolution, liquidation or winding up of the Company;

then the Company shall, if notice of such event is sent to the holders of the Company's Class A Common Stock generally, cause to be filed at each office or agency maintained pursuant to Section 7.5 for the purpose of exercising Warrants, and shall cause to be mailed to all Holders at their last addresses as they shall appear in the Warrant Register, on or prior to the date information regarding such corporate action is sent to holders of the Company's Class A Common Stock generally, a notice stating (x) the date on which a record is to be taken for the purpose of such dividend, distribution, rights, options or warrants, or, if a record is not to be taken, the date as of which the holders of Class A Common Stock of record to be entitled to such dividend, distribution, rights, options or warrants are to be determined, or (y) the date on which such reclassification,

consolidation, merger, transfer, dissolution, liquidation or winding up (or amendment thereto) is expected to become effective, and the date as of which it is expected that holders of record of such class of Common Stock shall be entitled to exchange their shares of Common Stock for securities, cash or other property deliverable upon such reclassification, consolidation, merger, transfer, dissolution, liquidation or winding up. The Warrant Agent shall not be responsible for giving such notice or for the contents of any such notice to the Holders.

Section 4.9. Company to Reserve Class A Common Stock.

The Company shall, at all times during the Exercise Period, reserve and keep available, free from preemptive rights, out of its authorized but unissued Class A Common Stock, for the purpose of effecting the exercise of Warrants, the full number of shares of Class A Common Stock then issuable upon the exercise of all outstanding Warrants.

Section 4.10. Taxes on Exercises.

The Company shall pay any and all taxes that may be payable in respect of the issue or delivery of shares of Class A Common Stock on exercise of Warrants pursuant hereto. The Company shall not, however, be required to pay any tax which may be payable in respect of (i) income of the Holder or (ii) any transfer involved in the issue and delivery of shares of Class A Common Stock in name other than that of the Holder of the Warrant or Warrants to be exercised, and no such issue or delivery shall be made unless and until the Person requesting such issue has paid to the Company the amount of any such taxes or has established to the satisfaction of the Company that such tax has been paid.

Section 4.11. Covenant as to Class A Common Stock.

The Company covenants that all shares of Class A Common Stock which may be issued upon exercise of any Warrants will, upon issue and payment of the Exercise Price therefor, be fully paid and nonassessable and free and clear from all taxes, liens, charges, security interests, encumbrances and other restrictions created by or through the Company.

Section 4.12. Provisions in Case of Consolidation, Merger or Sale of Assets.

In case of any consolidation of the Company with, or merger of the Company into, any other Person, any merger of another Person into the Company (other than a merger which does not result in any reclassification, conversion, exchange or cancellation of outstanding shares of Class A Common Stock of the Company) or any sale or transfer

of all or substantially all of the assets of the Company (each, a "Transaction"), the Person formed by such Transaction or which acquires such assets, as the case may be (the "Acquiror"), shall execute and deliver to the Warrant Agent prior to the consummation of the Transaction a warrant agreement (or supplement to this Warrant Agreement) providing that the Holder of each Warrant then outstanding shall have the right thereafter, during the period such Warrant shall be exercisable in accordance with this Warrant Agreement, to exercise such Warrant only into the kind and amount of securities, cash and other property (collectively, the "Consideration") receivable upon such Transaction by a holder of the number of shares of Class A Common Stock of the Company into which such Warrant might have been exercised immediately prior to such Transaction, assuming such holder of Class A Common Stock of the Company (i) is not a Person with which the Company consolidated or into which the Company merged or which merged into the Company or to which such sale or transfer was made, as the case may be (a "constituent person"), or an affiliate of a constituent person and (ii) failed to exercise his or her rights of election, if any, as to the kind or amount of Consideration receivable upon such Transaction (provided that if the kind or amount of Consideration receivable upon such Transaction is not the same for each share of Class A Common Stock held immediately prior to such Transaction by Persons other than a constituent person or an affiliate thereof and in respect of which such rights of election shall not have been exercised ("non-electing share"), then for the purpose of this Section the kind and amount of Consideration receivable upon such Transaction by each non-electing share shall be deemed to be the kind and amount so receivable per share by a plurality of the non-electing shares). Such warrant agreement shall provide for adjustments upon the occurrence of events with respect to the Acquiror similar to the events described in Section 4(a) and (b) hereof which, for events subsequent to the effective date of such warrant agreement, shall be as nearly equivalent as may be practicable to the adjustments provided for in this Article and in Article Five. The above provisions of this Section shall similarly apply to successive Transactions.

Section 4.13. No Change of Warrant Necessary.

Irrespective of any adjustment in the Exercise Price or in the number or kind of shares or other property issuable upon exercise of the Warrants, the Warrant Certificates theretofore or thereafter issued may continue to express the same Exercise Price and number and kind of shares issuable upon exercise per Warrant as are stated in the Warrant Certificates initially issued pursuant to this Agreement.

Section 4.14. Enforcement of Rights.

Notwithstanding any of the provisions of this Agreement, any Holder, without the consent of the Warrant Agent or any other Holder, may enforce, and may institute and maintain any suit, action or proceeding against the Company to enforce, such Holder's

right to exercise the Warrants evidenced by such Holder's Warrant Certificate in the manner provided in such Warrant Certificate and this Agreement.

Section 4.15. Available Information.

The company shall promptly file with the Warrant Agent (and cause the Warrant Agent to deliver to the holders of the Warrants upon request to the Company) copies of its annual reports and of the information, documents and other reports (or copies of such portions of any of the foregoing as the commission may by rules and regulations prescribe) that the Company is required to file with the Commission pursuant to Section 13 or 15(d) of the Exchange Act.

Article 5

Mandatory Redemption

Section 5.1. Right of Redemption.

All Outstanding Warrants shall be redeemed by the Company at a redemption price of $1.60 (the "Redemption Price") per Warrant if the Shelf Registration Statement has not been declared effective at any time on or prior to the Expiration Date. In the event of an Exercise Price Adjustment (as defined in the Warrant Agreement), the Redemption Price as then in effect shall also be adjusted so that the same shall equal the Redemption Price as then in effect multiplied by a fraction of which the numerator shall be the Exercise Price in effect immediately following the Exercise Price Adjustment and the denominator shall be the Exercise Price immediately prior to such Exercise Price Adjustment.

Section 5.2. Election to Redeem; Notice of Redemption.

In the event the Company shall be required to redeem the Warrants pursuant to Section 5.1, the Company shall notify the Warrant Agent in writing that the Warrants shall be redeemed 30 days after the Expiration Date (the "Redemption Date"). A notice of redemption (the "Redemption Notice") shall also be given not less than twenty (20) days prior to the Redemption Date, to each Holder of Warrants to be redeemed. The Redemption Notice shall state:

(1) the Redemption Date;

(2) the Redemption Price;

(3) that on the Redemption Date, the Redemption Price will become due and payable upon each such Warrant to be redeemed; and

(4) the place or places where such Warrants are to be surrendered for payment of the Redemption Price.

The Redemption Notice shall be given by the Company or, at the Company's request, by the Warrant Agent in the name and at the expense of the Company.

Section 5.3. Deposit of Redemption Price.

At least one Business Day prior to any Redemption Date, the Company shall deposit with the Warrant Agent (or, alternatively, segregate and hold in trust) an amount

of money sufficient to pay the Redemption Price of all the Warrants which are to be redeemed on that date other than any Warrants called for redemption on that date which have been properly exercised prior to the date of such deposit.

If any Warrant called for redemption is properly exercised, any money deposited with the Warrant Agent or so segregated and held in trust for the redemption of such Warrant shall be paid to the Company or shall be discharged from such trust, as applicable.

Section 5.4. Surrender of Warrant Certificate.

The Warrant Certificate evidencing any Warrant which is to be redeemed shall be surrendered at an office or agency of the Company designated for such purpose pursuant to Section 7.5 (with, if the Company or the Warrant Agent so requires, due endorsement by, or a written instrument of transfer in form satisfactory to the Company and the Warrant Agent duly executed by, the Holder thereof or the Holder's attorney duly authorized in writing).

Article 6

Termination of Warrants

Section 6.1. Termination.

In the event that less than 5% of the aggregate number of Warrants issued under the Warrant Agreement remain outstanding, the Company shall have the right, by delivery of the notice described in Section 6.2 below, to cause the Warrants remaining outstanding to expire at 5:00 p.m. (New York City time) on the 30th day (or such later date as set forth in the Termination Notice), (as defined below) (the "New Expiration Date") after the date of delivery of such notice to such holder of Warrants setting forth the information required by Section 6.2 of the Warrant Agreement and delivered in accordance with Section 7.4 of the Warrant Agreement.

Section 6.2. Notice.

In the event the Company elects to cause the Warrants to expire prior to March 15, 2001 pursuant to Section 6.1, the Company shall notify the Warrant Agent and deliver a notice to each holder of outstanding Warrants not less than 30 days prior to the New Expiration Date. The Termination Notice shall state:

1. the New Expiration Date;

2. that, at 5:00 p.m. (New York City time) on the New Expiration Date, the Warrants shall terminate and, accordingly, all Warrants not exercised prior to such time shall be null and void; and

3. the then current exercise price for the Warrants and the mechanics for exercising the Warrants prior to 5:00 p.m. (New York City time) on the New Expiration Date.

The Termination Notice shall be given by the Company or, at the Company's request, by the Warrant Agent in the name and expense of the Company.

Article 7

Amendments

Section 7.1. Amendment of Agreement.

The Warrant Agent and the Company may, without the consent of any Holders, amend this Agreement in such manner as they shall deem appropriate to cure any ambiguity, to correct any defective or inconsistent provision or manifest mistake or error herein contained, or in any other manner that they may deem necessary or desirable and which shall not adversely affect the rights of the Holders of Warrants. This Agreement shall not otherwise be modified, supplemented or amended in any respect by the Warrant Agent and the Company, except with the consent in writing of the Holders of outstanding Warrants representing not less than a majority of the Warrants then outstanding; provided, however, that the consent in writing of each and every Holder shall be required for any such modification, supplement or amendment which (a) changes the Exercise Period (except to extend the expiration of the Exercise Period to a later date) or increases the Exercise Price, (b) reduces the Reduction Amount which shall occur upon a Registration Default, (c) reduces the Redemption Price, or (d) reduces the percentage of Holders of outstanding Warrants the consent of who is required to modify, supplement or amend this Agreement.

Any modification, supplement or amendment pursuant to this Section shall be binding upon all present and future Holders, whether or not they have consented to such modification, supplement or amendment, and whether or not notation of such modification, supplement or amendment is made upon any Warrant Certificate issued to such Holder.

Section 7.2. Record Date.

The Company may set a record date for purposes of determining the identity of Holders entitled to consent to any modification, supplement or amendment to this Agreement. If the Company does not set a record date, the record date shall be thirty (30) days prior to the first solicitation of such consent.

Article 8

Miscellaneous Provisions

Section 8.1. Counterparts.

This Agreement may be executed in one or more counterparts, each of which shall be deemed and original, and all of which together shall constitute the same instrument.

SECTION 8.2. GOVERNING LAW.

THIS AGREEMENT AND THE WARRANT CERTIFICATES ISSUED HEREUNDER SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK, WITHOUT REGARD TO THE CONFLICT OF LAW PROVISIONS THEREOF.

Section 8.3. Descriptive Headings.

The descriptive headings of this Agreement are for convenience only and shall not control or affect the meaning or construction of any provision of this Agreement.

Section 8.4. Notices.

Any notice, request or other document permitted or required hereunder to be given to any Holder shall be sufficiently given if in writing and mailed first-class postage prepaid, to each Holder affected by such event, at its address as it appears in the Warrant Register. In any case where notice to Holders is given by mail, neither the failure to mail such notice, nor any defect in any notice so mailed, to any particular Holders shall affect the sufficiency of such notice with respect to other Holders. Any notice required hereunder to be given to any Holder may be waived in writing by the Person entitled to receive such notice, either before or after the event, and such waiver shall be the equivalent of such notice. Waivers of notice by Holders shall be filed with the Warrant Agent, but such filing shall not be a condition precedent to the validity of any action taken in reliance upon such waiver.

Any notice, request, waiver, consent or other document provided or permitted by this Agreement to be given to (i) the Warrant Agent by any Holder or by the Company shall be sufficient for every purpose hereunder if in writing and mailed, first-class postage prepaid, to and received by the Warrant Agent at its Corporate Trust Office, and (ii) the Company by the Warrant Agent or by any Holder shall be sufficient for every purpose hereunder (unless otherwise herein expressly provided) if in writing and mailed, first-class postage prepaid, to the Company at the address of its principal office specified in

the first paragraph of this Agreement or at any other address previously furnished in writing to the Warrant Agent by the Company.

In the event the Warrant Agent shall receive any notice, demand or other document addressed to the Company by any Holder, the Warrant Agent shall promptly forward such notice or demand to the Company.

Section 8.5. Maintenance of Office.

So long as any of the Warrants remain outstanding, the Company shall designate and maintain in the State of New York an office or agency where Warrant Certificates may be surrendered for registration of transfer or for exchange, where Warrants may be surrendered for exercise and where notices and demands to or upon the Company in respect of the Warrants and this Warrant Agreement may be served. The Company may from time to time change or rescind such designation as it may deem desirable or expedient. The Company will give prompt written notice to the Warrant Agent of the location, and any change in the location, of such office or agency. The Company hereby designates the Corporate Trust Office of the Warrant Agent as the initial agency maintained for each such purpose. If at any time the Company shall fail to maintain any such required office or agency or shall fail to notify the Warrant Agent of the location thereof or of any change in the location thereof, such presentations, surrenders, notices and demands may be made or served at the Corporate Trust Office of the Warrant Agent, and the Company hereby appoints the Warrant Agent as its agent to receive all such presentations, surrenders, notices and demands.

The Company may also from time to time designate one or more other offices or agencies (in or outside the State of New York) where Warrant Certificates may be presented or surrendered for any or all such purposes and may from time to time rescind such designations; provided, however, that no such designation or rescission shall in any manner relieve the Company of its obligation to maintain an office or agency in the State of New York for such purposes. The Company shall give prompt written notice to the Warrant Agent of any such designation or rescission, and of any change in the location of, any such other office or agency.

Section 8.6. Successors and Assigns.

All covenants and agreements in this Agreement by the Company shall bind its successors and assigns, whether so expressed or not.

Section 8.7. Separability.

In case any provision in this Agreement or in the Warrant Certificates shall be invalid, illegal or unenforceable, the validity, legality and enforceability of the remaining provisions shall not in any way be affected or impaired thereby.

Section 8.8. Persons Having Rights under Agreement.

Nothing in this Agreement or in the Warrant Certificates, expressed or implied, is intended, or shall be construed, to give any Person, other than the parties hereto and their successors hereunder, and the Holders of Warrants, any benefit, right, remedy or claim under or by reason of this Agreement.

IN WITNESS WHEREOF, the Company and the Warrant Agent have caused this Agreement to be executed by their duly authorized officers as of the date first set forth above.

AUDIOVOX CORPORATION

By /s/ Charles M. Stoehr

Name: Charles M. Stoehr
Title: SVP, CFO

Witness:

Dated: May 4, 1995

By: /s/ Patricia Fandozzi

Name: Patricia Fandozzi

CONTINENTAL STOCK TRANSFER
& TRUST COMPANY

By /s/ William F. Seegraber

Name: William F. Seegraber
Title: Vice President

Witness:

Dated: May 10, 1995

By: /s/ Thomas Jennings

Name: Thomas Jennings

Exhibit 4

Conformed copy

REGISTRATION RIGHTS AGREEMENT

relating to
Warrants
of Audiovox Corporation

Table of Contents

REGISTRATION RIGHTS AGREEMENT

This Registration Rights Agreement (this "Agreement") is made and entered into as of the date set forth on the signature page hereto, by and among Audiovox Corporation, a Delaware corporation with an address of 150 Marcus Boulevard, Hauppauge, New York 11788 (the "Company"), and the persons who have purchased (the "Purchasers") Warrants ("Warrants") of the Company pursuant to the offering of Warrants (the "Offering") described in the Offering Memorandum of the Company dated April 12, 1995 (the "Offering Memorandum"), as amended to date.

The parties hereby agree as follows:

SECTION 1. DEFINITIONS

As used in this Agreement, the following capitalized terms shall have the following meanings:

Act: The Securities Act of 1933, as amended.

Class A Common Stock: The Class A Common Stock, par value $.01 per share, of the Company issuable upon exercise, subject to certain restrictions, of the Warrants.

Commission: The Securities and Exchange Commission.

Damages Payment Date: As defined in Section 3.

Effectiveness Target Date: As defined in Section 2(a).

Exchange Act: The Securities Exchange Act of 1934, as amended.

Holder: As defined in Section 2(a) hereof.

NASD: National Association of Securities Dealers, Inc.

Offer Termination Date: The date upon which the Offering shall close as provided in the Offering Memorandum.

Person: An individual, partnership, corporation, trust or unincorporated organization, or a government or agency or political subdivision thereof.

Prospectus: The prospectus included in a Registration Statement, as amended or supplemented by any prospectus supplement and by all other amendments and supplements to the prospectus included in such Registration Statement, including post-effective amendments, and all material which may be incorporated by reference into such prospectus.

Registration Default: As defined in Section 3 hereof.

Registration Expenses: As defined in Section 5 hereof.

Registration Statement: As defined in Section 2(a) hereof.

Resale Registration Statement: As defined in Section 2(a) hereof.

Shelf Registration Statement: As defined in Section 2(a) hereof.

Transfer Restricted Warrants: Each Warrant, until the date on which such Warrant (i) has been registered under the Act and disposed of in accordance with the Resale Registration Statement, (ii) is distributed to the public pursuant to Rule 144 promulgated under the Act or is salable pursuant to Rule 144(k) promulgated under the Act (or any similar provisions then in force), (iii) otherwise is freely transferable under the Act or (iv) has been repurchased by the Company.

Warrant Agreement: The Warrant Agreement, dated as of the date hereof, among the Company and Continental Stock Transfer & Trust Company, as warrant agent (the "Warrant Agent"), pursuant to which the Warrants are to be issued, as such Warrant Agreement is amended or supplemented from time to time in accordance with the terms thereof.

SECTION 2. REGISTRATION

(a) If a national securities exchange has agreed to list the Warrants or a national securities association has agreed to quote the Warrants on its automated quotation system (either of such events being referred to herein as "Warrant Listing"), the Company shall file with the Commission as promptly as practicable after receiving notification of such Warrant Listing, but in no event prior to 300 days after the Offer Termination Date, a shelf registration statement or statement pursuant to Rule 415 promulgated under the Act on Form S-1, Form S-2 or Form S-3, as determined by the Company, if the use of such forms is then available, to cover resales of all Transfer Restricted Warrants by the registered holders ("Holders") thereof who have provided the information required by Section 2(c) hereof (the "Resale Registration Statement"); provided that the Company shall not be required to register any Transfer Restricted Warrants in the Resale Registration Statement which the Company is not required to include therein pursuant to Section 2(c) hereof. The Company shall file with the Commission within 300 days after the Offer Termination Date, a shelf registration statement or statements pursuant to Rule 415 promulgated under the Act on Form S-1, Form S-2 or Form S-3, as determined by the Company, if the use of such forms is then available, to cover the issuance of shares of Class A Common Stock by the Company upon the exercise of the Warrants (the "Shelf Registration Statement"; the Resale Registration Statement and the Shelf Registration Statement are each sometimes referred to herein as a "Registration Statement", and collectively as the "Registration Statements"). Each such Registration Statement may at the Company's option be filed in one registration statement with the

Commission. The Company shall use reasonable best efforts to cause the Shelf Registration Statement and, if a Warrant Listing has occurred, the Resale Registration Statement, to be declared effective by the Commission as soon as practicable after the date of filing, but in no event shall the Company be required to have such Shelf Registration Statement or Resale Registration Statement declared effective on or prior to the date one year after the Offer Termination Date (the "Effectiveness Target Date"). The Company shall use reasonable best efforts (x) if a Warrant Listing has occurred, to keep the Resale Registration Statement continuously effective, subject to the provisions of Section 3 hereof, for a period from the date of original effectiveness of the Resale Registration Statement until the date three years following the Offer Termination Date or such shorter period that will terminate when each of the Transfer Restricted Warrants covered by the Resale Registration Statement shall cease to be a Transfer Restricted Warrant, and (y) to keep the Shelf Registration Statement continuously effective, subject to the provisions of Section 3 hereof, from the date of original effectiveness of the Shelf Registration Statement until the Expiration Date or such earlier time that no Warrants shall remain outstanding. Upon the occurrence of any event that would cause any Registration Statement (i) to contain a material misstatement or omission or (ii) to be not effective and usable for resale of Transfer Restricted Warrants during the period that such Resale Registration Statement is required to be effective and usable, the Company shall as promptly as practicable under the circumstances file an amendment to the Resale Registration Statement or otherwise appropriately update the Resale Registration Statement (e.g., by the filing of a Current Report
                    ----
on Form 8-K, if permitted), in the case of clause (i) above, correcting any such misstatement or omission, and, in the case of either clause (i) or (ii) above, use its reasonable efforts to cause any such amendment to be declared effective (to the extent applicable) and such Resale Registration Statement to become usable as soon as practicable thereafter.

(b) Notwithstanding anything herein to the contrary, with respect to the Registration Statement filed, or to be filed, if the Company shall furnish to the Holders of Warrants notice stating that in the Board of Directors' good faith judgment it would be disadvantageous (a "Disadvantageous Condition") to the Company or its stockholders for such a registration statement to be maintained effective, or to be filed and become effective, the Company shall be entitled to cause such Registration Statement to be withdrawn and the effectiveness of such Registration Statement terminated, or, in the event no Registration Statement has yet been filed, shall be entitled not to file any such Registration Statement, until such Disadvantageous Condition no longer exists (notice of which the Company shall promptly deliver to the Holders of Warrants), such period not to extend beyond 180 days in any 365-day period. Upon receipt of any such notice of a Disadvantageous Condition, such Holders of Warrants will forthwith discontinue use of the prospectus contained in such Registration Statement and if so directed by the Company return to the Company all copies (other than permanent file copies) then in such Stockholder's possession.

(c) No Holder of Transfer Restricted Warrants may include (and the Company shall not be required to include) any of its Transfer Restricted Warrants in any Resale Registration Statement pursuant to this Agreement unless such Holder furnishes to the Company in writing,

within 10 days after receipt of a request therefor, such information and representations, warranties and agreements as the Company may reasonably request for use in connection with any Resale Registration Statement or Prospectus or preliminary Prospectus included therein. The Company shall also not be required to include any Transfer Restricted Warrants in any Resale Registration Statement pursuant to this Agreement (a) if the holder does not seek to have such Transfer Restricted Warrants registered or (b) if the Company determines (based on discussions with the Commission, counsel to the Company or otherwise) that it is not advisable or appropriate for any such Transfer Restricted Warrant to be included in the Resale Registration Statement. The Company shall also not be required to register any Class A Common Stock to be issued upon the exercise of any Warrants pursuant to this Agreement if the Company determines (based on discussions with the Commission, counsel to the Company or otherwise) that it is not advisable or appropriate for such Class A Common Stock to be included in the Resale Registration Statement.

SECTION 3. LIQUIDATED DAMAGES

Each of the Company and the Purchasers (on behalf of themselves and each subsequent Holder of Warrants) agrees that (a) the Holders of Warrants will suffer damages if the Shelf Registration Statement is not filed with and declared effective by the Commission and maintained in the manner and within the time periods contemplated by Section 2 hereof, and (b) it would not be feasible to ascertain the extent of such damages with precision. Accordingly, if the Shelf Registration Statement is not filed with the Commission on or prior to the date 300 days after the Offer Termination Date, (ii) the Shelf Registration Statement has not been declared effective by the Commission on or prior to the Effectiveness Target Date or (iii) the Shelf Registration Statement is filed and declared effective but shall thereafter cease to be effective (without being succeeded immediately by an additional effective Resale Registration Statement or Shelf Registration Statement, as the case may be) for a period of time which shall exceed 90 days (or 180 days in the event of a Disadvantageous Condition in the aggregate per year (defined as a period of 365 days commencing on the date that the applicable Registration Statement is declared effective)) the Company shall cause the exercise price of the Warrants to be reduced by $1/8 per share (or such other amount as determined under the Warrant Agreement) of Class A Common Stock in accordance with the terms of the Warrant Agreement, such exercise price to decrease by $1/8 per share (or such other amount as determined under the Warrant Agreement) of Class A Common Stock for each subsequent six-month period until the applicable Registration Statement is filed, declared effective or again becomes effective, as the case may be. Notwithstanding the foregoing, the maximum number of $1/8 per share decreases during the exercise period of the warrants shall be 10 and there shall be no more than one such decrease with respect to such events described in the prior sentence in any six-month period. If the Shelf Registration Statement has not been declared effective at any time on or prior the expiration date of the Warrants, the Company shall redeem the Warrants for $1.60 per Warrant (or such other amount as determined under the Warrant Agreement) in accordance with the Warrant Agreement as liquidated damages for failure to cause such Shelf Registration Statement to become effective at any time. In addition, the exercise price for the Warrants shall not be reduced with respect to any Transfer Restricted

Warrants which the Company is not required to include in the Resale Registration Statement pursuant to the Section 2 (c) if the Commission has declared effective a registration statement with respect to other shares of Class A Common Stock.

The parties hereto agree that the liquidated damages provided in this Section 3 constitute a reasonable estimate of the damages that will be incurred by the Purchasers by reason of the failure of the Shelf Registration Statement to be filed, declared effective or to remain effective, as the case may be, and that the holders of Warrants shall not be entitled to any additional damages.

SECTION 4. REGISTRATION PROCEDURES

In connection with the Registration Statements, the Company will:

(a) on or prior to the date such Registration Statement is required to be filed pursuant to Section 2, prepare and file with the Commission a Registration Statement or Statements relating to the registration on any appropriate form or forms under the Act, as selected by the Company, which form or forms shall, (a) in the event a Resale Registration Statement is required to be filed, be available for the sale of the Transfer Restricted Warrants in accordance with the intended method or methods of distribution thereof and (b) with respect to the Shelf Registration Statement, be available for the issuance of the Class A Common Stock by the Company upon exercise of the Warrants, and shall include all required financial statements; cooperate and assist in any filings required to be made with the NASD and use its reasonable efforts to cause the Registration Statement or Statements required to be filed hereunder to become effective and approved on or prior to the Effectiveness Target Date by the Securities and Exchange Commission or other governmental agencies may be necessary to enable, in the event a Resale Registration Statement is required to be filed, the selling Holders to consummate the disposition of such Transfer Restricted Warrants and, in the case of the Shelf Registration Statement, the Company to register the issuance of the Class A Common Stock upon exercise of the Warrants; provided that before
----
filing a Resale Registration Statement or any Prospectus included therein, or any material amendments or supplements thereto, the Company shall furnish to one counsel for the Holders selected by the Holders of a majority of the Transfer Restricted Warrants, and shall provide the Holders the opportunity to obtain, copies of all such documents proposed to be filed, which documents shall be subject to the review of such counsel to such Holders and, except as otherwise required by applicable law, the Company shall not include the Transfer Restricted Warrants of any Holder in the Resale Registration Statement or amendment thereto or any Prospectus or any supplement thereto (including such documents incorporated by reference) to which such Holder of any Transfer Restricted Warrants covered by such Resale Registration Statement shall reasonably object in writing within the time period provided by the Company;

(b) prepare and file with the Commission such amendments and post-effective amendments to the Registration Statement or Statements required to be filed hereunder as may be necessary to keep the Registration Statements required to be filed hereunder effective for

the applicable period set forth in Section 2(a) hereof, cause the Prospectus contained in any such Registration Statement required to be filed hereunder to be supplemented by any required Prospectus supplement, and, as so supplemented, to be filed pursuant to Rule 424 promulgated under the Act, and to comply fully with the applicable provisions of Rule 424 promulgated under the Act in a timely manner; and comply with the provisions of the Act with respect to the disposition of all securities covered by the Resale Registration Statement during the applicable period in accordance with the intended method or methods of distribution by the sellers thereof set forth in such Resale Registration Statement or supplement to the Prospectus;

(c) if the Resale Registration Statement is filed pursuant to Section 2:

(i) advise counsel for the selling Holders of Transfer Restricted Warrants as promptly as practicable under the circumstances, (I) when the Resale Registration Statements or any post-effective amendment thereto, have become effective, (II) of any request by the Commission for amendments to the Resale Registration Statement or amendments or supplements to the Prospectus included therein or for additional information relating thereto, (III) of the issuance by the Commission of any stop order suspending the effectiveness of a Resale Registration Statement under the Act or of the suspension by any state securities commission of the qualification of the Transfer Restricted Warrants for offering or sale in any jurisdiction, or the initiation of any proceeding for any of the preceding purposes and (IV) of the existence of any fact and the happening of any event that makes any statement of a material fact made in the Resale Registration Statement, the Prospectus included therein, any amendment or supplement thereto, or any document incorporated by reference therein untrue, or that requires the making of any additions to or changes in the Resale Registration Statement or such Prospectus in order to make the statements therein not misleading. If at any time the Commission shall issue any stop order suspending the effectiveness of a Resale Registration Statement, or any state securities commission or other regulatory authority shall issue an order suspending the qualification or exemption from qualification of the Transfer Restricted Warrants under state securities or Blue Sky laws, the Company shall use its reasonable efforts to obtain the withdrawal or lifting of such order at the earliest possible time;

(ii) furnish to each selling Holder, without charge, at least one copy of the Resale Registration Statement, as first filed with the Commission, and of each amendment thereto, including, to the extent reasonably requested by such Holder, all documents incorporated by reference therein and all exhibits (including exhibits incorporated therein by reference);

(iii) deliver to each selling Holder, without charge, as many copies of the Prospectus included in the Resale Registration Statement (including each preliminary Prospectus) and any amendment or supplement thereto as such Persons may reasonably request (the Company hereby consents to the use of such Prospectus and any amendment or supplement thereto by each of the selling Holders in connection with the public offering and the sale of the Transfer Restricted Warrants covered by such Prospectus or any amendment or supplement thereto);

(iv) prior to any registration of Transfer Restricted Warrants, cooperate with the selling Holders, and any one counsel designated by a majority of such selling Holders, in connection with the registration and qualification of the Transfer Restricted Warrants under the securities or Blue Sky laws of such jurisdictions as the selling Holders may reasonably request and take all reasonable actions necessary or advisable to enable the disposition in such jurisdictions of the Transfer Restricted Warrants covered by the Resale Registration Statement; provided, however, that the Company shall not be required to register or qualify as a foreign corporation where it is not now so qualified nor to take any action that would subject it to the service of process in suits or to taxation, other than as to matters and transactions relating to the Resale Registration Statement, in any jurisdiction where it is not now so subject;

(v) cooperate with the selling Holders to facilitate the timely preparation and delivery of certificates representing Transfer Restricted Warrants to be sold and not bearing any restrictive legends; and enable such Transfer Restricted Warrants to be in such denominations and registered in such names as the Holders may request at least two business days prior to any sale of Transfer Restricted Warrants made by such Holders;

(vi) use its reasonable efforts to cause the Transfer Restricted Warrants covered by the Resale Registration Statement to be registered with or approved by such other governmental agencies or authorities as determined by counsel to the Company to be reasonably necessary to enable the seller or sellers thereof to consummate the disposition of such Transfer Restricted Warrants, subject to the proviso contained in clause (f) above;

(vii) and any fact or event contemplated by clause (c)(iv) above shall exist or have occurred, prepare a supplement or post-effective amendment to the Resale Registration Statement or related Prospectus or any document incorporated therein by reference or file any other required document so that, as thereafter delivered to the purchasers of Transfer Restricted Warrants, the Prospectus will not contain an untrue statement of a material fact or omit to state any material fact necessary to make the statements therein not misleading;

(viii) provide a CUSIP number for all Transfer Restricted Warrants not later than the effective date of the Resale Registration Statement;

(ix) make available at reasonable times for inspection by the Holders of the Transfer Restricted Warrants participating in any disposition pursuant to such Resale Registration Statement (which, if requested by the Company, has executed a confidentiality agreement reasonably acceptable to the Company), and any attorney or accountant retained by such selling Holders (which, if requested by the Company, has executed a confidentiality agreement reasonably acceptable to the Company), all financial and other records, pertinent corporate documents and properties of the Company and its subsidiaries reasonably requested by such Holder, attorney or accountant in connection with such Resale Registration Statement and cause the officers, directors and employees of the Company and its subsidiaries to supply all information reasonably requested by any such Holder, attorney or accountant at reasonable

times in connection with such Resale Registration Statement subsequent to the filing thereof and prior to its effectiveness;

(x) otherwise use its reasonable best efforts to comply with all applicable rules and regulations of the Commission, and make generally available to its security holders, as soon as practicable, a consolidated earnings statement (which need not be audited) for the twelve-month period, beginning with the first month of the Company's first fiscal quarter commencing after the effective date of the Resale Registration Statement; and

(xi) use its reasonable best efforts to cause all Transfer Restricted Warrants covered by the Resale Registration Statement to be listed on a securities exchange or quotation system no later than the date the Resale Registration Statement is declared effective and, in connection therewith, to the extent applicable, to make such filings under the Exchange Act (e.g., ----
the filing of a Registration Statement on Form 8-A) and to have such filings declared effective thereunder;

(d) use its reasonable best efforts to obtain the withdrawal of any order suspending the effectiveness of the Shelf Registration Statement or, if the Resale Registration Statement is required to be filed pursuant to Section 2, the Resale Registration Statement; and

(e) cooperate and assist in any filings required to be made with the NASD.

The Purchasers on behalf of themselves and each subsequent Holder of Transfer Restricted Warrants for whom any Resale Registration Statement is being effected agree: (i) to furnish promptly to the Company all information required to be disclosed in order to make the information previously furnished to the Company by such Holder not materially misleading; and (ii) not to misuse or disclose any confidential or proprietary information relating to the Company which has not been publicly disseminated by the Company and which such Purchaser or subsequent Holder of Transfer Restricted Warrants receives pursuant to this Agreement.

The Purchasers on behalf of themselves and each subsequent Holder of Transfer Restricted Warrants agree upon receipt of any notice from the Company of a Disadvantageous Condition or the existence of any fact of the kind described in Section 2(b) or Section 4(c)(iv) hereof, as the case may be, such Holder will forthwith discontinue disposition of Transfer Restricted Warrants pursuant to the Resale Registration Statement until such Holder's receipt of the copies of the new, supplemented or amended Prospectus contemplated by Section 2(b) or Section 4(i) hereof, or until it is advised in writing by the Company that the use of the Prospectus may be resumed, and has received copies of any additional or supplemental filings which are incorporated by reference in the Prospectus. If so directed by the Company, each Holder will deliver to the Company (at the Company's expense) all copies, other than permanent file copies then in such Holder's possession, of the Prospectus covering such Transfer Restricted Warrants at the time of receipt of such notice.

SECTION 5. REGISTRATION EXPENSES

(a) All expenses incident to the Company's performance of or compliance with this Agreement will be borne by the Company, regardless of whether either the Resale Registration Statement or Shelf Registration Statement becomes effective, including, without limitation:

(i) all registration and filing fees and expenses;

(ii) fees and expenses of compliance with federal securities or state blue sky laws;

(iii) expenses of printing (including, without limitation, expenses of printing or engraving certificates for the Transfer Restricted Warrants in a form eligible for deposit with the Depositary Trust Company, expenses of printing or engraving certificates for the Class A Common Stock and expenses of printing Prospectuses), messenger and delivery services and telephone;

(iv) fees and disbursements of counsel for the Company and reasonable fees and disbursements of one counsel for the Holders of the Warrants chosen by the Holders of a majority of such Warrants;

(v) fees and disbursements of all independent certified public accountants of the Company;

(vi) registration and filing fees associated with any NASD filing required to be made in connection with the Registration Statements; and

(vii) fees and expenses of listing the Warrants or the Class A Common Stock underlying the Warrants on any national securities exchange or national quotation system of a national securities association in accordance with Section 4(n) hereof.

All expenses described in classes (i) to (vii) above are referred to herein as collectively "Registration Expenses."

The Company will, in any event, bear its internal expenses (including, without limitation, all salaries and expenses of its officers and employees performing legal or accounting duties), the expense of any experts or advisors retained by the Company. The Holders of Transfer Restricted Warrants shall bear the expense of any broker's commission or underwriters' discount or commission.

(b) Notwithstanding anything in clause (a) above, each Holder of Transfer Restricted Warrants shall pay (i) all Registration Expenses which it is expressly required to pay by applicable law, (ii) transfer taxes owing upon its transfer of the Transfer Restricted Warrants or the underlying Class A Common Stock, (iii) fees and disbursements of its counsel other than as provided under clause 5a(iv) above or (iv) any underwriting discounts or commissions in connection with any underwritten offering.

SECTION 6. INDEMNIFICATION

(a) The Company agrees to indemnify and hold harmless each Holder (each such Holder, an "Indemnified Holder") and each person that controls each Indemnified Holder within the meaning of Section 15 of the Act or Section 20 of the Exchange Act, and the employees, officers, partners and directors of any such Indemnified Holder or any such controlling person of any Indemnified Holder, from and against any and all losses, claims, damages, judgments, liabilities and expenses (including the reasonable fees and expenses of counsel and other reasonable expenses in connection with investigating, defending or settling any such action or claim) as they are incurred arising out of or based upon any untrue statement or alleged untrue statement of a material fact contained in the Resale Registration Statement or the Prospectus included therein, or any supplement or amendment thereto, or arising out of or based upon any omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, except (i) the Company shall not be liable to any Indemnified Holder in any such case insofar as such losses, claims, damages, judgments, liabilities or expenses arise out of, or are based upon, any such untrue statement or omission or alleged untrue statement or omission based upon information relating to such Indemnified Holder furnished in writing by such Indemnified Holder to the Company expressly for use therein; (ii) the Company shall not be liable to any Indemnified Holder under the indemnity agreement in this Section 6(a) with respect to any such Prospectus to the extent that any such loss, claim, damage, judgment, liability or expense results from the fact that any Indemnified Holder sold Transfer Restricted Warrants to a person to whom there was not sent or given, at or prior to the written confirmation of such sale, a copy of the Prospectus, as amended to correct any misstatement or omissions, if the Company has previously furnished such number of requested copies thereof to the Indemnified Holder and had previously notified the Indemnified Holder of the misstatement or omission or if the Company has advised the Indemnified Holder of the existence of such misstatement or omission or of a Disadvantageous Condition and informed such Holder that it should not continue disposition of the Transfer Restricted Warrants pursuant to the Resale Registration Statement until it has been advised in writing by the Company.

(b) If any action or proceeding (including any governmental or regulatory investigation or proceeding) shall be brought or asserted against any Indemnified Holder with respect to which indemnity may be sought against the Company pursuant to this Section 6, such Indemnified Holder shall promptly notify the Company in writing, and the Company shall have the right to assume the defense thereof, including the employment of counsel reasonably satisfactory to such indemnified Holder; provided, that the omission so to notify the Company

shall not relieve the Company from any liability that it may have to any Indemnified Holder (except to the extent that the Company is materially prejudiced or has otherwise forfeited substantive rights or defenses by reason of such failure). An Indemnified Holder shall have the right to employ separate counsel in any such action or proceeding and to participate in the defense thereof, but the fees and expenses of such counsel shall be at the expense of such Indemnified Holder unless (i) the employment of such counsel has been specifically authorized in writing by the Company, (ii) the Company has failed promptly to assume the defense and employ counsel reasonably satisfactory to the Indemnified Holder or (iii) the named parties to any such action or proceeding (including any impleaded parties) include both the Indemnified Holder and the Company and such Indemnified Holder shall have been advised in writing by its counsel that there is one or more legal defenses reasonably available to it that are different from or additional to those available to the Company (in which case the Company shall not have the right to assume the defense of such action on behalf of such Indemnified Holder and shall pay the reasonable fees and expenses of counsel employed by such Indemnified Holder). It is understood that the Company shall not, in connection with any one such action or separate but substantially similar or related actions in the same jurisdiction arising out of the same general allegations or circumstances, be liable for the fees and expenses of more than one separate firm of attorneys (in addition to any local counsel) at any time for the Indemnified Holders which firm shall be designated in writing by the Indemnified Holders and that all such reasonable fees and expenses shall be reimbursed as they are incurred. The Company shall not be liable for any settlement of any such action effected without the written consent of the Company, but if settled with the written consent of the Company, or if there is a final judgment with respect thereto, the Company agrees to indemnify and hold harmless each Indemnified Holder from and against any loss or liability by reason of such settlement or judgment. The Company shall not, without the prior written consent of each Indemnified Holder affected thereby, effect any settlement of any pending or threatened proceeding in which such Indemnified Holder has sought indemnity hereunder, unless such settlement includes an unconditional release of such Indemnified Holder from all liability arising out of such action, claim, litigation or proceeding.

(c) Each Indemnified Holder is hereby deemed to have agreed, severally and not jointly, to indemnify and hold harmless the Company, its directors, officers and any person controlling the Company and their respective employees, officers, partners, directors and controlling persons (collectively, the "Company Indemnified Parties"), to the same extent as the foregoing indemnity from the Company to any Indemnified Holder, but only with respect to information relating to such Indemnified Holder furnished to the Company in writing by such Indemnified Holder, respectively, expressly for use in the Resale Registration Statement or the Prospectus included therein, or any supplement or amendment thereto or for any losses arising out of any misstatement or omission contained in a Prospectus delivered by such Indemnified Holder and which the Company has advised such holder that such Prospectus contains a misstatement or omission or that a Disadvantageous Condition exists and that such Prospectus shall not be used until the Indemnified Holder has been advised by the Company. In case any action shall be brought against any Company Indemnified Party based on the Resale Registration Statement or such Prospectus, or any supplement or amendment thereto,

and in respect of which indemnity may be sought against an Indemnified Holder pursuant to this Section 6(c), such Indemnified Holder shall have the rights and duties given to the Company by Section 6(a) (except that if the Company shall have assumed the defense thereof, such Indemnified Holder may, but shall not be required to, employ separate counsel therein and participate in the defense thereof and the fees and expenses of such counsel shall be at the expense of the Indemnified Holder) and the Company Indemnified Parties shall have the rights and duties given to the Indemnified Holders by Section 6.

(d) If the indemnification provided for in this Section 6 is unavailable to any party entitled to indemnification under Section 6(a) or 6(c) above, then each indemnifying party, in lieu of indemnifying such indemnified party, shall contribute to the amount paid or payable by such indemnified party as a result of such losses, claims, damages, judgments, liabilities and expenses (i) in such proportion as is appropriate to reflect the relative benefits received by the Company on the one hand and each Indemnified Holder on the other from the offering of the Transfer Restricted Warrants pursuant to the Resale Registration Statement or (ii) if the allocation provided by clause (i) above is not permitted by applicable law, in such proportion as is appropriate to reflect not only the relative benefits referred to in clause (i) above but also the relative fault of the Company on the one hand and each Indemnified Holder on the other in connection with the statements or omissions which resulted in such losses, claims, damages, judgments, liabilities or expenses, as well as any other relevant equitable considerations.

(e) The Company and each Indemnified Holder agree that it would not be just and equitable if contributions pursuant to Section 6(d) hereof were determined by pro rata allocation or by any other method of allocation that does not take account of the equitable considerations referred to in Section 6(d). The amount paid or payable by an indemnified party as a result of the losses, claims, damages, liabilities or expenses referred to in the immediately preceding paragraph shall be deemed to include, subject to the limitations set forth above, any legal or other expenses reasonably incurred by such indemnified party in connection with investigating or defending any such action or claim. No person found guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Act) shall be entitled to contribution from any person who was not found guilty of such fraudulent misrepresentation.

(f) The indemnity and contribution agreements contained in this Section 6 are in addition to any liability that any indemnifying party may otherwise have to any indemnified party.

SECTION 7. RULE 144A

The Company hereby agrees with each Holder, for so long as any of the Warrants that are Transfer Restricted Warrants remain outstanding and continue to be "restricted securities" within the meaning of Rule 144 promulgated under the Act, and during any period in which the Company is not subject to Section 13 or 15(d) of the Exchange Act, to

make available to such Holder or any beneficial owner of the Warrants in connection with any sale thereof and any prospective purchaser of such Warrants from such Holder or beneficial owner, the information required by Rule 144A(d)(4) promulgated under the Act in order to permit resales of such Transfer Restricted Warrants pursuant to Rule 144A.

SECTION 8. MISCELLANEOUS

(a) No Inconsistent Agreements. The Company shall not on or after the date of this Agreement enter into any agreement with respect to its securities that conflicts with the provisions hereof. The Company represents and warrants that the rights granted to the Holders of Warrants hereunder do not in any way conflict with the rights granted to the holders of the Company's securities under any other agreements.

(b) Amendments and Waivers. The provisions of this Agreement, including the provisions of this sentence, may not be amended, modified or supplemented, and waivers or consents to departures from the provisions hereof may not be given unless the Company has obtained the written consent of Holders of a majority of the outstanding Warrants. Notwithstanding the foregoing, a waiver or consent to departure from the provisions hereof that relates exclusively to the rights of Holders of Transfer Restricted Warrants whose securities are being sold pursuant to the Resale Registration Statement and that does not directly or indirectly affect the rights of other Holders of Transfer Restricted Warrants may be given by the Holders of at least a majority of the Transfer Restricted Warrants being sold.

(c) Notices. All notices and other communications provided for or permitted hereunder shall be made in writing by hand-delivery, first-class mail, telex, telecopier, or air courier guaranteeing overnight delivery:

(i) if to a Holder, at the address set forth on the Warrant Register, with a copy to the Warrant Agent; and

(ii) if to the Company, initially at its address set forth above, and thereafter at such other address, notice of which is given in accordance with the provisions of this Section.

All such notices and communications shall be deemed to have been duly given: at the time delivered by hand, if personally delivered; five business days after being deposited in the mail, postage prepaid, if mailed; when answered back, if telexed or telecopied; and on the next business day, if timely delivered to an air courier guaranteeing overnight delivery.

Copies of all notices, demands or other communications shall be concurrently delivered by the Person giving the same to the Warrant Agent at the address specified in the Warrant Agreement.

(d) Successors and Assigns. This Agreement shall inure to the benefit of and be binding upon the successors and assigns of each of the parties, including, without

limitation, and without the need for an express assignment, subsequent Holders of Transfer Restricted Warrants; provided, however, that this Agreement shall not inure to the benefit of or be binding upon a successor or assign of a Holder of Transfer Restricted Warrants unless and to the extent such successor or assign acquires Transfer Restricted Warrants from such Holder.

(e) Counterparts. This Agreement may be executed in any number of counterparts and by the parties hereto in separate counterparts, each of which, when so executed, shall be deemed to be an original and all of which taken together shall constitute one and the same agreement.

(f) Headings. The headings in this Agreement are for convenience of reference only and shall not limit or otherwise affect the meaning hereof.

(g) GOVERNING LAW. THIS AGREEMENT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK, WITHOUT REGARD TO THE CONFLICT OF LAW RULES THEREOF.

(h) Severability. In the event that any one or more of the provisions contained herein, or the application thereof in any circumstance, is held invalid, illegal or unenforceable, the validity, legality and enforceability of any such provision in every other respect and of the remaining provisions contained herein shall not be affected or impaired thereby.

(i) Entire Agreement. This Agreement, together with the Warrant Agreement, the Release (as defined in the Offering Memorandum) and the subscription agreement for the Warrants is intended by the parties as a final expression of their agreement and intended to be a complete and exclusive statement of the agreement and understanding of the parties hereto in respect of the subject matter contained herein. There are no restrictions, promises, warranties or undertakings, other than those set forth or referred to herein, with respect to the registration rights granted by the Company with respect to the Warrants. This Agreement supersedes all prior agreements and understandings between the parties with respect to such subject matter.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date set forth below.

Dated:

PURCHASER

(Print name of Purchaser)

By:

Name:

Title:

Number of Warrants

Address for Communications:

Notary Public

My commission expires on:

AUDIOVOX CORPORATION

By: /s/ Charles M. Stoehr

Name: Charles M. Stoehr

Title: SVP, CFO

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date set forth below.

Dated:

PURCHASER

Adrienne Partners, L.P.

(Print name of Purchaser)

By: /s/ David Nolan

Name: David Nolan
Title: General Partner

Number of Warrants 900

Address for Communications: c/o D. Nolan Management, Co.,Inc.
---
375 Park Avenue, Suite 2209

New York, NY 10152

Notary Public

My commission expires on:

AUDIOVOX CORPORATION

By:

Name:
Title:

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date set forth below.

Dated:

PURCHASER

Angelo, Gordon & Co., L.P.

(Print name of Purchaser)

By: /s/ Michael L. Monahan

Name: Michael L. Monahan
Title: Managing Director

Number of Warrants 15,000

Address for Communications:
245 Park Avenue - 26th Floor

New York, NY 10167

Notary Public

My commission expires on:

AUDIOVOX CORPORATION

By:

Name:
Title:

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date set forth below.

Dated: May 5, 1995

PURCHASER

Baker Nye Securities L.P.

(Print name of Purchaser)

By: /s/ Richard B. Nye

Name: Richard B. Nye
Title: Manager, General Partner

Number of Warrants 18,750

Address for Communications: 767 Fifth Ave.

Suite 2800

New York, NY 10153

Notary Public

My commission expires on:

AUDIOVOX CORPORATION

By:

Name:
Title:

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date set forth below.

Dated: May 12, 1995 PURCHASER

Pacific Horizon Capital Income Fund

(Print name of Purchaser)

By: /s/ Hugo W. Anderson, III

Name: Hugo W. Anderson, III
Title: Authorized Officer

Number of Warrants 30,000

Address for
Communications: BofA Capital Management, Inc.
---
300 South Grand Ave., Ste. 220

Los Angeles, CA 90071

Notary Public

My commission expires
on:

AUDIOVOX CORPORATION

By:

Name:
Title:

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date set forth below.

Dated: May 4, 1995

PURCHASER

Christian Science Trustees for Gifts and Endowments

(Print name of Purchaser)

By: Pecks Management Partners Ltd.
Its Investment Advisor

By: /s/ Arthur W. Berry

Name: Arthur W. Berry
Title: Managing Director

Number of Warrants 9,000

Address for Communications: 1 Rockefeller Plaza
Suite 900
New York, NY 10020

Notary Public

My commission expires on:

AUDIOVOX CORPORATION

By:

Name:
Title:

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date set forth below.

Dated:

PURCHASER

Colonial Penn Insurance Co.

(Print name of Purchaser)

By: /s/ Brian Swain

Name: Brian Swain
Title:

Number of Warrants 7,500

Address for Communications: 40 W. 57th St.

New York, NY 10019

Notary Public

My commission expires on:

AUDIOVOX CORPORATION

By:

Name:
Title:

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date set forth below.

Dated:

PURCHASER

Colonial Penn Life Insurance Co.

(Print name of Purchaser)

By: /s/ Brian Swain

Name: Brian Swain
Title:

Number of Warrants 7,500

Address for
Communications: 40 W. 57th St.

New York, NY 10019

Notary Public

My commission expires
on:

AUDIOVOX CORPORATION

By:

Name:
Title:

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date set forth below.

Dated: May 4, 1995

PURCHASER

Commonwealth Life Insurance Co.
Stock Trac (Teamsters I)

(Print name of Purchaser)

By: /s/ John B. Wagner

Name: John B. Wagner
Title: Managing Partner

Number of Warrants 75,000

Address for Communications: Camden Asset Management
10100 Santa Monica Blvd.
Suite 770
Los Angeles, CA 90067

Notary Public

My commission expires on:

AUDIOVOX CORPORATION

By:

Name:
Title:

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date set forth below.

Dated: May 5, 1995

PURCHASER

Community National Assurance Company

(Print name of Purchaser)

By: /s/ John E. Gallina

Name: John E. Gallina
Title: Assistant Treasurer &
Chief Financial Officer

Number of Warrants 3,000

Address for
Communications: Asset Allocation & Mgmt.

Attn: Mark Shelstad
30 North LaSalle Street

36th Floor
Chicago, Illinois 60602

Notary Public

My commission expires
on:

AUDIOVOX CORPORATION

By:

Name:
Title:

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date set forth below.

Dated: May 9, 1995

PURCHASER

Constellation Convertibles, Ltd.

(Print name of Purchaser)

By: /s/ Bruce H. Lipnick

Name: Bruce H. Lipnick
Title: President of Wharton Management Group, Inc. Investment Advisor to Constellation Convertibles, Ltd.

Number of Warrants 30,000

Address for Communications: 90 Broad Street

Ste. 820

New York, NY 10004

Notary Public

My commission expires on:

AUDIOVOX CORPORATION

By:

Name:
Title:

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date set forth below.

Dated:

PURCHASER

Davos Partners, L.P.

(Print name of Purchaser)

By: /s/ David Nolan

Name: David Nolan
Title: General Partner

Number of Warrants 6,300

Address for Communications: c/o D. Nolan Management Co., Inc.
---
375 Park Ave., Suite 2209

New York, NY 10152

Notary Public

My commission expires on:

AUDIOVOX CORPORATION

By:

Name:
Title:

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date set forth below.

Dated: May 4, 1995

PURCHASER

Dean Witter Convertible Securities Trust

(Print name of Purchaser)

By: /s/ Michael G. Knox

Name: Michael G. Knox
Title: Vice President

Number of Warrants 45,000

Address for Communications: 2 World Trade Center
---
72 Floor

New York, NY 10048

Notary Public

My commission expires on:

AUDIOVOX CORPORATION

By:

Name:
Title:

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date set forth below.

Dated: May 4, 1995

PURCHASER

Declaration of Trust for Defined Benefit Plans of
ICI American Holdings, Inc.

(Print name of Purchaser)

By: Pecks Management Partners Ltd.
Its Investment Advisor

By: /s/ Arthur W. Berry

Name: Arthur W. Berry
Title: Managing Director

Number of Warrants 22,950

Address for
Communications: 1 Rockefeller Plaza

Suite 900

New York, NY 10020

Notary Public

My commission expires
on:

AUDIOVOX CORPORATION

By:

Name:
Title:

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date set forth below.

Dated: May 4, 1995

PURCHASER

Declaration of Trust for Defined Benefit Plans of ZENECA Holdings Inc.

(Print name of Purchaser)

By: Pecks Management Partners Ltd.
Its Investment Advisor

By: /s/ Arthur W. Berry

Name: Arthur W. Berry
Title: Managing Director

Number of Warrants 15,300

Address for Communications: 1 Rockefeller Plaza
Suite 900
New York, NY 10020

Notary Public

My commission expires on:

AUDIOVOX CORPORATION

By:

Name:
Title:

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date set forth below.

Dated: May 4, 1995

PURCHASER

Delaware State Employees Retirement Fund

(Print name of Purchaser)

By: Pecks Management Partners Ltd.
Its Investment Advisor

By: /s/ Arthur W. Berry

Name: Arthur W. Berry
Title: Managing Director

Number of Warrants 78,750

Address for Communications: 1 Rockefeller Plaza

Suite 900

New York, NY 10020

Notary Public

My commission expires on:

AUDIOVOX CORPORATION

By:

Name:
Title:

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date set forth below.

Dated: May 2, 1995

PURCHASER

Ethos Capital Management Inc. as Agent for
Global Opportunity Fund I Ltd.

(Print name of Purchaser)

By: /s/ Stephen Zuppello

Name: Stephen Zuppello
Title: Vice President

Number of Warrants 18,000

Address for
Communications: c/o Ethos Capital Management, Inc.
152 W. 57th St.
New York, NY 10019

Notary Public

My commission expires
on:

AUDIOVOX CORPORATION

By:

Name:
Title:

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date set forth below.

Dated: May 2, 1995

PURCHASER

Ethos Capital Management Inc. as Agent for
Zelvs International Ltd.

(Print name of Purchaser)

By: /s/ Stephen Zuppello

Name: Stephen Zuppello
Title: Vice President

Number of Warrants 18,000

Address for
Communications: c/o Ethos Capital Management, Inc.
152 W. 57th St.
New York, NY 10019

Notary Public

My commission expires
on:

AUDIOVOX CORPORATION

By:

Name:
Title:

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date set forth below.

Dated: May 2, 1995

PURCHASER

Ethos Partners L.P.

(Print name of Purchaser)

By: /s/ Stephen Zuppello

Name: Stephen Zuppello
Title: Vice President, Ethos Partners Management, Inc., General Partner of Ethos Capital, L.P., General Partner of Ethos Partners L.P.

Number of Warrants 24,000

Address for Communications: 152 W. 57th St.

New York, NY 10019

Notary Public

My commission expires on:

AUDIOVOX CORPORATION

By:

Name:
Title:

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date set forth below.

Dated: May 4, 1995

PURCHASER

First Church of Christ, Scientist-Endowment

(Print name of Purchaser)

By: Pecks Management Partners Ltd.
Its Investment Advisor

By: /s/ Arthur W. Berry

Name: Arthur W. Berry
Title: Managing Director

Number of Warrants 9,000

Address for Communications: 1 Rockefeller Plaza

Suite 900

New York, NY 10020

Notary Public

My commission expires on:

AUDIOVOX CORPORATION

By:

Name:
Title:

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date set forth below.

Dated: May 10, 1995

PURCHASER

Catholic Mutual Group

(Print name of Purchaser)

First National Bank of Omaha
Custodian Catholic Mutual
Group

By: /s/ Ann Turco

Name: Ann Turco
Title: Trust Operations Officer

Number of Warrants 18,000

Address for
Communications: One First National Center

P.O. Box 3128

Omaha, NE 68103

Notary Public

My commission expires
on:

AUDIOVOX CORPORATION

By:

Name:
Title:

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date set forth below.

Dated:

PURCHASER

Furman Selz Incorporated

(Print name of Purchaser)

By: /s/ Steven D. Blecher

Name: Steven D. Blecher
Title: Executive Vice President

Number of Warrants 21,000

Address for Communications: 230 Park Avenue

13th Floor-Convertible Bond Dept.

New York, NY 10169

Notary Public

My commission expires on:

AUDIOVOX CORPORATION

By:

Name:
Title:

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date set forth below.

Dated:

PURCHASER

General Motors Domestic Group Pension Trust

(Print name of Purchaser)

By: /s/ Allan M. Seaman

Name: Allan M. Seaman
Title: Associate Counsel

Number of Warrants 120,000

Address for Communications: c/o Mellon Bank

One Mellon Bank Center

Rm. 151 - 1300

Pittsburgh, PA 15258-0001

Attention: Colleen McCauley

Notary Public

My commission expires on:

AUDIOVOX CORPORATION

By:

Name:
Title:

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date set forth below.

Dated:

PURCHASER

Kellner, DiLeo & Co.

(Print name of Purchaser)

By: /s/ Walter Serafin

Name: Walter Serafin
Title: General Partner

Number of Warrants 30,000

Address for
Communications: 900 Third Avenue

New York, NY 10022

Notary Public

My commission expires
on:

AUDIOVOX CORPORATION

By:

Name:
Title:

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date set forth below.

Dated: May 9, 1995

PURCHASER

Libertyview Plus Fund

(Print name of Purchaser)

By: /s/ Christopher Wetherhill

Name: Christopher Wetherhill
Title: Director

Number of Warrants 7,500

Address for Communications: Hemisphere House
---
9 Church Street

Hamilton HM11

Bermuda

Notary Public

My commission expires on:

AUDIOVOX CORPORATION

By:

Name:
Title:

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date set forth below.

Dated:

PURCHASER

Nicholas-Applegate Capital Mgmt.

(Print name of Purchaser)

FBO: All clients

By: /s/ E. Blake Moore, Jr.

Name: E. Blake Moore, Jr.
Title: General Counsel

Number of Warrants 82,200

Address for Communications: Nicholas-Applegate Capital Mgmt.
---
600 W. Broadway, Suite 2900

San Diego, CA 92127

Notary Public

My commission expires on:

AUDIOVOX CORPORATION

By:

Name:
Title:

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date set forth below.

Dated: May 5, 1995

PURCHASER

Offshore Strategies Ltd.

(Print name of Purchaser)

By: /s/ Allan Yablon

Name: Allan Yablon
Title: CFO B. Laterman Co., Inc.
Investment Manager

Number of Warrants 45,000

Address for
Communications: The Laterman Companies
---
5 East 59th Street

New York, NY 10022

Notary Public

My commission expires
on:

AUDIOVOX CORPORATION

By:

Name:
Title:

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date set forth below.

Dated:

PURCHASER

Oppenheimer & Co., Inc.

(Print name of Purchaser)

By: /s/ Matthew J. Marylee

Name: Matthew J. Marylee
Title: Managing Director

Number of Warrants 301,625

Address for Communications: 200 Liberty St.

New York, NY 10281

Notary Public

My commission expires on:

AUDIOVOX CORPORATION

By:

Name:
Title:

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date set forth below.

Dated:

PURCHASER

Palladin Partners

(Print name of Purchaser)

By: /s/ Brian Swain

Name: Brian Swain
Title:

Number of Warrants 15,000

Address for
Communications: 40 W. 57th Street

New York, NY 10019

Notary Public

My commission expires
on:

AUDIOVOX CORPORATION

By:

Name:
Title:

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date set forth below.

Dated:

PURCHASER

Paresco, Inc.

(Print name of Purchaser)

By: /s/ Philip Spray

Name: Philip Spray
Title: President

Number of Warrants 30,000

Address for
Communications: 101 Hudson Street

Jersey City, NJ 07302

Notary Public

My commission expires
on:

AUDIOVOX CORPORATION

By:

Name:
Title:

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date set forth below.

Dated:

PURCHASER

Quasar International Partners, C.V.

(Print name of Purchaser)

By: /s/ David Nolan

Name: David Nolan
Title: Investment Manager

Number of Warrants 6,300

Address for Communications: c/o D. Nolan Management Co., Inc.
---
375 Park Avenue, Suite 2209

New York, NY 10152

Notary Public

My commission expires on:

AUDIOVOX CORPORATION

By:

Name:
Title:

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date set forth below.

Dated:

PURCHASER

Sage Capital Holdings L.D.C.

(Print name of Purchaser)

By: /s/ Peter deLisser

Name: Peter deLisser
Title: President

Number of Warrants 45,000

Address for Communications: Sage Capital

Box 4509

Ketchum, Idaho 83340

Notary Public

My commission expires on:

AUDIOVOX CORPORATION

By:

Name:
Title:

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date set forth below.

Dated:

PURCHASER

Suntrust Corporate Equity Fund

(Print name of Purchaser)

By: /s/ Anthony R. Gray

Name: Anthony R. Gray
Title: Chief Investment Officer

Number of Warrants 225,000

Address for Communications: Sunbank Capital Mgmt.
---
200 S. Orange Ave., SOAB 8

Orlando, FL 32801

Notary Public

My commission expires on:

AUDIOVOX CORPORATION

By:

Name:
Title:

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date set forth below.

Dated: May 10, 1995

PURCHASER

The TCW Group, Inc.

(Print name of Purchaser)

By: /s/ Elnoise Davis

Name: Elnoise Davis
Title: Senior Vice President

Number of Warrants 195,000

Address for Communications: 865 South Figueroa

21st Floor

Los Angeles, CA 90017

Notary Public

My commission expires on:

AUDIOVOX CORPORATION

By:

Name:
Title:

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date set forth below.

Dated: May 4, 1995

PURCHASER

Thermo Electron Corp.

(Print name of Purchaser)

By: Pecks Management Partners Ltd.
Its Investment Advisor

By: /s/ Arthur W. Berry

Name: Arthur W. Berry
Title: Managing Director

Number of Warrants 1,500

Address for Communications: 1 Rockefeller Plaza
Suite 900
New York, NY 10020

Notary Public

My commission expires on:

AUDIOVOX CORPORATION

By:

Name:
Title:

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date set forth below.

Dated: May 8, 1995

PURCHASER

Verdant Investors Group, Ltd.

(Print name of Purchaser)

For and on behalf of Verdant Investors Group, Ltd.

By: /s/ Ho Tuen Yee /s/ Sandra E. Pallas

Name: Ho Tuen Yee Sandra E. Pallas
Title: Director Joint Secretary

Number of Warrants 7,500

Address for Communications: Suite 922C

Europort

Gibraltar

Notary Public

My commission expires on:

AUDIOVOX CORPORATION

By:

Name:
Title:

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date set forth below.

Dated: May 8, 1995

PURCHASER

WG Trading Company Limited Partnership

(Print name of Purchaser)

By: /s/ Paul R. Greenwood

Name: Paul R. Greenwood
Title: Managing General Partner

Number of Warrants 30,000

Address for Communications: 1 East Putnam Avenue

Greenwich, CT 06830

Notary Public

My commission expires on:

AUDIOVOX CORPORATION

By:

Name:
Title:

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date set forth below.

Dated:

PURCHASER

Zazove Convertible Fund L.P.

(Print name of Purchaser)

By: /s/ Steven Kleiman

Name: Steven Kleiman
Title: Chief Financial Officer

Number of Warrants 16,800

Address for Communications: 4801 W. Peterson

#615

Chicago, IL 60646

Notary Public

My commission expires on:

AUDIOVOX CORPORATION

By:

Name:
Title:

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date set forth below.

Dated:

PURCHASER DTC #2130
Bank of America NT & SA David Harvey
Trust Securities Processing Section CCH Unit #8345
Capital Changes Unit 8345 (818) 507-3768

c/o Convertible Securities Fund

(Print name of Purchaser)

By: /s/ Tina Lukaris

Name: Tina Lukaris
Title: Vice President

Number of Warrants 30,000

Address for
Communications: Bank of America

Trust Securities Processing

P.O. Box 3577

Los Angeles, California 90051

Capital Changes Unit #8345

ATTN: David Harvey

Notary Public

My commission expires
on:

AUDIOVOX CORPORATION

By:

Name:
Title:

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date set forth below.

Dated: 5/12/95

PURCHASER

Bank of America Convertible Securities Fund
(Print name of Purchaser)

By: /s/ Hugo W. Anderson, III
Name: Hugo W. Anderson, III
Title: Authorized Oficer

Number of Warrants 7,500

Address for Communications: BofA Capital Management, Inc.
300 South Grand Ave., Ste. 20
Los Angeles, California 90071

/s/Florence Goldstein
Notary Public

My commission expires on: 4/29/97

AUDIOVOX CORPORATION

By:
Name:
Title:

Exhibit 5

[AUDIOVOX LETTERHEAD]

C. Michael Stoehr
Audiovox Corporation
(516) 231-7750

Brian James
Edelman Financial
(212) 704-8111

AUDIOVOX CORPORATION ISSUES WARRANTS
BACKED-UP BY CEO'S PERSONAL SHARES

May 10, 1995 HAUPPAUGE, N.Y. (AMEX:VOX) Audiovox Corporation announced today that it has issued certain warrants, with the underlying shares to be supplied from the Chairman's personal stock holdings.

Approximately 1,700,000 Warrants were issued by the Company in a private offering. Each Warrant can convert 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 $59 million of Audiovox's 6 1/4% Convertible Subordinated Debentures due 2001, in exchange for a release of any claims such holder may have against Audiovox, its agents, directors and employees in connection with their investment in the Debentures. Each holder received 30 Warrants for each $1,000 of principal amount of Debentures, other than Oppenheimer & Co., Inc. which received 25 Warrants. The Warrants will be issued shortly, pending delivery of final documentation.

To eliminate the current dilutive effect on earnings per share, John J. Shalam, Chief Executive Officer of Audiovox, has granted the Company an option to supply approximately 1,700,000 Class A shares from his personal holdings at the same price. The Company has agreed to reimburse Mr. Shalam should the exercise of this option be treated as dividend income rather than capital gains. The independent directors may elect to issue shares from the Company instead of drawing on Mr. Shalam's shares, only if it is in the best interest of the shareholders and the Company.

During the second quarter the Company will take a one-time non-cash charge to earnings of approximately $3 million, which will be offset by a $3 million increase in paid-in capital, therefore there will be no net effect on total shareholders' equity.

Audiovox Corporation markets cellular telephones and

accessories, automotive aftermarket sound and security equipment,

as well as other aftermarket automotive accessories.