

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

FORM 10-K/A
Amendment #2

Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 [fee required]

For the fiscal year ended November 30, 1995
Commission file number 1-9532

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

Delaware
(State or other jurisdiction of
incorporation or organization)

13-1964841
(I.R.S. Employer
Identification Number)

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

11788
(Zip Code)

Registrant's telephone number, including area code (516) 231-7750

Securities registered pursuant to Section 12(b) of the Act:

Title of each class:	Name of Each Exchange on Which Registered
Class A Common Stock \$.01 par value	American Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:

None

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

Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (Sec 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

(X)

1

The aggregate market value of the voting stock held by non-affiliates of the registrant was \$18,763,355 (based upon closing price on the American Stock Exchange, Inc. on February 20, 1996).

The number of shares outstanding of each of the registrant's classes of common stock, as of February 20, 1996 was

Class	Outstanding
Class A Common Stock \$.01 par value	6,777,788
Class B Common Stock \$.01 par value	2,260,954

PART I

Item 1 - Business

General

Audiovox Corporation, together with its operating subsidiaries (collectively, the "Company"), markets and supplies, under its own name or trade names, a diverse line of aftermarket products which include cellular telephones, both hand held portables and vehicle installed, in addition to automotive sound equipment and automotive accessories, both of which are designed primarily for installation in cars, trucks and vans after they have left the factory and consumer electronic products.

The Company's products are sold through a worldwide distribution network covering the United States, Canada and overseas. Sales are made directly and through independent distributors to new car dealers, cellular telephone accounts, cellular service providers, regional Bell Operating Companies ("BOCs"), mass merchandisers, catalogue showrooms, original equipment manufacturers ("OEMs"), military Army and Air Force Exchange Systems ("AAFES"), autosound specialists and retailers. The Company sells to consumers from Company-owned retail sales and service locations which generally operate under the name "Quintex", which also receives activation commissions and residuals from certain cellular service providers.

The Company's products may be broadly grouped into four major

categories: cellular telephones, automotive sound equipment, automotive accessories and consumer electronic products. These categories represent different product lines rather than separate reporting segments.

The Company was incorporated in Delaware on April 10, 1987, as successor to the business of Audiovox Corp., a New York corporation founded in 1960 (the "predecessor company") by John J. Shalam, the Company's President, Chief Executive Officer and controlling stockholder. Unless the context otherwise requires, or as otherwise indicated, references herein to the "Company" include the Company, its wholly-owned and majority-owned operating subsidiaries.

Trademarks

The Company markets products under several trademarks, including Audiovox(R), Custom SPS(R), Prestige(R), Pursuit(R), Minivox(TM), Minivox Lite(R) and The Protector(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.

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 fiscal year ended November 30, 1995, the Company sold its products to approximately 2,500 wholesale accounts, including the BOCs, 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 25.5% of the Company's net sales for the fiscal year ended November 30, 1995, are Nynex Mobile Communications Company, Cellular Communications, Inc. ("Cellular One"), Bell Atlantic Mobile Systems, Vanguard Cellular Systems and US Cellular, all of whom are cellular carriers. None of these customers individually accounted for more than 7.3% of the Company's net sales for such period. In addition, the Company also sells its non-cellular products to mass merchants such as K-Mart, Walmart Stores, Inc., warehouse clubs including Price/Costco, Inc. and OEMs such as Chrysler of Canada, Navistar International Corporation and General Motors 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, Virginia, Sparks, Nevada and Canada and from leased facilities located in Hauppauge, New York and Los Angeles, California.

Retail

As of November 30, 1995, the Company operated approximately 30 retail outlets and licensed its trade name to 5 additional retail outlets in selected markets in the United States 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 ("H&H"). In addition to Audiovox products, these outlets sell competitive products such as Motorola and Nokia.

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 5 licensee relationships, the licensee receives the majority of the activation commissions, and the Company retains the majority of 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 an allowance to provide for the estimated liability for return of activation commissions associated with such deactivations. See Note 1(1) of Notes to Consolidated Financial Statements. 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 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 November 30, 1995, the Company had agency contracts with the following carriers: Bell Atlantic Mobile Systems, Inc., BellSouth Mobility, Inc., 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. Dependant 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. Dependent 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. The Company does not participate in the day-to-day management of these joint ventures.

As of November 30, 1995, the Company had a 33.33% ownership interest in TALK Corporation (TALK) which holds world-wide distribution rights for product manufactured by Shintom Co., Ltd. (Shintom). These products include cellular telephones, video recorders and players and automotive sound products. TALK has granted Audiovox exclusive distribution rights on all wireless personal communication products for all countries except Japan, China, Thailand, and several mid-eastern countries. Additionally, the Company had 50% non-controlling ownership in four other companies: Protector Corporation (Protector) which acts as a distributor of chemical protection treatments, Audiovox Specialty Markets Co., L.P. (ASMC), which acts as a distributor

to specialized markets for RV's and van conversions, of televisions and other automotive sound, security and accessory products, Audiovox Pacific Pty., Limited (Audiovox Pacific) which distributes cellular telephones and automotive sound and security products in Australia and New Zealand, and G.L.M. Wireless Communications, Inc. (G.L.M.) which is in the cellular telephone, pager and communications business.

Effective December 1, 1993, the Company acquired the remaining 50% interest in H&H for a warrant to purchase 50,000 shares of the Company's Class A Common Stock. See Note 2 of Notes to Consolidated Financial Statements.

Customers

No customer of the Company accounted for more than 10% of the Company's net sales for fiscal 1995.

Suppliers

The Company purchases its cellular and non-cellular products from manufacturers located in several Pacific Rim countries, including Japan, China, Korea, Taiwan and Singapore, 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 or inspection offices in Taiwan, Korea 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.

Since 1984, the principal supplier of the Company's wholesale cellular telephones has been Toshiba Corporation ("Toshiba"), accounting for approximately 47%, 45% and 44% of the total dollar amount of all product purchases by the Company, during the fiscal years ended November 30, 1993, 1994 and 1995, respectively. In 1994, Toshiba competed directly with the Company in the United States by marketing cellular telephone products through Toshiba's United States distribution subsidiary. As of November 30, 1995, Toshiba announced it will no longer distribute cellular telephone products through its subsidiary in the United States. Toshiba continues to sell products to the Company as an original equipment customer. 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, Alcatel Radiotelephone ("Alcatel"), Dancall Telecom A/S ("Dancall") and TALK. 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. In addition, the Company believes that

alternative sources of supply are currently available.

Competition

The Company's wholesale business is highly competitive in all its product lines, each competing with a number of well-established companies that manufacture and sell products similar to those of the Company. Specifically, the cellular market place is driven by current selling prices, which also affects the carrying value of inventory on hand. Additionally, the Custom SPS line competes against factory-supplied radios. Service and price are the major competitive factors in all product lines. The Company believes that it is a leading supplier to the cellular market primarily as a result of the performance of its products and the service provided by its distribution network. The Company's retail business is also highly competitive on a product basis. In addition, since the Company acts as an agent for cellular service providers, these cellular service providers must also compete in their own markets which are also highly competitive. The Company's retail performance is, therefore, also based on the carriers' ability to compete.

Employees

At November 30, 1995, the Company employed approximately 872 people.

Executive Officers of the Registrant

The executive officers of the registrant are listed below. All officers of the Company are elected by the Board of Directors to serve one-year terms. There are no family relationships among officers, or any arrangement or understanding between any officer and any other person pursuant to which the officer was selected. Unless otherwise indicated, positions listed in the table have been held for more than five years.

Name	Age	Current Position
John J. Shalam	62	President and Chief Executive Officer and Director
Philip Christopher	47	Executive Vice President and Director
Charles M. Stoehr	49	Senior Vice President, Chief Financial Officer and Director
Patrick M. Lavelle	44	Vice President and Director
Martin Novick	60	Vice President and Director
Chris L. Johnson	44	Vice President, Secretary
Ann M. Boutcher	45	Vice President and Director

John J. Shalam has served as President and Chief Executive Officer and a director of the Company since 1960. Mr. Shalam also serves as president and a director of most of the Company's operating subsidiaries.

Philip Christopher, Executive Vice President of the Company, has been with the Company since 1970 and has held his current position since 1983. Prior thereto, he was Senior Vice President of the Company. Mr. Christopher also has been a director of the Company since 1973 and, in addition, serves as an officer and a director of most of the Company's operating subsidiaries.

Charles M. Stoehr has been Chief Financial Officer of the Company 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.

Patrick M. Lavelle has been a Vice President of the Company since 1982. In 1991, Mr. Lavelle was elected Vice President, with responsibility for marketing and selling the Company's automotive accessory and automotive sound line of products. Mr. Lavelle was elected to the Board of Directors in 1993.

Martin Novick has been a Vice President of the Company since 1971 and has been a director since 1987. In 1991, Mr. Novick was elected Vice President, with responsibility for the sale of auto sound products to mass merchandisers.

Chris L. Johnson has been a Vice President of the Company since 1986 and Secretary since 1980. Ms. Johnson has been employed by the Company in various positions since 1968 and was a director of the Company from 1987 to 1993.

Ann M. Boutcher has been a Vice President of the Company since 1984. Ms. Boutcher's responsibilities include the development and implementation of the Company's advertising, sales promotion and public relations programs. Ms. Boutcher was elected to the Board of Directors in 1995.

Item 2 - Properties

As of November 30, 1995, the Company leased a total of fifty-five operating facilities located in fourteen states and two Canadian provinces. These facilities serve as offices, warehouses, distribution centers or retail locations. Additionally, the Company utilizes approximately 115,000 square feet of public warehouse facilities. Management believes that it has sufficient, suitable operating facilities to meet the Company's requirements.

Item 3 - 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. In February 1996, the Company has settled this action with the plaintiffs.

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 consolidated financial position.

Item 4 - Submission of Matters to a Vote of Security Holders

No matters were submitted to a vote of security holders during the fourth quarter of fiscal 1995.

PART II

Item 5 - Market for the Registrant's Common Equity and Related
Stockholder Matters

Summary of Stock Prices and Dividend Data

Class A Common Shares of Audiovox are traded on the American Stock Exchange under the symbol VOX. No dividends have been paid on the Company's common stock. The Company is restricted by agreements with its financial institutions from the payment of common stock dividends while certain loans are outstanding (see Liquidity and Capital Resources of Management's Discussion and Analysis). There are approximately 2,000 holders of Class A Common Stock and 5 holders of Class B Common Stock.

Class A Common Stock

Fiscal Period	High	Low	Trading Volume	Average Daily
1994				
First Quarter.....	\$18 3/8	\$14 1/4	26,400	
Second Quarter.....	16	11 7/8	32,600	
Third Quarter.....	12 3/4	6 1/4	39,600	
Fourth Quarter.....	9 3/8	6 3/4	19,600	
1995				
First Quarter.....	8 1/2	6 3/8	25,300	
Second Quarter.....	7	5 1/16	13,500	
Third Quarter.....	7 3/8	4 7/16	30,100	
Fourth Quarter.....	6 13/16	4 3/8	21,600	

Item 6 - Selected Financial Data

Years ended November 30, 1991, 1992, 1993, 1994 and 1995

	1991 ----	1992 ----	1993 ----	1994 ----	1995 ----
	(Dollars in thousands, except per share data)				
Net sales	\$327,966	\$343,905	\$389,038	\$486,448	\$500,740
Net income (loss)	(14,658)(a)	7,670(b)	12,224(c)	26,028(e)	(11,883)(g)
Net income (loss) per common share,					
primary	(1.63)	0.85(b)	1.35(c)	2.86(e)	(1.31)
Net income per common share, fully dilated	-	-	1.25(c)	2.20(e)	-
Total assets	137,082	145,917	169,671	239,098	308,428
Long-term obligations, less current					
installments	59,912	55,335	13,610(d)	110,698(f)	142,802
Stockholders' equity	46,696	53,457	65,793	92,034	114,595(h)

NOTE: Certain amounts have been restated as discussed in Note 8 to the consolidated financial statements.

- (a) Includes a pre-tax restructuring charge of \$5.0 million.
- (b) Includes an extraordinary item of \$1.9 million or \$0.21 per share.
- (c) Includes an extraordinary item of \$2.2 million or \$0.24 per share, primary, and \$0.22 per share, fully diluted.
- (d) Long-term debt does not include \$38.8 million of bank obligations which were classified as current.
- (e) Includes a cumulative effect change of (\$178,000) or (\$0.02) per share, primary, and (\$0.01) per share, fully diluted. Also includes a pre-tax gain on sale of an equity investment of \$27.8 million and a gain on public offering of equity investment of \$10.6 million.
- (f) Long-term debt includes the addition of a \$65 million bond offering in 1994.
- (g) Includes a pre-tax charge of \$2.9 million associated with the issuance of warrants, a pre-tax charge of \$11.8 million for inventory write-downs and the down-sizing of the retail operations and a pre-tax gain on the sale of an equity investment of \$8.4 million.
- (h) Includes a \$31.7 million unrealized gain on marketable securities, net.

Item 7 - Management's Discussion and Analysis of Financial Condition and Results of Operations

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 door locks.

Certain reclassifications have been made to the data for periods prior to fiscal 1995 in order to conform to fiscal 1995 presentation. The net sales and percentage of net sales by product line for the fiscal years ended November 30, 1993, 1994 and 1995 are reflected in the following table:

	Years Ended November 30,				1995	
	1993		1994			
	----- (Dollars in thousands) -----					
Cellular product- wholesale	\$189,636	49%	\$237,566	49%	\$260,704	52%
Cellular product- retail	12,281	3	18,198	3	15,470	3
Activation commissions	27,504	7	47,788	10	38,526	8
Residual fees	2,646	1	4,005	1	4,781	1
	-----	-----	-----	-----	-----	-----
Total Cellular	232,067	60	307,557	63	319,481	64
Automotive sound equipment	94,674	24	112,512	23	107,404	21
Automotive security and accessory equipment	57,025	15	64,040	13	73,207	15
Other	5,272	1	2,339	1	648	-
	-----	-----	-----	-----	-----	-----
Total	\$389,038	100%	\$486,448	100%	\$500,740	100%
	=====	=====	=====	=====	=====	=====

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

	Percentage of Net Sales		
	Year Ended November 30,		
	1993	1994	1995
	-----	-----	-----
Net sales:			
Net product sales	92.3%	89.4%	91.4%
Cellular telephone activation commissions	7.0	9.8	7.7
Cellular telephone residual fees	0.7	0.8	0.9
	-----	-----	-----
Net sales	100.0	100.0	100.0
Cost of sales	80.7	82.5	85.9
Gross profit	19.3	17.5	14.1
Selling expense	6.0	6.7	6.9
General and administrative expense	7.2	6.7	7.2
Warehousing, assembly and repair expense	2.2	1.9	1.9
Operating income (loss)	3.9	2.2	(1.9)
Interest expense	1.7	1.3	1.9
Income of equity investments	1.3	0.8	-
Management fees	0.5	0.3	-
Gain on sale of equity investment	-	5.7	1.7
Gain on public offering equity investment	-	2.2	-
Expenses related to issuance of warrants	-	-	0.6
Other expenses, net	0.1	0.2	0.2
Income tax (recovery)	0.8	4.2	(0.6)
Net income (loss)	3.2	5.4	(2.4)

NOTE: Certain amounts have been restated as discussed in Note 8 to the consolidated financial statements.

Results of Operations

Fiscal 1995 Compared to Fiscal 1994

Net sales increased by approximately \$14.3 million, or 2.9%, for fiscal 1995 compared to fiscal 1994. This result was primarily attributable to increases in net sales from cellular telephone products of approximately \$11.9 million, or 3.9%, and automotive security and accessory equipment of approximately \$9.2 million, or 14.3%. These increases were partially offset by a decline in net sales attributable to automotive sound equipment of approximately \$5.1 million or 4.5%.

The improvement in net sales of cellular telephone products was primarily attributable to increased unit sales, partially offset by a decrease in activation commissions. Net sales of cellular telephones increased by approximately 382,000 units, or 46.3%, compared to fiscal 1994, primarily resulting from an

increase in sales of hand-held portable cellular telephones, partially offset by a decline in sales of installed mobile and transportable cellular telephones. The average unit selling price declined approximately 23.4% vs. 1994 as production efficiencies and market competition continues to reduce unit selling prices.

Activation commissions decreased by approximately \$9.3 million, or 19.4%, for fiscal 1995 compared to fiscal 1994. This decrease was primarily attributable to fewer new cellular subscriber activations and partially due to the net reduction of 61 retail outlets operated by the Company. The number of activation commissions decreased 15.5% over fiscal 1994. This decrease in commission revenue was further affected by a 4.7% decrease in average activation commissions paid to the Company. Residual revenues on customer usage increased by approximately \$776,000, or 19.4%, for fiscal 1995, compared to fiscal 1994, due primarily to the addition of new subscribers to the Company's cumulative subscriber base, despite a decrease in current year activations. A majority of the residual income resides with the remaining 30 operating retail locations.

During fiscal 1994, the Company experienced dramatic growth in its Quintex type retail operations. This growth reflected the large increases in cellular telephone sales experienced in the domestic U.S.

During this period, the Company had favorable contracts with several of the major cellular carriers. To capitalize on the growth in the market during 1994, the Company embarked on an expansion program to increase its retail presence in its designated cellular markets. During fiscal 1995, beginning with the first quarter, the market place in which the Quintex retail operations conducted their business was adversely affected by several trends. These trends include a slow down in the growth of the cellular market, a desire by the cellular carriers to lower their acquisition costs with lower payments to its individual agents, increased competition by mass merchandisers and the cellular carriers direct sales force, and the overall economic conditions in the U.S. domestic market. As a result of these trends, the Company decided to reduce its retail presence by closing or disposing of all unprofitable Quintex locations throughout the U.S. The result of this plan was a reduction of outlets from 91 to 30. The cost of this closing was approximately \$4.0 million during fiscal 1995. Of the \$4.0 million charge to income, approximately \$1.5 million is related to inventory write-offs, \$1.8 million is associated with the lease buy-outs, employee severance pay, the write-off of leasehold improvements and other fixed assets and \$700,000 of miscellaneous charges including co-op advertising, deactivation allowances, and anticipated bad debts. The impact of this Quintex reduction program and the overall erosion of the retail market was a decrease in revenue of approximately \$21.0 million for fiscal 1995.

This decrease was due to a decrease in revenues of cellular and non-cellular products of approximately \$12.5 million and a decrease in activation commission revenues of approximately \$9.3 million, which was partially offset by an increase in residuals of \$776,000. During the earlier part of the 1995 fiscal year, prior to the retail program, the Company continued to open and close various retail outlets. During the third quarter of 1995, the Company felt that the erosion of the retail business in certain carrier regions would not allow a return to profitability. It was then decided to close all those locations which had not attained profitability. This further accelerated the reduction of operating revenues and income in the fourth quarter of fiscal 1995. The performance of the retail locations closed during fiscal 1995, which were a part of the retail reduction program and included in the total \$21.0 million decrease in revenues for the entire retail group, is as follows:

	1993	1994	1995
	----	----	----
Net sales	\$14,496	\$25,663	\$18,077
Operating income (loss)	\$ 1,944	\$ 1,159	\$(1,438)

The Company believes that these closures will reduce revenue, as well as operating expenses, primarily in occupancy costs, salaries and commissions, during fiscal 1996. The Company will continue to review its remaining locations and will close them if they do not remain profitable.

Net sales of automotive sound equipment decreased by approximately \$5.1 million, or 4.5%, for fiscal 1995, compared to fiscal 1994. This decrease was attributable primarily to a decrease in sales of products sold to mass merchandise chains, coupled with decreases in auto sound sales to private label customers, new car dealers, products used in the truck and agricultural vehicle markets and several OEM accounts. Net sales of automotive security and accessory products increased approximately \$9.2 million, or 14.3%, for fiscal 1995, compared to fiscal 1994, principally due to increases in sales of vehicle security products and Protector Hardgoods. This increase was partially offset by a reduction in net sales by the Company of recreational vehicle equipment and accessories.

Gross margins declined to 14.1% in fiscal 1995 from 17.5% for fiscal 1994 as a result of lower selling prices and the write-down of the carrying value of inventory of \$9.3 million during the third quarter of 1995. This reflects the overall erosion of gross margins experienced primarily in the cellular product category which resulted in the decision to mark down the carrying value of the Company's cellular inventory. Of the \$9.3 million inventory adjustment, \$8.8 million was in the cellular product category and \$500,000 was in the automotive sound product category in wholesale operations.

Cellular gross margins were 9.8% for fiscal 1995 compared to 14.8% for fiscal 1994. As previously mentioned, the gross margins reflect an \$8.8 million charge for inventory write-downs. In addition, the decline in cellular margins is a result of the continuing decline of unit selling prices due to increased competition and the introduction of lower-priced units. The portable cellular telephone line accounted for the majority of this decrease. The average unit selling price declined 23.4% during the 1995 fiscal year. Likewise, gross profits on unit sales declined 26.7% for the same period. The number of new subscriber activations declined 15.5% to 126,000 for 1995 compared to last year. Average commissions received by the Company from the cellular carriers per activation also declined 4.7% to \$305 for the twelve months ended November 30, 1995 versus last year. These decreases were partially offset by an increase of 19.4% in residual payments received by the Company compared to the same period last year. The Company believes that the cellular market will continue to be a highly-competitive, price-sensitive environment. Increased price competition related to the Company's product could result in downward pressure to the Company's gross margins if the Company is unable to obtain competitively-priced product from its suppliers or result in additional adjustments to the carrying value of the Company's inventory.

Automotive sound margins decreased to 17.5% from 18.7% for the fiscal year ended November 30, 1995 compared to last year. The decrease in automotive sound margins was primarily in the AV product line, partially offset by increases in the Heavy Duty Sound product lines. Automotive accessory margins decreased to 27.9% for 1995 from 29.1% in 1994. These decreases were primarily in the AA security product line, partially offset by an increase in margins in Prestige security products and Protector Hardgoods.

Total operating expenses increased by approximately \$6.1 million or 8.1% for the twelve months ended November 30, 1995 compared to last year. A major component of this increase was the third quarter 1995 charge for the downsizing of the Company's retail operations. Excluding this charge, operating overhead increased \$3.6 million for fiscal 1995 compared to the same period last year.

Warehousing, assembly and repair expenses increased approximately \$441,000, or 4.7%, for 1995 compared to 1994. The increase for the twelve months was primarily in field warehousing expenses and travel. Selling expenses increased approximately \$2.2 million, or 6.8%, compared to last year. Advertising and other promotional marketing programs accounted for the majority of the increase in fiscal 1995. General and administrative expenses increased \$3.4 million, or 10.5%, for 1995 compared to last year. A provision for costs associated with the down-sizing of the retail group was the primary component of this increase. This provision included costs for the buy-out of leases, the write-off of leasehold improvements, severance pay and other charges necessary to close and consolidate the retail operations. Other increases

were in professional fees, bad debt and expenses associated with the Company's overseas buying offices.

Management fees and related income and equity in income from joint venture investments decreased by approximately \$15.5 million for 1995, as compared to 1994, principally due to CellStar Corporation ("CellStar") as detailed in the following table:

	1994			1995		
	Management Fees	Equity Income (Loss)	Total	Management Fees	Equity Income (Loss)	Total
CellStar	-	\$13,958	\$13,958	-	\$ 2,151	\$ 2,151
ASMC	-	932	932	-	819	819
G.L.M.	-	-	-	\$ 14	-	14
Pacific Protector	\$ 435	242	677	186	21	207
TALK	1,108	-	1,108	-	-	-
	-	(819)	(819)	-	(2,837)	(2,837)
	-----	-----	-----	-----	-----	-----
	\$1,543	\$14,313	\$15,856	\$ 200	\$ 154	\$ 354
	=====	=====	=====	=====	=====	=====

NOTE: Certain amounts have been restated as discussed in Note 8 to the consolidated financial statements.

During 1994, the Company sold shares of CellStar, resulting in a pre-tax gain on sale of \$27.8 million. Also in 1994, the Company recorded a \$10.6 million gain on the carrying value of the investment in CellStar after their public offering. This event did not repeat in 1995. In addition, in 1995, the Company sold 1,500,000 shares of CellStar Common Stock. The gain on the sale of these securities, before income taxes, was approximately \$8.4 million. Since the Company's ownership in CellStar is less than 20%, the Company can no longer account for CellStar under the equity method of accounting. The decrease in Audiovox Pacific is due to an overall decline in gross profits, as the cellular market in Australia experienced the same competitive factors which exist in the United States. As a result, Audiovox Pacific recorded an inventory write-down of \$800,000 during 1995, 50% of which resulted in the Company recording lower income from equity investments. TALK, which commenced operations during the latter part of 1994, continued to experience losses, primarily due to ongoing start-up costs.

Interest expense and bank charges increased by \$3.2 million, or 48.3%, compared to 1994 as a result of an increase in interest costs from increased borrowing to support higher levels of inventory purchases and asset financing. Other expenses increased approximately \$3.0 million primarily due to \$2.9 million in costs associated with the issuance of stock warrants for no monetary consideration to certain holders of the Company's convertible subordinated debentures. This one-time, non-cash charge to earnings is offset by a \$2.9 million increase in paid in capital. Therefore, there is no effect on total shareholders' equity.

For fiscal 1995, the Company recorded an income tax recovery

of approximately \$2.8 million, compared to a provision of approximately \$20.3 million for fiscal 1994. The effective income tax recovery rate for 1995 was negatively impacted primarily due to the non-deductibility of losses in the Company's Canadian operations which can no longer be carried-back, the non-deductibility of costs associated with the issuance of the stock warrants and undistributed earnings from equity investments.

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 Minivox(TM) 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. 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 \$9.1 million, or 39.3%, 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 \$6.2 million (68.1%) of the increase over fiscal 1994. 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 \$4.6 million, or 16.5%, 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 \$4.0 million (87.0%) 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 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
ASMC	-	841	841	-	932	932
H & H	70	(6)	64	-	-	-
Pacific	613	186	799	435	242	677
Protector	-	-	-	1,108	-	1,108
TALK	-	-	-	-	(819)	(819)
	<u>\$1,903</u>	<u>\$4,948</u>	<u>\$6,851</u>	<u>\$1,543</u>	<u>\$14,313</u>	<u>\$15,856</u>

The increase in CellStar is 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 ASMC is due to an increase in sales and profitability by the venture. The decrease in H&H is 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 is 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 product 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 commenced operations in October 1994. From October 1994 through November 1994, all activity recorded by TALK was related to start-up operations. The Company believes that, as a new operation, there will be additional start-up costs 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 11 of Notes to Consolidated Financial Statements.

Liquidity and Capital Resources

The Company's cash position at November 30, 1995 was \$1.6 million above the November 30, 1994 level. Operating activities used approximately \$40.2 million, primarily due to increases in accounts receivable, inventory, the gain on the sale of 1,500,000 shares of CellStar and provision for deferred income taxes. This was partially offset by increases in income taxes payable, depreciation and amortization and expenses associated with the issuance of warrants. Investing activities provided approximately \$14.8 million, primarily from the net proceeds of the partial sale of CellStar. This source of cash was partially offset by the purchase of property, plant and equipment. Financing activities provided approximately \$27.0 million, primarily from increased borrowings under line of credit agreements and documentary acceptances.

In December 1993, CellStar, the successor to National Auto Center, Inc. (National) and Audiomex Export Corp., 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 approximately \$10.69 per share and received aggregate net proceeds of \$29.4 million (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 \$17.8 million. In addition, the Company recorded a gain, before provision for income taxes, of \$10.6 million on the increase in the carrying value of its remaining shares of CellStar Common Stock due to the CellStar Offering in 1994.

Of the proceeds received by CellStar from its initial public offering, \$13.7 million was paid to the Company in satisfaction of amounts owed to the Company by CellStar 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 granted to the other 50% investor in CellStar two options to purchase up to an aggregate of 1,750,000 shares of CellStar Common Stock owned by the Company, 1,500,000 of which was exercised in full on June 1, 1995 at an exercise price of \$11.50 per share. As a result, the Company recorded a gain, before provision for income taxes, of \$8.4 million. This reduced the Company's ownership in CellStar below 20% and, as such, the Company will no longer account for CellStar under the equity method of accounting. The remaining 2,375,000 CellStar shares owned by the Company will be accounted for as an investment in marketable equity securities. As discussed in Note 6 to the consolidated financial statements, Financial Accounting Standards Board (FASB) Statement No. 115 (Statement 115) addresses the accounting and reporting for investments in equity securities that have readily determinable fair values and for all investments in debt securities. Based upon the closing market price of CellStar on November 30, 1995, the increase to equity as required by FASB 115 is \$31.7 million, net of deferred taxes.

On March 15, 1994, the Company completed the sale of \$65 million 6 1/4% Convertible Subordinated Debentures due 2001. 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.

A portion of the net proceeds of the offering was used to repay existing indebtedness and a prepayment premium. 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. 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.

On May 5, 1995, the Company entered into an amended and restated Credit Agreement ("Credit Agreement") with five banks, including Chemical Bank which acts as agent for the bank group, which provides that the Company may obtain credit through direct borrowings and letters of credit. The obligations of the Company under the Credit Agreement continue to be guaranteed by certain of the Company's subsidiaries and are secured by accounts receivable and inventory of the Company and those subsidiaries. The obligations are also secured by a pledge agreement entered into by the Company for 1,075,000 shares of CellStar Common Stock. Availability of credit under the Credit Agreement is in a maximum aggregate amount of \$95.0 million, is subject to certain conditions and is based upon a formula taking into account the amount and quality of its accounts receivable and inventory. The Credit Agreement contains several covenants requiring, among other things, a minimum level of net worth and working capital required to be maintained at November 30, 1995 of \$92.5 million and \$125.0 million, respectively. As of November 30, 1995, the Company's financial condition satisfied these requirements, however, did not satisfy the covenant requiring net income of \$2.5 million for the year ended November 30, 1995. Non-compliance with this covenant was waived. Subsequent to November 30, 1995, the Company amended the Credit Agreement, effective December 22, 1995 and February 9, 1996, which provided for, among other things, increased interest rates, which may be reduced under certain circumstances, and a change in the criteria for and method of calculating certain financial covenants in the future.

On May 9, 1995, the Company issued 1,668,875 warrants in a private placement, with underlying shares which may be purchased pursuant to an option on the Chief Executive Officer's personal stock holdings. Each warrant is convertible into one share of class A common stock at \$7 1/8, subject to adjustment under certain circumstances. The warrants were issued to the beneficial holders, as of June 3, 1994, of \$57.6 million of the Company's 6 1/4% convertible subordinated Debentures due 2001, in exchange for a release of any claims such holder may have against the Company, 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 for each \$1,000 of principal amount of debentures. 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. Subsequent to November 30, 1995, the Company filed a registration statement for the warrants and the underlying common stock pursuant to a

registration rights agreement dated as of May 9, 1995, between the Company and the purchasers of the warrants.

On May 9, 1995, John J. Shalam, Chief Executive Officer of the Company, granted the Company an option to purchase 1,668,875 shares of class A common stock from his personal holdings. The exercise price of this option is \$7 1/8 plus the tax impact, if any, should the exercise of this option be treated as dividend income rather than capital gains to Mr. Shalam. The independent directors of the Company may elect to issue shares from the Company instead of exercising the option on Mr. Shalam's shares if such directors determine it is in the best interest of the shareholders and the Company.

On February 9, 1996, the Company's 10.8% Series AA \$76,923, and 11.0% Series BB \$5.4 million, Convertible Debentures matured. As of February 9, 1996, the holders of only \$1.1 million of the Series BB Convertible Debentures exercised their right to convert into 206,046 shares of common stock. The remaining balance of Series AA and Series BB were paid, thereby extinguishing the remaining conversion features of these two debentures.

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 foreseeable future.

Impact of Inflation and Currency Fluctuation

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

Seasonality

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

Recent Accounting Pronouncements

The Financial Accounting Standards Board (FASB) has issued Statement No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed of" (Statement 121), in March 1995. Under Statement 121, the Company is required to assess the recoverability and carrying amount of long-lived assets, certain identifiable intangible assets and goodwill related to those assets, whenever events or changes in circumstances indicate impairment. Statement 121 provides the methodology for the measurement of such impairment to be recognized in the financial statements. The provisions of Statement 121 are effective for financial statements for fiscal years beginning after December 15, 1995 and earlier adoption is permitted. The provisions of Statement 121 must be implemented no later than fiscal year 1997. The effect of initially applying these provisions shall be reported in the period in which the recognition criteria are first applied and met or, in the case of long-lived assets held for disposal, as the cumulative effect of a change in accounting principle at the date of adoption. The Company believes that the implementation will not have a material impact on the Company's consolidated financial position.

The FASB has issued Statement No. 123, "Accounting for Stock-Based Compensation" (Statement 123), in October 1995. Under Statement 123, the Company is required to choose either the new fair value method or the current intrinsic value method of accounting for its stock-based compensation arrangements. Using the fair value method, the Company would measure the compensation cost recognized in the financial statements based upon the estimated fair value of the stock-based compensation arrangements as of the date they are granted. The intrinsic value method, under APB Opinion No. 25, "Accounting for Stock issued to Employees", requires the recognition of compensation cost only if such value does not exceed the market value of the underlying stock on the measurement date. The Company will continue to account for all employee stock-based compensation plans under APB Opinion No. 25 and adopt the provisions of Statement 123, as required, for all stock-based arrangements issued to non-employees. The accounting requirements of Statement 123 are effective for transactions entered into in fiscal years beginning after December 15, 1995 and the disclosure, including pro forma, requirements are effective for financial statements for fiscal years beginning after December 15, 1995. Even though the Company has opted not to change its method of accounting, Statement 123 requires pro forma disclosures of net income and earnings per share computed as if the fair value method has been applied. Statement 123 must be implemented no later than fiscal year 1997. As of November 30, 1995, the Company does not have any such stock compensation plans which would require the preparation of the pro forma disclosure provisions of Statement 123.

The FASB has issued Statement No. 114, "Accounting by Creditors for Impairment of a Loan" (Statement 114), in May 1993.

An amendment of Statement 114 was issued in October 1994 as Statement No. 118, "Accounting by Creditors for Impairment of a Loan - Income Recognition and Disclosures" (Statement 118). Under Statement 114, as amended by Statement 118, the Company is required to measure impaired loans based upon the present value of expected future cash flows discounted at the loan's effective interest rate or, as a practical expedient, at the loan's observable market price or the fair value of the collateral if the loan is collateral dependent. Statement 114 amends FASB Statement No. 5, "Accounting for Contingencies", and FASB Statement No. 15, "Accounting by Debtors and Creditors for Troubled Debt Restructuring". The provisions of Statement 114 as amended by Statement 118 must be implemented no later than fiscal year 1996. Previously issued annual financial statements shall not be restated upon adoption of these provisions. The Company believes that the implementation will not have a material impact on the Company's consolidated financial position.

Item 8-Consolidated Financial Statements and Supplementary Data

The consolidated financial statements of the Company as of November 30, 1994 and 1995 and for each of the years in the three-year period ended November 30, 1995, together with the independent auditors' report thereon of KPMG Peat Marwick LLP, independent auditors, are filed under this Item 8.

Selected unaudited, quarterly financial data of the Registrant for the years ended November 30, 1995 and 1994 appears below:

	QUARTER ENDED			
	Feb. 28 -----	May 31 -----	Aug. 31 -----	Nov. 30 -----
1995				
Net sales	\$131,391	105,811	112,177	151,361
Gross profit	22,586	19,270	7,406 (b)	21,480
Operating expenses	20,723	19,221	22,552 (c)	17,980
Income (loss) before provision for (recovery of) income taxes	1,083	(4,240)	(9,729)(d)	(1,800)
Provision for (recovery of) income taxes	547	(467)	(3,344)	461
Net income (loss)	536	(3,773)	(6,385)	(2,261)
Net income (loss) per share (primary)	0.06	(0.42)	(0.71)	(0.25)
Net income per common share (fully diluted)	0.06	(0.42)	(0.71)	-
1994				
Net sales	\$115,337	116,272	109,719	145,120
Gross profit	22,178	21,678	20,219	20,836
Operating expenses	16,923	18,421	17,797	21,284
Income (loss) before provision for income taxes and extra ordinary item	42,640 (a)	2,439	2,533	(1,078)
Provision for (recovery of) for income taxes	18,477	1,002	1,013	(164)
Income (loss) before cumulative effect of change in accounting principle	24,163	1,437	1,520	(914)
Cumulative effect of change in accounting principle	(178)	-	-	-
Net income (loss)	23,985	1,437	1,520	(914)
Net income (loss) per share (primary):				
Income (loss) before cumulative effect	2.63	0.16	0.17	(0.10)
Cumulative effect	(0.02)	-	-	-
Net income (loss)	2.61	0.16	0.17	(0.10)
Net income (loss) per common share (fully diluted):				
Income (loss) before cumulative effect	2.38	0.15	0.16	(0.10)
Cumulative effect	(0.02)	-	-	-
Net income (loss)	2.36	0.15	0.16	(0.10)

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

NOTE: Certain amounts have been restated as discussed in Note 8 to the consolidated financial statements.

- (a) Includes a gain on the sale of an equity investment of \$27.8 million and a gain on public offering of an equity investment of \$10.6 million.
- (b) Includes a \$9.3 million inventory write-down to market.
- (c) Includes a \$2.5 million expense due to the down-sizing of the retail operations.
- (d) Includes a \$2.9 million charge associated with the issuance of warrants and a \$8.4 million gain on the sale of an equity investment.

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, 1994 and 1995, and the related consolidated statements of income (loss), stockholders' equity and cash flows for each of the years in the three-year period ended November 30, 1995. 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, 1994 and 1995, and the results of their operations and their cash flows for each of the years in the three-year period ended November 30, 1995, in conformity with generally accepted accounting principles.

As discussed in Note 1(g) to the consolidated financial statements, the Company adopted the provisions of the Financial Accounting Standards Board's (FASB) Statement of Financial Accounting Standards (SFAS) No. 115, "Accounting for Certain Investments in Debt and Equity Securities", in 1995. As also discussed in Note 1(p), the Company adopted the provisions of the FASB's SFAS No. 109, "Accounting for Income Taxes", in 1994.

s/KPMG Peat Marwick LLP
KPMG PEAT MARWICK LLP

Jericho, New York

February 12, 1996, except for Paragraph 7 on Note 8 which is as of March 6, 1998

AUDIOVOX CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
NOVEMBER 30, 1994 AND 1995
(IN THOUSANDS, EXCEPT SHARE DATA)

	1994	1995
	-----	-----
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 5,495	\$ 7,076
Accounts receivable, net	94,242	96,930
Inventory, net	83,430	100,422
Receivable from vendor	-	5,097
Prepaid expenses and other current assets	6,065	5,443
Deferred income taxes	2,247	5,287
Restricted cash	-	5,959
	-----	-----
Total current assets	191,479	226,214
Restricted cash	6,559	-
Investment securities	-	62,344
Equity investments	25,902	5,900
Property, plant and equipment, net	6,180	6,055
Debt issuance costs, net	4,840	4,235
Excess cost over fair value of assets acquired and other intangible assets, net	1,032	943
Other assets	3,106	2,737
	-----	-----
	\$ 239,098	\$ 308,428
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 21,088	\$ 17,844
Accrued expenses and other current liabilities	13,063	16,800
Income taxes payable	834	2,455
Bank obligations	1,084	761
Documentary acceptances	-	7,120
Current installments of long-term debt	159	5,688
	-----	-----
Total current liabilities	36,228	50,668
Bank obligations	29,100	49,000
Deferred income taxes	5,945	23,268
Long-term debt, less current installments	75,653	70,534
	-----	-----
Total liabilities	146,926	193,470
Minority interest	138	363
	-----	-----
Stockholders' equity:		
Preferred stock	2,500	2,500
Common Stock:		
Class A; 30,000,000 authorized; 6,777,788 issued	68	68
Class B; 10,000,000 authorized; 2,260,954 issued	22	22
Paid-in capital	39,715	42,876
Retained earnings	50,254	38,371
Cumulative foreign currency translation and adjustment	(525)	(963)
Unrealized gain on marketable securities, net	-	31,721
	-----	-----
Total stockholders' equity	92,034	114,595
	-----	-----
Commitments and contingencies		
Total liabilities and stockholders' equity	\$ 239,098	\$ 308,428
	=====	=====

Certain amounts have been restated as discussed in Note 8 to the consolidated financial statements.

SEE ACCOMPANYING NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

AUDIOVOX CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME (LOSS)
YEARS ENDED NOVEMBER 30, 1993, 1994 AND 1995
(IN THOUSANDS, EXCEPT PER SHARE DATA)

	1993	1994	1995
Net sales	\$389,038	\$486,448	\$500,740
Cost of sales (including an inventory write-down to market in 1995 of \$9,300)	314,118	401,537	429,998
Gross profit	74,920	84,911	70,742
Operating expenses:			
Selling	23,191	32,299	34,489
General and administrative	28,096	32,740	36,160
Warehousing, assembly and repair	8,479	9,386	9,827
	59,766	74,425	80,476
Operating income (loss)	15,154	10,486	(9,734)
Other income (expenses):			
Interest and bank charges	(6,504)	(6,535)	(9,694)
Equity in income of equity investments	4,948	3,748	154
Management fees and related income	1,903	1,543	200
Gain on sale of equity investment	-	27,783	8,435
Gain on public offering of equity investment	-	10,565	-
Expense related to issuance of warrants	-	-	(2,921)
Other, net	(259)	(1,056)	(1,126)
	88	36,048	(4,952)
Income (loss) before provision for (recovery of) income taxes, extra-ordinary item and cumulative effect			
of a change in an accounting principle	15,242	46,534	(14,686)
Provision for (recovery of) income taxes	5,191	20,328	(2,803)
Income (loss) before extraordinary item and cumulative effect of a change in accounting for income taxes	10,051	26,206	(11,883)
Extraordinary item - tax benefits from utilization of net operating loss carryforwards	2,173	-	-
Cumulative effect of change in accounting for income taxes	-	(178)	-
Net income (loss)	\$ 12,224	\$ 26,028	\$(11,883)
Net income (loss) per common share (primary):			
Income (loss) before extraordinary item	\$ 1.11	\$ 2.88	\$ (1.31)
Extraordinary item	\$ 0.24	-	-
Cumulative effect of change in accounting for income taxes	-	\$ (.02)	-
Net income (loss)	\$ 1.35	\$ 2.86	\$ (1.31)
Net income (loss) 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	-	\$ (.01)	-
Net income (loss)	\$ 1.25	\$ 2.20	-

Certain amounts have been restated as discussed in Note 8 to the consolidated financial statements.
SEE ACCOMPANYING NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

AUDIOVOX CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
YEARS ENDED NOVEMBER 30, 1993, 1994 AND 1995
(IN THOUSANDS)

	Preferred stock -----	Common stock -----	Paid-In capital -----	Unearned compensation -----	Retained earnings -----	Cumulative foreign currency translation adjustment -----	Unrealized Gain (Loss) on Marketable Securities -----	Total Stockholders' equity -----
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)
Issuance 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
Net loss	-	-	-	-	(11,883)	-	-	(11,883)
Equity adjustment from foreign currency translation	-	-	-	-	-	(438)	-	(438)
Unearned compensation relating to grant of options and non- performance restricted stock	-	-	62	(62)	-	-	-	-
Compensation expense	-	-	46	194	-	-	-	240
Options and non-perform- ance restricted stock forfeitures due to employee terminations	-	-	(81)	81	-	-	-	-
Issuance of warrants	-	-	2,921	-	-	-	-	2,921
Implementation of change in accounting for debt and equity securities, net of tax effect of \$24,517	-	-	-	-	-	-	40,004	40,004
Unrealized loss on marketable securities, net of tax effect of \$(5,076)	-	-	-	-	-	-	(8,283)	(8,283)
Balances at November 30, 1995	\$2,500 =====	\$90 ===	\$43,286 =====	\$(410) =====	\$38,371 =====	\$(963) =====	\$31,721 =====	\$114,595 =====

Certain amounts have been restated as discussed in Note 8 to the consolidated financial statements.

SEE ACCOMPANYING NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

AUDIOVOX CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED NOVEMBER 30, 1993, 1994 AND 1995
(IN THOUSANDS)

	1993	1994	1995
Cash flows from operating activities:			
Net income (loss)	\$ 12,224	\$ 26,028	\$(11,883)
Adjustments to reconcile net income (loss)			
to net cash used in operating activities:			
Depreciation and amortization	3,863	4,299	4,100
Provision for bad debt expense	230	(21)	1,816
Equity in income of equity investments	(4,948)	(3,748)	(154)
Minority interest	(22)	96	225
Gain on sale of equity investment	-	(27,783)	(8,435)
Gain on public offering of equity investment	-	(10,565)	-
Provision for (recovery of) deferred income taxes, net of extraordinary item	(2,311)	6,140	(5,158)
Provision for unearned compensation	-	268	240
Expense relating to issuance of warrants	-	-	2,921
Loss on disposal of property, plant and equipment, net	-	-	246
Cumulative effect of change in accounting for income taxes	-	178	-
Changes in:			
Accounts receivable	(6,266)	(20,337)	(4,468)
Note receivable from equity investment	-	-	(5,097)
Inventory	(13,849)	(18,701)	(16,950)
Income taxes receivable	451	229	-
Accounts payable, accrued expenses and other current liabilities	8,076	3,675	488
Income taxes payable	1,632	(1,395)	1,623
Prepaid expenses and other, net	(193)	(4,171)	250
Net cash used in operating activities	(1,113)	(45,808)	(40,236)
Cash flows from investing activities:			
Purchase of equity investments	-	(6,016)	-
Purchases of property, plant and equipment, net	(1,346)	(2,611)	(2,722)
Notes receivable from equity investment	-	7,973	-
Net proceeds from sale of equity investment	-	29,433	17,250
Purchase of business	-	(148)	-
Proceeds from distribution from equity investment	-	-	267
Net cash (used in) provided by investing activities	(1,346)	28,631	14,795
Cash flows from financing activities:			
Net borrowings (repayments) under line of credit agreements	4,616	(8,613)	19,577
Net borrowings (repayments) under documentary acceptances	2,832	(10,833)	7,120
Principal payments on long-term debt	(6,127)	(17,411)	(11)
Debt issuance costs	(177)	(5,315)	(714)
Proceeds from exercise of stock options	176	170	-
Principal payments on capital lease obligation	(165)	(175)	(233)
Proceeds from issuance of long-term debt	-	65,000	675
Proceeds from issuance of notes payable	-	10,045	-
Payment of note payable	-	(5,000)	-
Restricted cash	-	(6,559)	-
Proceeds from release of restricted cash	-	-	600
Net cash provided by financing activities	1,155	21,309	27,014
Effect of exchange rate changes on cash	(10)	(9)	8
Net increase (decrease) in cash and cash equivalents	(1,314)	4,123	1,581
Cash and cash equivalents at beginning of period	2,686	1,372	5,495
Cash and cash equivalents at end of period	\$ 1,372	\$ 5,495	\$ 7,076

Certain amounts have been restated as discussed in Note 8 to the consolidated financial statements.

SEE ACCOMPANYING NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

AUDIOVOX CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOVEMBER 30, 1993, 1994 AND 1995

(DOLLARS IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)

(1) Summary of Significant Accounting Policies

(a) Description of Business

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

(b) Principles of Consolidation

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

(c) Cash Equivalents

Cash equivalents of \$448 and \$1,337 at November 30, 1994 and 1995 consisted of short-term investments, with terms of less than three months. For purposes of the statements of cash flows, the Company considers investments with original maturities of three months or less to be cash equivalents.

(d) Cash Discount and Co-operative Advertising Allowances

The Company accrues for estimated cash discounts and trade and promotional co-operative advertising allowances

(Continued)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED

at the time of sale. These discounts and allowances are reflected in the accompanying consolidated financial statements as a reduction of accounts receivable as they are utilized by customers to reduce their trade indebtedness to the Company.

(e) Inventory

Inventory consists principally of finished goods and is stated at the lower of cost (primarily on a weighted moving average basis) or market. During the third quarter of 1995, the Company recorded a charge of approximately \$9,300 to accurately reflect the Company's inventory at the lower of cost or market.

(f) Restricted Cash

Restricted cash represents collateral for an irrevocable standby letter of credit in favor of the Series AA and Series BB Convertible Debentures (Note 10). Currently, the cash is invested in short-term investments.

(g) Investment Securities

The Company adopted the provisions of the FASB's SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities" (Statement 115) at December 1, 1994. Under Statement 115, the Company classifies its debt and equity securities in one of three categories: trading, available-for-sale, or held-to-maturity. Trading securities are bought and held principally for the purpose of selling them in the near term. Held-to-maturity securities are those securities in which the Company has the ability and intent to hold the security until maturity. All other securities not included in trading or held-to-maturity are classified as available-for-sale.

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

(Continued)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED

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

(h) Debt Issuance Costs

Costs incurred in connection with the issuance of the Convertible Subordinated Debentures and restructuring of the Series A and Series B Convertible Subordinated Notes (Note 10) and the restructuring of bank obligations (Note 9(a)) have been capitalized. These charges are amortized over the lives of the respective agreements. Amortization expense of these costs amounted to \$856, \$1,225 and \$1,319 for the years ended November 30, 1993, 1994 and 1995, respectively.

(i) Property, Plant and Equipment

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

Buildings	20 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.

The Company will adopt the provisions of SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of", on December 1,

(Continued)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED

1996.

(j) Intangible Assets

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

Accumulated amortization approximated \$1,283 and \$1,280 at November 30, 1994 and 1995, respectively. Amortization of the excess cost over fair value of assets acquired and other intangible assets amounted to \$164, \$271 and \$127 for the years ended November 30, 1993, 1994 and 1995, respectively.

On an ongoing basis, the Company reviews the valuation and amortization of its intangible assets. As a part of its ongoing review, the Company estimates the fair value of intangible assets, taking into consideration any events and circumstances which may diminish fair value. The Company will adopt the provisions of SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of", on December 1, 1996.

(k) Equity Investments

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

(l) Cellular Telephone Commissions

Under various agreements, the Company typically receives an initial activation commission for obtaining subscribers for cellular telephone services. Additionally, the agreements typically contain provisions for commissions based upon usage and length of continued subscription. The agreements also typically provide for the reduction or elimination of initial activation commissions if subscribers deactivate service within stipulated periods. The Company has provided a liability for estimated cellular deactivations which is reflected

(Continued)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED

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 \$30,150, \$51,793 and \$43,307 for the years ended November 30, 1993, 1994 and 1995, respectively. Related commissions paid to outside selling representatives for cellular activations are reflected as cost of sales in the accompanying consolidated statements of income (loss) and amounted to \$10,969, \$17,848 and \$15,374 for the years ended November 30, 1993, 1994 and 1995, respectively.

(m) Advertising

The Company expenses the production costs of advertising as incurred and expenses the costs of communicating advertising when the service is received. During the years ended November 30, 1993, 1994 and 1995, the Company had no direct response advertising.

(n) Warranty Expenses

Warranty expenses are accrued at the time of sale based on the Company's estimated cost to repair expected returns for products. At November 30, 1994 and 1995, the reserve for future warranty expense amounted to \$1,665 and \$2,030, respectively.

(o) Foreign Currency

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

(Continued)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED

30, 1993, 1994 and 1995.

During 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. There were no open foreign exchange contracts at November 30, 1994 and 1995.

(p) Income Taxes

Effective December 1, 1993, the Company adopted the provisions of SFAS No. 109, "Accounting for Income Taxes", (Statement 109) and has reported the cumulative effect of that change in the method of accounting for income taxes in the 1994 consolidated statement of income (loss). 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.

(q) Net Income (Loss) Per Common Share

Primary earnings per share are computed based on the weighted average number of common shares outstanding and

(Continued)

AUDIOVOX CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED

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 for the years ended November 30, 1993 and 1994 assumes conversion of all outstanding debentures (Note 10) 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,		
	1993	1994	1995
Primary	9,046,698	9,105,952	9,038,742
Fully diluted	10,077,685	12,769,221	-

(r) Supplementary Financial Statement Information

Advertising expenses approximated \$8,740, \$11,610 and \$13,538 for the years ended November 30, 1993, 1994 and 1995, respectively.

Interest income of approximately \$837, \$540 and \$1,047 for the years ended November 30, 1993, 1994 and 1995, respectively, is included in other in the accompanying consolidated statements of income (loss).

Included in accrued expenses and other current liabilities is \$3,696 and \$4,601 of accrued wages and commissions at November 30, 1994 and 1995, respectively.

(s) Reclassifications

Certain reclassifications have been made to the 1993 and 1994 consolidated financial statements in order to conform to the 1995 presentation.

(Continued)

AUDIOVOX CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED

(2) Business Acquisitions/Dispositions

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. Bnd. (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,		
	1993	1994	1995
Cash paid during the years for:			
Interest	\$5,985	\$ 5,291	\$9,224
Income taxes	\$3,667	\$15,409	\$ 818

During 1993 and 1995, the Company entered into lease agreements to acquire new computer equipment. As a result, capital lease obligations of \$646 and \$86, respectively were incurred (Note 14).

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.

(Continued)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED

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).

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

As of November 30, 1995, the Company recorded an unrealized holding gain relating to available-for-sale marketable equity securities, net of deferred income taxes, of \$31.7 million as a separate component of stockholders' equity (Note 6).

(4) Transactions With Major Suppliers

The Company engages in transactions with Shintom Co., Ltd. (Shintom), a stockholder who owns approximately 3.5% at November 30, 1994 and 1995 of the outstanding Class A Common Stock and all of the outstanding Preferred Stock of the Company. During 1994, the Company formed TALK Corporation (TALK), a 33%-owned joint venture in Japan (Note 8), with Shintom and other companies.

Transactions with Shintom and TALK include financing arrangements and inventory purchases which approximated 4%, 7% and 20% for the years ended November 30, 1993, 1994 and 1995, respectively, of total inventory purchases. At November 30, 1994 and 1995, the Company had recorded \$43 and \$25, respectively, of liabilities due to Shintom and TALK for inventory purchases included in accounts payable. The Company also has documentary acceptance obligations outstanding from TALK as of November 30, 1995 (Note 9(b)).

The Company currently buys a majority of its products from one supplier. Inventory purchases from this supplier approximated 47%, 45% and 44% of total inventory purchases for the years ended November 30, 1993, 1994 and 1995, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED

(5) Accounts Receivable

Accounts receivable is comprised of the following:

	November 30,	
	1994	1995
Trade accounts receivable	\$ 90,225	\$100,556
Receivables from equity investments (Note 8)	9,799	4,196
	-----	-----
	100,024	104,752
Less:		
Allowance for doubtful accounts	1,623	2,707
Allowance for cellular deactivations	1,234	1,725
Allowance for co-operative advertising and cash discounts	2,925	3,390
	-----	-----
	\$ 94,242	\$ 96,930
	=====	=====

The provision for (recovery of) bad debt expense amounted to \$230, (\$21) and \$1,816 for the years ended November 30, 1993, 1994 and 1995, respectively. See Note 15(b) for concentrations of credit risk.

(6) Investment Securities

The Company's investment securities consist primarily of 2,375,000 shares of CellStar Corporation (CellStar) Common Stock, which were classified as available-for-sale marketable equity securities at November 30, 1995. The aggregate fair value of available-for-sale marketable equity securities was \$62.3 million at November 30, 1995, which is comprised of a cost basis of \$11.2 million and a gross unrealized holding gain of \$51.1 million recorded as a separate component of stockholders' equity. A related deferred tax liability of \$19.4 million was recorded at November 30, 1995 as a reduction to the unrealized holding gain included as a separate component of stockholders' equity.

During 1994, the Company granted the majority owner of CellStar (the Investor) an option (the Option) to purchase 250,000 shares of CellStar Common Stock which is exercisable through December 3, 1996, in whole and not in part, at an exercise price of \$13.80 per share. As of November 30, 1995, the Investor has the right to vote up to 1,300,000 shares of CellStar Common Stock owned by the Company pursuant to a voting rights agreement entered into during 1994. The number of shares of CellStar Common Stock the Investor is entitled to vote is subject to reduction to the extent the Investor sells

(Continued)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED

his shares of CellStar Common Stock (with certain exceptions) or exercises the Option. Subsequent to November 30, 1995, the voting rights granted to the Investor by the Company expired. During the term of the Option and the voting rights agreement, the Company cannot transfer its shares of CellStar Common Stock which are held subject to those agreements.

On November 29, 1995, the Company entered into a pledge agreement with its financial institutions, which provided that 1,075,000 shares of CellStar Common Stock be secured as collateral for the bank obligations incurred by the Company (Note 9).

(7) Property, Plant and Equipment

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

	November 30,	
	1994	1995
	-----	-----
Land	\$ 53	\$ 363
Buildings	446	1,491
Furniture, fixtures and displays	3,467	3,581
Machinery and equipment	2,458	2,783
Computer hardware and software	10,981	11,422
Automobiles	649	723
Leasehold improvements	4,003	3,671
	-----	-----
	22,057	24,034
Less accumulated depreciation and amortization	15,877	17,979
	-----	-----
	\$ 6,180	\$ 6,055
	=====	=====

At November 30, 1994 and 1995, included in computer hardware and software, is \$846 and \$937, respectively, pertaining to capital leases. Amortization of such equipment is included in depreciation and amortization of plant and equipment, and accumulated amortization was \$463 and \$729 at November 30, 1994 and 1995, respectively.

Computer software includes approximately \$1,305 and \$383 of unamortized costs as of November 30, 1994 and 1995, 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 \$2,843, \$2,803 and \$2,654 for the years ended November 30,

(Continued)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED

1993, 1994 and 1995, respectively, which includes amortization of computer software costs of \$1,439, \$1,259 and \$922 for the years ended November 30, 1993, 1994 and 1995, respectively.

(8) Equity Investments

As of November 30, 1995, the Company had a 33.33% ownership interest in TALK. Additionally, the Company had 50% non-controlling ownership in four other entities: Protector Corporation (Protector) which acts as a distributor of chemical protection treatments; Audiovox Specialty Markets Co., L.P. (ASMC) which acts as a distributor to specialized markets for RV's and van conversions, of televisions and other automotive sound, security and accessory products; Audiovox Pacific Pty., Limited (Audiovox Pacific) which distributes cellular telephones and automotive sound and security products in Australia and New Zealand; and G.L.M. Wireless Communications, Inc. (G.L.M.) which is in the cellular telephone, pager and communications business in the New York metropolitan area.

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 1993, 1994 and 1995, the Company waived its right to receive its monthly payments pursuant to the agreement and 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 to National Auto Center, Inc. (National) and Audiomex Export Corp. (both 50 % owned equity investments of the Company in 1993), 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 shares of CellStar Common Stock due to the CellStar Offering in 1994.

(Continued)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED

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 granted the Investor an option to purchase up to an aggregate of 1,500,000 shares of CellStar Common Stock owned by the Company, which was exercised in full on June 1, 1995, at an exercise price of \$11.50 per share. As a result, the Company recorded a gain, before provision for income taxes, of \$8.4 million. This reduced the Company's ownership in CellStar below 20% and, as such, the Company will no longer account for CellStar under the equity method of accounting. The remaining 2,375,000 CellStar shares owned by the Company will be accounted for as an investment in marketable equity securities (Note 6).

The following table presents financial information relating to CellStar for the years ended November 30, 1993, 1994 and 1995:

	1993	1994	1995
	(In Thousands)		
Current assets	\$ 81,983	\$170,285	\$271,156
Non-current assets	7,911	16,069	43,765
Current liabilities	74,931	106,617	196,746
Non-current liabilities	7,214	3,095	6,880
Net sales	275,376	518,422	811,915
Gross profit	45,580	69,642	109,841
Net income	7,853	16,248	22,896

In August 1994, the Company invested 600 million Japanese Yen (approximately \$6,000) into a newly-formed company, TALK in exchange for 12,000 shares of TALK, representing a 33% ownership interest. Five million dollars of this investment was financed by a non-recourse note with a third party lender, which provides for the repayment of the note either in cash or by surrendering 10,000 shares in TALK (Note 10). The Company accounts for its investment in TALK under the equity method of accounting. The Company discontinued recording its share of

(Continued)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED

TALK's losses beyond \$1,000, which amount represented the Company's net investment in TALK. Following discussions with the Securities and Exchange Commission, the Company determined to change the manner in which it applied the equity method of accounting for the fiscal year ended November 30, 1995. As a result, the net loss for 1995 has increased from \$9,256 to \$11,883 or from \$1.02 to \$1.31 primary net loss per common share. There was no impact of this restatement on the 1994 consolidated statement of income (loss) as the Company's share of TALK's 1994 losses were previously recorded.

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

On July 31, 1995, the Company purchased a 50% equity investment in a newly-formed company, G.L.M., for approximately \$36 in contributed assets in addition to a \$100 loan payable at 1% above prime which was 8.75% at November 30, 1995, due in fiscal 1996.

The Company received the following management fees and related income from its equity investments:

	1993	November 30, 1994	1995
	-----	-----	-----
CellStar	\$1,220	-	-
Pacific	613	\$ 435	\$ 186
H & H	70	-	-
Protector	-	1,108	-
G.L.M.	-	-	14
	-----	-----	-----
	\$1,903	\$1,543	\$ 200
	=====	=====	=====

The Company's net sales to the equity investments amounted to \$21,368, \$32,630 and \$17,864 for the years ended November 30, 1993, 1994 and 1995, respectively. The Company's purchases from the equity investments amounted to \$2,585, \$5,715 and \$83,858 for the years ended November 30, 1993, 1994 and 1995, respectively. The Company recorded \$668 of outside representative commission expenses for activations and

(Continued)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED

residuals generated by G.L.M. on the Company's behalf during fiscal year 1995 (Note 1(1)).

Included in accounts receivable at November 30, 1994 and November 30, 1995 are trade receivables due from its equity investments aggregating \$8,691 and \$4,182 and management fee receivables of \$1,108 and \$14, respectively. Receivable from vendor represents claims on late deliveries, product modifications and price protection from TALK. Amounts are payable in monthly installments through November 30, 1996 and bear interest at rates which range from 6% to 8%. At November 30, 1994 and 1995, other long-term assets include equity investment advances outstanding and management fee receivables of \$1,138 and \$1,289, respectively. At November 30, 1994 and 1995, included in accounts payable and other accrued expenses were obligations to equity investments aggregating \$207 and \$240, respectively. Documentary acceptance obligations were outstanding from TALK at November 30, 1995 (Note 9(b)).

During 1995, the Company recorded interest income from TALK relating to the receivable from vendor, reimbursement of interest expense incurred under the subordinated loan (Note 10) and other short-term loans made to TALK during 1995 at market interest rates. For the years ended November 30, 1993, 1994 and 1995, interest income earned on equity investment notes and other receivables approximated \$666, \$25 and \$573, respectively. Interest expense on equity investment documentary acceptances approximated \$158 in 1995.

(9) Financing Arrangements

(a) Bank Obligations

During 1993, the Company had established a revolving credit agreement with several financial institutions which was first amended on March 15, 1994. On May 5, 1995, the Company entered into the Second Amended and Restated Credit Agreement (the "Credit Agreement") which superseded the first amendment in its entirety. Under the Credit Agreement, the Company may obtain credit through direct borrowings and letters of credit. The obligations of the Company under the Credit Agreement continue to be guaranteed by certain of the Company's subsidiaries and is secured by accounts receivable and inventory of the Company and those subsidiaries. The obligations are also secured by a pledge agreement entered into by the Company for 1,075,000 shares of

(Continued)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED

CellStar Common Stock (Note 6). Availability of credit under the Credit Agreement is a maximum aggregate amount of \$95 million, subject to certain conditions, and is based upon a formula taking into account the amount and quality of its accounts receivable and inventory. The term of the Credit Agreement is for approximately two years, expiring on February 28, 1997. As a result, bank obligations under the Credit Agreement have been classified as long-term at November 30, 1995.

Outstanding obligations under the Credit Agreement at November 30, 1994 and 1995 were as follows:

	November 30,	
	1994	1995
	-----	-----
Bankers' Acceptances	\$ 7,000	\$16,000
Revolving Credit Notes	400	3,000
Eurodollar Notes	21,700	30,000
	-----	-----
	\$29,100	\$49,000
	=====	=====

Interest on revolving credit notes was .25% above the prime rate which was 8.5% and 8.75% at November 30, 1994 and 1995, respectively. Interest on Eurodollar Notes was 2% above the Libor rate which was approximately 6.2% and 5.1% at November 30, 1994 and 1995, respectively. Interest on bankers' acceptances was 2% above the bankers' acceptance rate which was approximately 6.75% and 6.25% at November 30, 1994 and 1995, respectively. Under the Credit Agreement, the Company is also 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, 1995, the Company was not in compliance with a financial covenant which was waived. As of the date of the issuance of the financial statements, the Company's creditors lost their right to call the bank obligations as of November 30, 1995. Subsequent to November 30, 1995, the Company amended the Credit Agreement, effective December 22, 1995 and February 9, 1996, which provided for, among other things, increased interest rates, which may be reduced under certain circumstances, and a change

(Continued)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED

in the criteria for and method of calculating certain financial covenants in the future. At November 30, 1995, the Company was in compliance with the new covenants.

During 1994, Audiovox Malaysia entered into a revolving credit facility with a local Malaysian bank (Malaysian Credit Agreement) to finance additional working capital needs. As of November 30, 1994 and 1995, the available line of credit for direct borrowing, letters of credit, bankers' acceptances and other forms of credit approximated \$1,200 and \$2,200, respectively. The facilities are secured by two standby letters of credit issued under the Credit Agreement by the Company and is payable upon demand or upon expiration of the standby letters of credit on August 31, 1996. Subsequent to November 30, 1995, the available line of credit under the Malaysian Credit Agreement was increased to \$5,320, and the standby letter of credit issued by the Company was amended to reflect the increase in the line. Outstanding obligations under the Malaysian Credit Agreement at November 30, 1994 and 1995 were approximately \$1,084 and \$761, respectively. Interest on direct borrowings was 1.5% above the Malaysian base lending rate which was 6.6% and 7.8% at November 30, 1994 and 1995, respectively.

The maximum month-end amounts outstanding under the Credit Agreement and the Malaysian Credit Agreement borrowing facilities during the years ended November 30, 1993, 1994 and 1995 were \$42,659, \$30,184 and \$59,315, respectively. Average borrowings during the years ended November 30, 1993, 1994 and 1995 were \$28,895, \$16,929 and \$43,470, respectively, and the weighted average interest rates were 7.8%, 7.9% and 8.7%, respectively.

(b) Documentary Acceptances

During 1995, the Company had various unsecured documentary acceptance lines of credit available with suppliers to finance inventory purchases. The Company does not have written agreements which established the terms and amounts available under the lines of credit. At November 30, 1995, \$7,120 of documentary acceptances were outstanding of which \$6,801 was due to TALK.

The maximum month-end documentary acceptances outstanding during the years ended November 30, 1993, 1994 and 1995 were \$9,638, \$9,078 and \$9,977, respectively. Average borrowings during the years ended November 30, 1993, 1994

(Continued)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED

and 1995 were \$6,883, \$3,787 and \$5,876, respectively, and the weighted average interest rates, including fees, were 11.2%, 11.0% and 4.4%, respectively.

(10) Long-Term Debt

A summary of long-term debt follows:

	November 30,	
	1994	1995
	-----	-----
Convertible subordinated debentures:		
6 1/4%, due 2001, convertible at		
\$17.70 per share	\$ 65,000	\$ 65,000
Convertible debentures:		
Series AA, 10.8%, due 1996,		
convertible at \$5.34 per share	77	77
Series BB, 11.0%, due 1996,		
convertible at \$5.34 per share	5,385	5,385
Subordinated note payable	5,045	4,938
Secured term loan	-	664
Capital lease obligations (Note 14)	305	158
	-----	-----
	75,812	76,222
Less current installments	159	5,688
	-----	-----
	\$ 75,653	\$70,534
	=====	=====

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

On March 8, 1994, the Company entered into a Debenture Exchange Agreement and exchanged certain debentures for Series AA and Series BB Convertible Debentures (Debentures). The Debentures are convertible at any time at \$5.34 per share, which is subject to adjustment in certain circumstances, and are secured by a standby letter of credit (Note 1(f)). Although the Debenture Exchange Agreement provides for optional prepayments under certain circumstances, such prepayments are restricted by the Credit Agreement (Note 9(a)). On February 9, 1996, the holders of \$1,100 of the

(Continued)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED

Series BB Convertible Debentures exercised their right to convert into 206,046 shares of Class A Common Stock. The remaining balance of the Debentures were repaid, thereby extinguishing the remaining conversion features of these Debentures.

On October 20, 1994, the Company issued a note payable for five hundred million Japanese Yen (approximately \$5,045 and \$4,938 on November 30, 1994 and 1995, respectively) to finance its investment in TALK (Note 8). The note is scheduled to be repaid on October 20, 2004 and bears interest at 4.1%. The note can be repaid by cash payment or by giving 10,000 shares of its TALK investment to the lender. The lender has an option to acquire 2,000 shares of TALK held by the Company in exchange for releasing the Company from 20% of the face value of the note at any time after October 20, 1995. This note and the investment in TALK are both denominated in Japanese Yen, and, as such, the foreign currency translation adjustments are accounted for as a hedge. Any foreign currency translation adjustment resulting from the note will be recorded in stockholders' equity to the extent that the adjustment is less than or equal to the adjustment from the translation of the investment in TALK. Any portion of the adjustment from the translation of the note that exceeds the adjustment from the translation of the investment in TALK is a transaction gain or loss that will be included in earnings.

During 1995, Audiovox Malaysia entered into a Secured Term Loan for 1.7 million Malaysian Ringgits (approximately \$675) to acquire a building. The loan is secured by the property acquired and bears interest at 1.5% above the Malaysian base lending rate which was 7.8% on November 30, 1995. The loan is payable in 120 monthly equal installments commencing October 1995.

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

1996	\$5,688
1997	68
1998	68
1999	68
2000	68
	=====

(Continued)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED

(11) Income Taxes

As discussed in Note 1(p), 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 income (loss) for the year ended November 30, 1994. Prior years' financial statements have not been restated to apply the provisions of Statement 109.

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

	1993	November 30,	
		1994	1995
	-----	-----	-----
Domestic Operations	\$15,983	\$47,032	\$(12,424)
Foreign Operations	(741)	(498)	(2,262)
	-----	-----	-----
	\$15,242	\$46,534	\$(14,686)
	=====	=====	=====

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

	November 30,	
	1994	1995
	-----	-----
Income (loss) from continuing operations	\$20,328	\$(2,803)
Stockholders' equity		
Additional paid in capital for compensation expense for tax purposes in excess of amounts recognized for financial reporting purposes	(37)	-
Unrealized holding gain on investment securities recognized for financial reporting purposes	-	19,441
	-----	-----
Total income tax expense	\$20,291	\$16,638
	=====	=====

(Continued)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED

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

	Federal	Foreign	State	Total
	-----	-----	-----	-----
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
	=====	=====	=====	=====
1995:				
Current	\$ 1,455	\$ 570	\$ 330	\$ 2,355
Deferred	(4,189)	-	(969)	(5,158)
	-----	-----	-----	-----
	\$(2,734)	\$ 570	\$ (639)	\$(2,803)
	=====	=====	=====	=====

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

	1993		November 30, 1994		1995	
	-----	-----	-----	-----	-----	-----
Tax provision (recovery) at						
Federal statutory rates	\$5,335	35.0%	\$16,287	35.0%	\$(5,140)	(35.0)%
Undistributed earnings (loss) from equity investments	(1,437)	(9.4)	1,558	3.4	1,330	9.1
State income taxes, net of Federal benefit	645	4.2	1,854	4.0	(415)	(2.8)
Increase in beginning-of-the-year balance of the valuation allowance for deferred tax assets	-	-	306	.7	644	4.3
Foreign tax rate differential	238	1.6	(7)	(.1)	(34)	(0.2)
Expense relating to the issuance of warrants	-	-	-	-	1,022	6.9
Other, net	410	2.7	330	.7	(210)	(1.4)
	-----	-----	-----	-----	-----	-----
	5,191	34.1	20,328	43.7	(2,803)	(19.1)
Utilization of net operating loss carryforwards	(2,173)	(14.3)	-	-	-	-
	-----	-----	-----	-----	-----	-----
	\$3,018	19.8%	\$20,328	43.7%	\$(2,803)	(19.1)%
	=====	=====	=====	=====	=====	=====

(Continued)

AUDIOVOX CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED

For the year ended November 30, 1993, deferred income tax expense of \$433 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, 1993
Uniform capitalization of inventory costs	\$ (93)
Accounts receivable reserves	193
Warranty and inventory reserves	484
Depreciation and amortization	(646)
Insurance reserves	23
Cellular deactivation reserves	(439)
Other, net	45

	\$ (433)
	=====

The significant components of deferred income tax expense (recovery) for the years ended November 30, 1994 and 1995 are as follows:

	November 30,	
	1994	1995
Deferred tax expense (recovery) (exclusive of the effect of other components listed below)	\$5,834	\$(5,802)
Increase in beginning-of-the-year balance of the valuation allowance for deferred tax assets	306	644
	-----	-----
	\$6,140	\$(5,158)
	=====	=====

(Continued)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED

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

	November 30,	
	1994	1995
	-----	-----
Deferred tax assets:		
Accounts receivable, principally due to allowance for doubtful accounts and cellular deactivations	\$ 968	\$ 1,601
Inventory, principally due to additional costs capitalized for tax purposes pursuant to the Tax Reform Act of 1986	387	455
Inventory, principally due to valuation reserve	436	1,373
Accrual for future warranty costs	658	790
Plant, equipment and certain intangibles, principally due to depreciation and amortization	-	588
Net operating loss carryforwards, state and foreign	859	1,689
Accrued liabilities not currently deductible	-	359
Other	193	477
	-----	-----
Total gross deferred tax assets	3,501	7,332
Less: valuation allowance	(979)	(1,623)
	-----	-----
Net deferred tax assets	2,522	5,709
	-----	-----
Deferred tax liabilities:		
Plant, equipment and certain intangibles, principally due to depreciation and amortization	(71)	-
Equity investments, principally due to undistributed earnings	(6,149)	(23,690)
	-----	-----
Total gross deferred tax liabilities	(6,220)	(23,690)
	-----	-----
Net deferred tax liability	\$(3,698)	\$(17,981)
	=====	=====

The net change in the total valuation allowance for the year ended November 30, 1995 was an increase of \$644. A valuation allowance is provided when it is more likely than not that some portion, or all, of the deferred tax assets will not be realized. The Company has established valuation allowances primarily for net operating loss carryforwards in certain states and foreign countries as well as other deferred tax assets in foreign countries. Based on the Company's ability to carry back future reversals of deferred tax assets to taxes paid in current and prior years and the Company's historical taxable income

(Continued)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED

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, 1995. 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, 1995, the Company has net operating loss carryforwards for state and foreign income tax purposes of approximately \$13,912, which are available to offset future state and foreign taxable income, if any, which will expire through the year ended November 30, 2010.

The Company has not recognized a deferred tax liability of approximately \$260 and \$268 at November 30, 1994 and 1995, respectively, for the undistributed earnings of a foreign corporate joint venture that arose in 1995 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.

(12) Capital Structure

The Company's capital structure is as follows:

Security	Par Value	Shares Authorized		Shares Issued and Outstanding		Voting Rights Per Share	Liquidation Rights
		November 30, 1994	November 30, 1995	November 30, 1994	November 30, 1995		
Class A Common Stock	\$ 0.01	30,000,000	30,000,000	6,777,788	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	-	-	-	-

(Continued)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED

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 fiscal 1994, 15,500 shares 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.

As of November 30, 1994 and 1995, 969,500 shares of the Company's Class A Common Stock are reserved for issuance under the Company's Stock Option and Restricted Stock Plans and 4,845,345 for all convertible securities and warrants outstanding at November 30, 1994 and 1995 (Notes 10 and 13).

Undistributed earnings from equity investments included in retained earnings amounted to \$20,526 and \$3,431 at November 30, 1994 and 1995, 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

(Continued)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED

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 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. Certain of the options became exercisable on June 14, 1995, and the remainder will become exercisable on December 14, 1996 after which they can be exercised in whole or in part until expiration on December 14, 2003.

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.

In August 1995, non-qualified options to purchase 279,000 shares of Class A Common Stock were granted under the 1994 Stock Option Plan at an exercise price of \$5.88 per share, which represents the estimated fair market value of the shares at the date of grant. No options can be exercised until February 9, 1997 or August 9, 1998, as the case may be, after which they can be exercised in whole or in part, until expiration on August 9, 2005.

Compensation expense is recorded with respect to the options based upon the quoted market value of the shares and the exercise provisions at the date of grant. Compensation expense for the years ended November 30, 1994 and 1995 was \$175 and \$113, respectively.

(Continued)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED

The Company will adopt the provisions of SFAS No. 123, "Accounting for Stock-Based Compensation", on December 1, 1996.

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

	1987 Stock Option Plan	1993 Stock Option Plan	1994 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	-
Granted	-	-	279,000
Exercised	-	-	-
Canceled	21,000	12,750	-
	-----	-----	-----
Outstanding at November 30, 1995	104,000	175,250	279,000
	=====	=====	=====
Options exercisable, November 30, 1995	104,000	15,750	-
	=====	=====	=====

(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, the stockholders approved an amendment to the 1987 Restricted Stock Plan which provides that restrictions on stock 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.

(Continued)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED

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 to the extent the Company achieves certain earnings per share goals. To the extent the earnings per share goals have not been achieved during the five years after the date of grant, the award will lapse.

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 August 1995, 21,000 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 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, 1995.

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. Total restricted stock outstanding at November 30, 1994 and 1995 were 63,300 and 80,800, respectively. Compensation expense for these grants for the years ended November 30, 1994 and 1995 were \$93 and \$127, respectively.

(c) Employee Stock Purchase Plan

In May 1993, the stockholders approved the 1993 Employee Stock Purchase Plan. The stock purchase plan provides eligible employees an opportunity to purchase shares of the

(Continued)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED

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 total number of shares available for purchase under this plan is 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, 1995. The consulting agreement, valued at \$100, was expensed in 1994 when the services to be provided pursuant to the consulting agreement were completed.

In December 1993, the Company granted warrants to purchase 50,000 shares of Class A Common Stock at a purchase price of \$14.375 per share as part of the acquisition of H&H (Note 2). The per share purchase price and number of shares purchasable are each subject to adjustment upon the occurrence of certain events described in the warrant agreement. The warrants are exercisable, in whole or in part, from time-to-time, until September 22, 2003. If the warrants are exercised in whole, the holder thereof has the right to require the Company to file with the Securities Exchange Commission a registration statement relating to the sale by the holder of the Class A Common Stock purchasable pursuant to the warrant.

On May 9, 1995, the Company issued 1,668,875 warrants in a private placement, each convertible into one share of Class A Common Stock at \$7 1/8, subject to adjustment under certain circumstances. The warrants were issued to the beneficial holders as of June 3, 1994, of \$57.6 million of the Company's Subordinated Debentures in exchange for a release of any claims such holders may have against the Company, its agents, directors and employees in connection with their investment in the Subordinated Debentures. As a result, the Company incurred a warrant expense of \$2.9 million and recorded a corresponding increase to paid in capital. 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

(Continued)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED

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. Subsequent to November 30, 1995, the Company has filed a registration statement for the warrants and the underlying common stock pursuant to a registration rights agreement dated as of May 9, 1995, between the Company and the holders of the warrants. John J. Shalam, Chief Executive Officer of the Company, has granted the Company an option to purchase 1,668,875 shares of Class A Common Stock from his personal holdings. The exercise price of this option is \$7 1/8, plus the tax impact, if any, should the exercise of this option be treated as dividend income rather than capital gains to Mr. Shalam.

(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, contributions of \$200 and \$225, respectively, were made by the Company to the United States plan. No contributions were made in fiscal 1995. Contributions required by law to be made for eligible employees in Canada were not material.

(14) Lease Obligations

At November 30, 1995, the Company was obligated under non-cancelable leases for equipment and warehouse facilities for minimum annual rental payments as follows:

	Capital Lease	Operating Leases
1996	\$170	\$1,970
1997	-	1,018
1998	-	600
1999	-	258
2000 and thereafter	-	71
	----	-----
Total minimum lease payments	170	\$3,917
		=====
Amounts representing interest	12	

Present value of future minimum lease payments	158	
Less current portion	158	

Obligations under leases excluding current installments	-	
	====	

(Continued)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED

Rental expense for the above-mentioned operating lease agreements and other leases on a month-to-month basis approximated \$2,390, \$3,107 and \$4,080 for the years ended November 30, 1993, 1994 and 1995, respectively.

The Company leases certain facilities from its principal stockholder and several officers. Rentals for such leases are considered by management of the Company to approximate prevailing market rates. At November 30, 1995, minimum annual rental payments on these related party leases, which are included in the above table, are as follows:

1996	\$458
1997	66
1998	68
1999	11

(15) Financial Instruments

(a) Off-Balance Sheet Risk

Commercial letters of credit are issued by the Company during the ordinary course of business through major domestic banks as requested by certain suppliers. The Company also issues standby letters of credit principally to secure certain bank obligations of Audiovox Malaysia (Note 9) and its Debentures (Note 10). The Company had open commercial letters of credit of \$16,000 and \$22,000, of which \$13,100 and \$10,800 were accrued for as of November 30, 1994 and 1995, respectively. The terms of these letters of credit are all less than one year. No material loss is anticipated due to nonperformance by the counterparties to these agreements. The fair value of these open commercial and standby letters of credit is estimated to be the same as the contract values based on the nature of the fee arrangements with the issuing banks.

(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.

(Continued)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED

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. At November 30, 1995, three customers, which included two cellular carriers and service providers and a Bell Operating Company accounted for approximately 6%, 7% and 5%, respectively, of accounts receivable.

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

The Company generally grants credit based upon analyses of its customers' financial position and previously established buying and payment patterns. The Company establishes collateral rights in accounts receivable and inventory and obtains personal guarantees from certain customers based upon management's credit evaluation. At November 30, 1994 and 1995, 25 and 36 customers, respectively, representing approximately 60% and 63%, 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. The carrying value of all financial instruments classified as a current asset or liability is deemed to approximate fair value, with the exception of current installments of long-term debt, because of the short maturity of these

(Continued)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED

instruments.

Investment Securities

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

Long-term debt Including Current Installments

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 Subordinated Debentures, fair values are based on published statistical data. The 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 and 1995. Management believes that the carrying value of the secured term loan approximates fair value because it bears interest at rates currently offered to the Company for similar debt instruments of comparable maturities by the Company's bankers. 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 are as follows:

	November 30, 1994 -----		November 30, 1995 -----	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Long-term obligations including current installments	\$104,912	\$86,662	\$125,221	\$103,699

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.

(Continued)

(16) Commitments and Contingencies

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 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. The impact of the final resolution of this matter on the Company's results of operations or liquidity in a particular reporting period is not known. Management is of the opinion, however, 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 effect on the Company's consolidated financial position.

The Company is a defendant in an action alleging, among other things, breach of contract and the plaintiff is seeking damages in excess of \$500. The litigation is currently in the early discovery phase. The impact of the final resolution of this matter on the Company's results of operations or liquidity in a particular reporting period is not known. Management is of the opinion, however, 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 effect on the Company's consolidated financial position.

The Company is also a defendant in litigation arising from the normal conduct of its affairs. The impact of the final resolution of these matters on the Company's results of operations or liquidity in a particular reporting period is not known. Management is of the opinion, however, that the litigation in which the Company is a defendant is either subject to product liability insurance coverage or, to the extent not

(Continued)

AUDIOVOX CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED

covered by such insurance, will not have a material adverse effect on the Company's consolidated financial position.

Item 9 - Changes in and Disagreements with Accountants on
Accounting and Financial Disclosure

None

PART III

Item 10 - Directors and Executive Officers of the Registrant

Information regarding this item is set forth under the captions "Election of Directors" of the Company's Proxy Statement to be dated March 24, 1996, which will be filed pursuant to Regulation 14A under the Securities Exchange Act of 1934 (the "Proxy Statement") and is incorporated herein by reference. Information with regard to Executive Officers is set forth in Item 1 of this Form 10-K.

Item 11 - Executive Compensation

The information regarding this item is set forth under the caption "Executive Compensation" of the proxy statement and is incorporated herein by reference.

Item 12 - Security Ownership of Certain Beneficial Owners and
Management

The information regarding this item is set forth under the caption "Beneficial Ownership of Common Stock" of the Proxy Statement and is incorporated herein by reference. The Company knows of no arrangements which may result at a subsequent date in a change of control of the Company.

Item 13 - Certain Relationships and Related Transactions

Information regarding this item is set forth under the caption "Beneficial Ownership of Common Stock", "Election of Directors" and "Executive Compensation" of the proxy statement.

PART IV

Item 14 - Exhibits, Consolidated Financial Statement Schedules,
and Reports on Form 8-K

(a) (1)

The following financial statements are included in Item 8 of this Report:

Independent Auditors' Report

Consolidated Balance Sheets of Audiovox Corporation and Subsidiaries as of
November 30, 1994 and 1995.

Consolidated Statements of Income (Loss) of Audiovox Corporation and
Subsidiaries for the Years Ended November 30, 1993, 1994 and 1995.

Consolidated Statements of Stockholders' Equity of Audiovox
Corporation and Subsidiaries for the Years Ended November 30, 1993,
1994 and 1995.

Consolidated Statements of Cash Flows of Audiovox Corporation and Subsidiaries
for the Years Ended November 30, 1993, 1994 and 1995.

Notes to Consolidated Financial Statements.

(a) (2)

Financial Statement Schedules of the Registrant for the
Years Ended November 30, 1993, 1994 and 1995.

Independent Auditors' Report on Financial Statement Schedules

SCHEDULE NUMBER	DESCRIPTION	PAGE NUMBER
II	Valuation and Qualifying Accounts	75

All other financial statement schedules not listed are omitted
because they are either not required or the information is otherwise
included.

Independent Auditors' Report

The Board of Directors and Stockholders
Audiovox Corporation:

Under the date of February 12, 1996, except for Paragraph 7 of Note 8 which is as of March 6, 1998, we reported on the consolidated balance sheets of Audiovox Corporation and subsidiaries as of November 30, 1994 and 1995, and the related consolidated statements of income (loss), stockholders' equity, and cash flows for each of the years in the three-year period ended November 30, 1995, which are included in the Company's 1995 annual report on Form 10-K. In connection with our audits of the aforementioned consolidated financial statements, we also audited the related consolidated financial statement schedules in the 1995 annual report on Form 10-K. These consolidated financial statement schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statement schedules based on our audits.

In our opinion, such financial statement schedules, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly, in all material respects, the information set forth therein.

Our report refers to changes in the methods of accounting for certain investments in equity securities and income taxes.

s/KPMG Peat Marwick LLP
KPMG PEAT MARWICK LLP

Jericho, New York

February 12, 1996, except for Paragraph 7 of Note 8 which is as of March 6, 1998

(3) Exhibits See Item 14(c) for Index of Exhibits.

(b) Reports on Form 8-K

No reports were filed on Form 8-K for the fourth quarter ended November 30, 1995.

(c) Exhibits

EXHIBIT NUMBER	DESCRIPTION
3.1	Certificate of Incorporation of the Company (incorporated by reference to the Company's Registration Statement on Form S-1; No. 33-107, filed May 4, 1987).
3.1a	Amendment to Certificate of Incorporation (incorporated by reference to the Company's Annual Report on Form 10-K for the year ended November 30, 1993).
3.2	By-laws of the Company (incorporated by reference to the Company's Registration Statement on Form S-1; No. 33-10726, filed May 4, 1987).
10.1	Renewal, dated October 30, 1993, of Lease by and between Registrant and John J. Shalam dated October 22, 1986 (incorporated by reference to the Company's Annual Report on Form 10-K for the year ended November 30, 1993).
10.2	Lease by and between Audiovox West Corporation and Marquardt Associates dated February 1, 1991 (incorporated by reference to the Company's Annual Report on Form 10-K for the year ended November 30, 1990).
10.3	Debenture Exchange Agreement among the Registrant and the several note holders dated as of March 15, 1994 (incorporated by reference to the Company's Current Report on Form 8-K dated March 15, 1994).
10.4	Amended and Restated Credit Agreement by and between the Registrant and the several banks and financial institutions (incorporated by reference to the Company's Current Report on Form 8-K dated March 15, 1994).
10.4a	Fifth Amendment, dated as of February 24, 1995, to amended and restated credit agreement by and between the Registrant and the several banks and financial institutions (incorporated by reference to the Company's Annual Report on Form 10-K for the year ended November 30, 1994).

EXHIBIT NUMBER	DESCRIPTION
10.4b	Second Amended and Restated Credit Agreement among Audiovox Corporation and its lenders dated May 5, 1995 (incorporated by reference to the Company's Current Report on Form 8-K dated May 5, 1995).
10.5	Purchase Agreement dated March 8, 1994 and Registration Rights Agreement dated as of March 15, 1994, by and between the Registrant and Oppenheimer & Co., Inc., Furman Selz Incorporated and Chemical Securities, Inc. (incorporated by reference to the Company's Current Report on Form 8-K dated March 15, 1994).
10.6	Initial Option, Second Option and Voting Rights Agreement by and between Registrant and Alan Gold field (incorporated by reference to the Company's Current Report on Form 8-K dated December 23, 1993).
10.7	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 (incorporated by reference to the Company's Current Report on Form 8-K dated December 23, 1993).
10.8	Warrant Agreement, dated as of May 9, 1995, between Audiovox Corporation and Continental Stock Transfer & Trust Company, as Warrant Agent (incorporated by reference to the Company's Current Report on Form 8-K dated December 23, 1993).
10.9	Registration Rights Agreement, dated as of May 9, 1995, between Audiovox Corporation and certain purchasers of Audiovox Corporation warrants (incorporated by reference to the Company's Current Report on Form 8-K dated December 23, 1993).
11	Statement of Computation of Income (Loss) Per Common Share (Filed via EDGAR herewith).
21	Subsidiaries of the Registrant (Filed via EDGAR herewith).
23	Independent Auditors' Consent (Filed via EDGAR herewith).
27	Financial Data Schedule (filed via EDGAR herewith)

(d) All other schedules are omitted because the required information is shown in the financial statements or notes thereto or because they are not applicable.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

AUDIOVOX CORPORATION

March 9, 1998

BY: s/John J. Shalam

John J. Shalam, President
and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
s/John J. Shalam ----- John J. Shalam	President; Chief Executive Officer (Principal Executive Officer) and Director	March 9, 1998
s/Philip Christopher ----- Philip Christopher	Executive Vice President and Director	March 9, 1998
s/Charles M. Stoehr ----- Charles M. Stoehr	Senior Vice President, Chief Financial Officer (Principal Financial and Accounting Officer) and Director	March 9, 1998
s/Patrick M. Lavelle ----- Patrick M. Lavelle	Director	March 9, 1998
s/Ann Boutcher ----- Ann Boutcher	Director	March 9, 1998
s/Gordon Tucker ----- Gordon Tucker	Director	March 9, 1998
s/Irving Halevy ----- Irving Halevy	Director	March 9, 1998
s/Richard Maddia ----- Richard Maddia	Director	March 9, 1998
s/Paul C. Kreuch, Jr. ----- Paul C. Kreuch, Jr.	Director	March 9, 1998

Valuation and Qualifying Accounts

Years Ended November 30, 1993, 1994 and 1995
(In thousands)

Column A ----- Description	Column B ----- Balance at Beginning Of Year	Column C ----- Additions Charged to Costs and Expenses		Column D ----- Deductions	Column E ----- Balance At End Of Year
1993					
Allowance for doubtful accounts	\$ 2,669	\$ 230	-	\$ 836	\$ 2,063
Cash discount allowances	171	131	-	-	302
Co-op advertising and volume rebate allow- ances	832	4,651	-	4,054	1,429
Allowance for cellular deactivations	688	1,051	-	-	1,739
Reserve for warranties and product repair costs	4,983	2,512	-	3,690	3,805
	----- \$ 9,343 =====	----- \$ 8,575 =====	----- - =====	----- \$8,580 =====	----- \$ 9,338 =====
1994					
Allowance for doubtful accounts	\$ 2,063	\$ (21)	-	\$ 419	\$ 1,623
Cash discount allowances	302	-	-	65	237
Co-op advertising and volume rebate allow- ances	1,429	5,898	-	4,639	2,688
Allowance for cellular deactivations	1,739	-	-	505	1,234
Reserve for warranties and product repair costs	3,805	2,970	-	3,568	3,207
	----- \$ 9,338 =====	----- \$ 8,847 =====	----- - =====	----- \$ 9,196 =====	----- \$ 8,989 =====
1995					
Allowance for doubtful accounts	\$ 1,623	\$ 1,816	-	\$ 732	\$ 2,707
Cash discount allowances	237	-	-	72	165
Co-op advertising and volume rebate allow- ances	2,688	7,621	-	7,084	3,225
Allowance for cellular deactivations	1,234	491	-	-	1,725
Reserve for warranties and product repair costs	3,207	3,834	-	3,093	3,948
	----- \$ 8,989 =====	----- \$13,762 =====	----- - =====	----- \$10,981 =====	----- \$11,770 =====

AUDIOVOX CORPORATION
 Computation of Income (Loss) Per Common Share
 Years Ended November 30, 1993, 1994 and 1995
 (In thousands, except per share data)

	1993	1994	1995
	-----	-----	-----
Primary earnings:			
Income (loss) before extraordinary item and cumulative			
effect of a change in an accounting principle	\$10,051	\$26,206	\$(11,883)
Extraordinary item	2,173	-	-
Cumulative effect of change in accounting principle	-	(178)	-
	-----	-----	-----
Net income (loss)	\$12,224	\$26,028	\$(11,883)
	=====	=====	=====
Shares			
Weighted average number of common shares			
outstanding	9,009	9,037	9,039
Additional shares assuming conversion of:			
Stock options, performance share awards, and warrants	38	69	-
	-----	-----	-----
Weighted average common shares outstanding, as adjusted	9,047	9,106	9,039
	=====	=====	=====
Primary earnings per common share:			
Before extraordinary item and cumulative effect			
Extraordinary item	\$ 1.11	\$ 2.88	\$ (1.31)
Cumulative effect	\$ 0.24	-	-
	-	\$ (0.02)	-
	-----	-----	-----
Net income (loss)	\$ 1.35	\$ 2.86	\$ (1.31)
	=====	=====	=====
Fully diluted earnings:			
Income (loss) before extraordinary item and cumulative			
effect of a change in an accounting principle	\$10,051	\$26,206	\$(11,883)
Net interest expense related to convertible debt	354	2,074	-
	-----	-----	-----
Income before extraordinary item and cumulative			
effect of a change in an accounting principle	10,405	28,280	-
Extraordinary item	2,173	-	-
Cumulative effect of change in accounting principle	-	(178)	-
	-----	-----	-----
Net income (loss) applicable to common stock	\$12,578	\$28,102	\$(11,883)
	=====	=====	=====
Shares			
Weighted average number of common shares			
outstanding	9,009	9,037	-
Additional shares assuming conversion of:			
Stock options, performance share awards, and warrants	46	88	-
Convertible debentures	1,023	3,644	-
	-----	-----	-----
Weighted average common shares outstanding, as adjusted	10,078	12,769	-
	=====	=====	=====
Fully diluted earnings per common share:			
Before extraordinary item and cumulative effect			
Extraordinary item	\$ 1.03	\$ 2.21	-
Cumulative effect	\$ 0.22	-	-
	-	(0.01)	-
	-----	-----	-----
Net income (loss)	\$ 1.25	\$ 2.20	-
	=====	=====	=====

NOTE: Certain amounts have been restated as discussed in Note 8 to the consolidated financial statements.

SUBSIDIARIES OF REGISTRANT

Subsidiaries	Jurisdiction of Incorporation
Quintex Communications Corp.	New York
Quintex Mobile Communications Corp.	Delaware
Hermes Telecommunications Inc.	Delaware
Lenex Corporation	Delaware
American Radio Corp.	Georgia
Audiovox International Corp.	Delaware
Cell Holding Corporation	Delaware
H & H Eastern Distributors Inc.	Pennsylvania
Audiovox Holding Corp.	New York
Audiovox Asia Inc.	Delaware
Audiovox Latin America Ltd.	Delaware
Audiovox Canada Limited	Ontario
Western Audiovox Corp.	British Columbia
Audiovox Communications (Malaysia) Sdn. Bhd.	Malaysia
Audiovox Singapore PTE. LTD.	Singapore
Audiovox (Thailand) Co., Ltd.	Thailand

Exhibit 21

Independent Auditor's Consent

The Board of Directors and Stockholders
Audiovox Corporation:

We consent to incorporation by reference in the registration statements (No. 33-18119 and 33-65580) on Form S-8 of Audiovox Corporation and subsidiaries of our report dated February 12, 1996, except for Paragraph 7 of Note 8 which is as of March 6, 1998, relating to the consolidated balance sheets of Audiovox Corporation and subsidiaries as of November 30, 1994 and 1995, and the related consolidated statements of income (loss), stockholders' equity and cash flows and all related schedules for each of the years in the three-year period ended November 30, 1995, which reports appear in the November 30, 1995 annual report on Form 10-K of Audiovox Corporation and subsidiaries.

Our report refers to changes in the methods of accounting for certain investments in equity securities and income taxes.

S/KPMG PEAT MARWICK LLP
KPMG PEAT MARWICK LLP

Jericho, New York
March 9, 1998

Exhibit 23

5

0000807707
Audiovox Corp.
1000

12-MOS
Nov-30-1995
Nov-30-1995
7076
0
99677
2707
100422
226214
24034
17979
308428
50668
70462
0
2500
90
112005
308428
457433
500740
414624
429998
0
1816
9694
(14686)
(2803)
(11883)
0
0
0
(11883)
(1.31)
(1.31)