

AUDIOVOX CORP  
Form 10-Q  
January 09, 2009

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended November 30, 2008

or

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

Commission file number: 0-28839

Audiovox Corporation  
(Exact name of registrant as specified in its charter)

|                 |                |
|-----------------|----------------|
| Delaware        | 13-1964841     |
|                 | (I.R.S.        |
| (State or other | Employer       |
| jurisdiction of | Identification |
| incorporation)  | No.)           |

|             |       |
|-------------|-------|
| 180 Marcus  |       |
| Bld.,       |       |
| Hauppauge,  |       |
| New York    | 11788 |
| (Address of |       |
| principal   |       |
| executive   | (Zip  |
| officers)   | Code) |

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

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

Yes  No

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

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

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

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

Yes \_\_\_\_\_   No  

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

| Class                      | As of<br>January 8,<br>2008 |
|----------------------------|-----------------------------|
| Class A<br>Common<br>Stock | 20,604,440<br>Shares        |
| Class B<br>Common<br>Stock | 2,260,954<br>Shares         |

Audiovox Corporation

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## PART I - FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

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

|  | November<br>30,<br>2008<br>(unaudited) | February<br>29,<br>2008 |
|--|--|-------------------------|
| Assets   |  |                         |
| Current assets:                                |  |                         |
| Cash and cash equivalents                      | \$ 13,925                              | \$ 39,341               |
| Accounts receivable, net                       | 159,594                                | 112,688                 |
| Inventory                                      | 149,321                                | 155,748                 |
| Receivables from vendors                       | 20,618                                 | 29,358                  |
| Prepaid expenses and other current assets      | 12,585                                 | 13,780                  |
| Deferred income taxes                          | 7,198                                  | 7,135                   |
| Total current assets                           | 363,241                                | 358,050                 |
| Investment securities                          | 8,559                                  | 15,033                  |
| Equity investments                             | 13,068                                 | 13,222                  |
| Property, plant and equipment, net             | 20,615                                 | 21,550                  |
| Goodwill                                       | 29,098                                 | 23,427                  |
| Intangible assets                              | 93,797                                 | 101,008                 |
| Deferred income taxes                          | 2,128                                  | -                       |
| Other assets                                   | 1,659                                  | 746                     |
| Total assets                                   | \$ 532,165                             | \$ 533,036              |
| Liabilities and Stockholders' Equity           |  |                         |
| Current liabilities:                           |  |                         |
| Accounts payable                               | \$ 43,014                              | \$ 24,433               |
| Accrued expenses and other current liabilities | 34,728                                 | 38,575                  |
| Income taxes payable                           | 141                                    | 5,335                   |
| Accrued sales incentives                       | 12,633                                 | 10,768                  |
| Bank obligations                               | 2,018                                  | 3,070                   |
| Current portion of long-term debt              | 1,294                                  | 82                      |
| Total current liabilities                      | 93,828                                 | 82,263                  |
| Long-term debt                                 | 5,944                                  | 1,621                   |
| Capital lease obligation                       | 5,551                                  | 5,607                   |
| Deferred compensation                          | 3,312                                  | 4,406                   |
| Other tax liabilities                          | 4,741                                  | 4,566                   |
| Deferred tax liabilities                       | -                                      | 6,057                   |
| Other long term liabilities                    | 4,198                                  | 5,003                   |

|  |            |            |
|--|------------|------------|
| Total liabilities  | 117,574    | 109,523    |
| Commitments and contingencies  |            |            |
| Stockholders' equity:  |            |            |
| Series preferred stock, \$.01 par value; 1,500,000 shares authorized, no shares issued or outstanding  | -          | -          |
| Common stock:  |            |            |
| Class A, \$.01 par value; 60,000,000 shares authorized, 22,424,212 and 22,414,212 shares issued, 20,604,460 and 20,593,660 shares outstanding at November 30, 2008 and February 29, 2008, respectively | 224        | 224        |
| Class B convertible, \$.01 par value; 10,000,000 shares authorized, 2,260,954 shares issued and outstanding at November 30, 2008 and February 29, 2008, respectively                                   | 22         | 22         |
| Paid-in capital  | 274,484    | 274,282    |
| Retained earnings  | 161,532    | 162,542    |
| Accumulated other comprehensive income   | (3,275)    | 4,847      |
| Treasury stock, at cost, 1,819,752 and 1,820,552 shares of Class A common stock at November 30, 2008 and February 29, 2008, respectively   | (18,396)   | (18,404)   |
| Total stockholders' equity   | 414,591    | 423,513    |
| Total liabilities and stockholders' equity   | \$ 532,165 | \$ 533,036 |

See accompanying notes to consolidated financial statements.

Audiovox Corporation and Subsidiaries  
Consolidated Statements of Operations  
For the Three and Nine Months Ended November 30, 2008 and 2007  
(In thousands, except share and per share data)  
(unaudited)

|  | Three Months Ended<br>November 30, |            | Nine Months Ended<br>November 30, |            |
|--|------------------------------------|------------|-----------------------------------|------------|
|  | 2008                               | 2007       | 2008                              | 2007       |
| Net sales  | \$ 195,642                         | \$ 183,563 | \$ 487,433                        | \$ 460,085 |
| Cost of sales  | 156,684                            | 148,572    | 400,900                           | 373,431    |
| Gross profit   | 38,958                             | 34,991     | 86,533                            | 86,654     |
| Operating expenses:  |                                    |            |                                   |            |
| Selling  | 8,370                              | 9,828      | 26,598                            | 26,534     |
| General and administrative                                   | 16,500                             | 16,948     | 52,004                            | 45,153     |
| Engineering and technical support                            | 2,436                              | 2,600      | 8,219                             | 7,010      |
| Total operating expenses                                     | 27,306                             | 29,376     | 86,821                            | 78,697     |
| Operating income (loss)                                      | 11,652                             | 5,615      | (288)                             | 7,957      |
| Other income (expense):                                      |                                    |            |                                   |            |
| Interest and bank charges                                    | (453)                              | (723)      | (1,439)                           | (2,087)    |
| Equity in income (share in losses) of equity investees       | (484)                              | 1,011      | 926                               | 2,927      |
| Other, net   | (10)                               | 816        | 375                               | 3,444      |
| Total other income (expense), net                            | (947)                              | 1,104      | (138)                             | 4,284      |
| Income (loss) from continuing operations before income taxes | 10,705                             | 6,719      | (426)                             | 12,241     |
| Income tax expense   | 4,180                              | 2,039      | 582                               | 3,709      |
| Net income (loss) from continuing operations                 | 6,525                              | 4,680      | (1,008)                           | 8,532      |
| Net income from discontinued operations, net of tax          | -                                  | -          | -                                 | 2,111      |
| Net income (loss)  | \$ 6,525                           | \$ 4,680   | \$ (1,008)                        | \$ 10,643  |
| Net income (loss) per common share (basic):                  |                                    |            |                                   |            |
| From continuing operations                                   | \$ 0.29                            | \$ 0.20    | \$ (0.04)                         | \$ 0.38    |
| From discontinued operations                                 | -                                  | -          | -                                 | 0.09       |
| Net income (loss) per common share (basic)                   | \$ 0.29                            | \$ 0.20    | \$ (0.04)                         | \$ 0.47    |
| Net income (loss) per common share (diluted):                |                                    |            |                                   |            |
| From continuing operations                                   | \$ 0.29                            | \$ 0.20    | \$ (0.04)                         | \$ 0.38    |
| From discontinued operations                                 | -                                  | -          | -                                 | 0.09       |
| Net income (loss) per common share (diluted)                 | \$ 0.29                            | \$ 0.20    | \$ (0.04)                         | \$ 0.47    |

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|  |            |            |            |            |
|--|------------|------------|------------|------------|
| Weighted-average common shares outstanding (basic)   | 22,864,668 | 22,852,781 | 22,858,777 | 22,853,108 |
| Weighted-average common shares outstanding (diluted) | 22,867,235 | 22,857,355 | 22,858,777 | 22,880,263 |

See accompanying notes to consolidated financial statements.

Audiovox Corporation and Subsidiaries  
Consolidated Statements of Cash Flows  
For the Nine Months Ended November 30, 2008 and 2007  
(In thousands)  
(unaudited)

|  | 2008       | 2007      |
|--|------------|-----------|
| <b>Cash flows from operating activities:</b>   |            |           |
| Net (loss) income  | \$ (1,008) | \$ 10,643 |
| Net (income) from discontinued operations  | -          | (2,111)   |
| Net (loss) income from continuing operations   | (1,008)    | 8,532     |
| <b>Adjustments to reconcile net (loss) income to net cash used in continuing operating activities:</b> |            |           |
| Depreciation and amortization  | 5,324      | 3,782     |
| Bad debt expense   | 864        | 166       |
| Equity in income of equity investees   | (926)      | (2,927)   |
| Deferred income tax benefit  | (186)      | -         |
| Non-cash compensation adjustment   | 526        | (212)     |
| Non-cash stock based compensation and warrant expense  | 159        | 609       |
| Gain (loss) on disposal of property, plant and equipment   | (8)        | 14        |
| Tax benefit on stock options exercised   | -          | (1,020)   |
| <b>Changes in operating assets and liabilities (net of assets and liabilities acquired):</b>           |            |           |
| Accounts receivable  | (52,580)   | (62,762)  |
| Inventory  | (2,153)    | (33,995)  |
| Receivables from vendors   | 8,491      | (12,696)  |
| Prepaid expenses and other   | (1,018)    | 2,602     |
| Investment securities-trading  | 1,104      | (1,042)   |
| Accounts payable, accrued expenses, accrued sales incentives and other current liabilities             | 19,441     | 2,947     |
| Income taxes payable   | (4,741)    | 3,132     |
| Net cash used in operating activities  | (26,711)   | (92,870)  |
| <b>Cash flows from investing activities:</b>   |            |           |
| Purchases of property, plant and equipment   | (3,674)    | (5,772)   |
| Proceeds from sale of property, plant and equipment  | 98         | 43        |
| Proceeds from distribution from an equity investee   | 1,080      | 1,215     |
| Proceeds from a liquidating distribution from an available-for-sale security                           | -          | 645       |
| Purchase of short-term investments   | -          | (13,775)  |
| Proceeds from sale of short-term investments   | -          | 146,255   |
| Purchase of patents  | (650)      | -         |
| Purchase of acquired businesses, less cash acquired  | (440)      | (28,387)  |
| Net cash (used in) provided by investing activities  | (3,586)    | 100,224   |
| <b>Cash flows from financing activities:</b>   |            |           |
| Proceeds from (repayments on) bank obligations   | 5,523      | (860)     |
| Principal payments on capital lease obligation   | (55)       | (50)      |
| Proceeds from exercise of stock options and warrants   | 46         | 3,148     |
| Principal payments on debt   | -          | (4,240)   |



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|  |           |           |
|--|-----------|-----------|
| Repurchase of Class A common stock                   | -         | (1,425)   |
| Tax benefit on stock options exercised               | -         | 1,020     |
| Other financing activities                           | 9         | -         |
| Net cash provided by (used in) financing activities  | 5,523     | (2,407)   |
| Effect of exchange rate changes on cash              | (642)     | 249       |
| Net (decrease) increase in cash and cash equivalents | (25,416)  | 5,196     |
| Cash and cash equivalents at beginning of period     | 39,341    | 15,473    |
| Cash and cash equivalents at end of period           | \$ 13,925 | \$ 20,669 |

See accompanying notes to consolidated financial statements.

Audiovox Corporation and Subsidiaries  
Notes to Consolidated Financial Statements  
November 30, 2008  
(Dollars in thousands, except share and per share data)  
(unaudited)

(1) Basis of Presentation

The accompanying unaudited interim consolidated financial statements of Audiovox Corporation and subsidiaries (“Audiovox” or the “Company”) have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission and in accordance with accounting principles generally accepted in the United States of America and include all adjustments (consisting of normal recurring adjustments), which, in the opinion of management, are necessary to present fairly the consolidated financial position, results of operations and cash flows for all periods presented. The results of operations are not necessarily indicative of the results to be expected for the full fiscal year. These consolidated financial statements do not include all disclosures associated with consolidated financial statements prepared in accordance with accounting principles generally accepted in the United States of America. Accordingly, these statements should be read in conjunction with the Company's audited consolidated financial statements and notes thereto contained in the Company's Form 10-K for the fiscal year ended February 29, 2008.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts of assets, liabilities, revenues and expenses reported in those financial statements as well as the disclosure of contingent assets and liabilities at the date of the consolidated financial statements. These judgments can be subjective and complex, and consequently, actual results could differ from those estimates and assumptions. Significant estimates made by the Company include the allowance for doubtful accounts, inventory valuation, fair value of stock-based compensation, income taxes, valuation of long-lived assets, accrued sales incentives, warranty reserves and the fair value measurements of financial assets, liabilities, goodwill and intangible assets. A summary of the Company's significant accounting policies is identified in Note 1 of the Consolidated Financial Statements in the Company's Form 10-K for the fiscal year ended February 29, 2008. There have been no changes to the Company's significant accounting policies subsequent to February 29, 2008, except for the accounting for the fair value measurement of financial assets and liabilities and related disclosures (Note 5).

The Company has one reportable segment, the Electronics Group, which is organized by product category. The Electronics Group consists of eight wholly-owned subsidiaries: American Radio Corp., Audiovox Electronics Corporation (“AEC”), Audiovox Accessories Corp. (“AAC”), Audiovox Consumer Electronics, Inc. (“ACE”), Audiovox German Holdings GmbH (“Audiovox Germany”), Audiovox Venezuela, C.A., Entretenimiento Digital Mexico, S. de C.V. (“Audiovox Mexico”) and Code Systems, Inc. The Company markets its products under the Audiovox® and other brand names. Unless specifically indicated otherwise, all amounts and percentages presented in the notes below are exclusive of discontinued operations.

(2) Accounting for Stock-Based Compensation

The Company has various stock based compensation plans, which are more fully described in Note 1 of the Company's Form 10-K for the fiscal year ended February 29, 2008.

The Company recognized stock-based compensation (exclusive of deferred tax benefits) for awards granted under the Company's Stock Option Plans in the following line items in the Consolidated Statements of Operations:

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Audiovox Corporation and Subsidiaries  
Notes to Consolidated Financial Statements, continued  
November 30, 2008  
(Dollars in thousands, except share and per share data)  
(unaudited)

|  | Three Months ended<br>November 30,<br>2008 |     | 2007 |     | Nine Months ended<br>November 30,<br>2008 |     | 2007 |     |
|--|--|-----|------|-----|---|-----|------|-----|
| Cost of sales  | \$   | 3   | \$   | 5   | \$  | 3   | \$   | 10  |
| Selling expenses   |  | 36  |      | 64  |   | 36  |      | 128 |
| General and administrative expenses                        |  | 104 |      | 202 |   | 104 |      | 404 |
| Engineering and technical support                          |  | 3   |      | 5   |   | 3   |      | 10  |
| Stock-based compensation expense before income tax benefit | \$   | 146 | \$   | 276 | \$  | 146 | \$   | 552 |

The Company granted 197,250 options during the three months ended November 30, 2008, which vest one-half on November 30, 2008 and one-half on February 28, 2009, expire two years from date of vesting (November 30, 2010 and February 28, 2011, respectively), have an exercise price equal to \$4.83, the sales price of the Company's stock on the day prior to the date of grant, have a contractual term between 2.1 and 2.4 years and a grant date fair value of \$1.44 per share determined based upon a Black-Sholes valuation model (refer to the table below for assumptions used to determine fair value).

In addition, the Company issued 17,500 warrants during the three months ended November 30, 2008 to purchase the Company's common stock at an exercise price of \$4.83 per share as consideration for future legal services. The warrants vest one-half on November 30, 2008 and one-half on February 28, 2009, expire two years from date of vesting (November 30, 2010 and February 28, 2011, respectively), have an exercise price equal to \$4.83, the sales price of the Company's stock on the day prior to the date of grant, have a contractual term between 2.1 and 2.4 years and a grant date fair value of \$1.44 per warrant determined based upon a Black-Sholes valuation model (refer to the table below for assumptions used to determine fair value). Accordingly, the Company recorded additional legal expense in the amount of approximately \$13 during the three and nine months ended November 30, 2008, representing the fair value of the warrants issued. These warrants are included in the outstanding options and warrant table below and considered exercisable at November 30, 2008.

The Company granted 257,500 options during the three months ended August 31, 2007, which vested one-third on August 31, 2007, one-third on November 30, 2007, and one-third on February 28, 2008, expire three years from date of vesting (August 31, 2010, November 30, 2010, and February 28, 2011, respectively), had an exercise price equal to \$1.00 above the lowest sales price of the Company's stock on the day prior to the date of grant (\$9.90), had a contractual term between 2 years and 3.7 years and a grant date fair value of \$3.26 per share. In connection with this option grant, there were 15,000 options granted to an outside director that expire on September 9, 2009, which had a contractual life of 2.1 years and a grant date fair value of \$2.57 per share.

In addition, the Company issued 17,500 warrants during the three months ended August 31, 2007 to purchase the Company's common stock at an exercise price of \$10.90 per share as consideration for past legal services rendered. The warrants were exercisable immediately, expire three years from date of issuance and had a fair value on issuance date of \$3.26 per warrant determined based upon a Black-Sholes valuation model (refer to the table below for assumptions used to determine fair value). Accordingly, the Company recorded additional legal expense in the amount

of approximately \$57 during the three and nine months ended November 30, 2007, representing the fair value of the warrants issued. These warrants are included in the outstanding options and warrant table below and considered exercisable at November 30, 2007.

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Audiovox Corporation and Subsidiaries  
Notes to Consolidated Financial Statements, continued  
November 30, 2008  
(Dollars in thousands, except share and per share data)  
(unaudited)

The fair value of stock options and warrants on the date of grant, and the assumptions used to estimate the fair value of the stock options and warrants using the Black-Sholes option valuation model granted during the respective periods were as follows:

|  | Three and nine months ended November 30, |  |
|--|--|--|
|  | 2008                                     | 2007   |
| Dividend yield                               | 0%                                       | 0%   |
| Weighted-average expected volatility         | 47.0%                                    | 47.0%  |
| Risk-free interest rate                      | 5.00%                                    | 4.57%  |
| Expected life of options/warrants (in years) | 2.00                                     | 2.00 - 3.00                                      |
| Fair value of options/warrants granted       | \$1.44                                   | \$3.26 (3 year option)<br>\$2.57 (2 year option) |

The expected dividend yield is based on historical and projected dividend yields. The Company estimates expected volatility based primarily on historical daily price changes of the Company's stock equal to the expected life of the option. The risk free interest rate is based on the U.S. Treasury yield in effect at the time of the grant. The expected option term is the number of years the Company estimates the options will be outstanding prior to exercise based on employment termination behavior.

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

|  | Number of Shares | Weighted Average Exercise Price | Weighted Average Remaining Contractual Term |
|--|------------------|---------------------------------|---|
| Outstanding and exercisable at February 29, 2008 | 1,567,036        | \$ 13.96                        |   |
| Granted  | 214,750          | 4.83                            |   |
| Exercised  | (10,000)         | 4.63                            |   |
| Forfeited/expired                                | (314,952)        | 13.29                           |   |
| Outstanding and exercisable at November 30, 2008 | 1,456,834        | \$ 12.82                        | 0.92  |

At November 30, 2008, the Company had unrecognized compensation costs and professional fees of approximately \$138 and \$13, respectively related to non-vested options and warrants granted during the three and nine months ended November 30, 2008. The unrecognized compensation costs related to these options and warrants will be completely recognized by the fiscal year ending February 28, 2009.

At November 30, 2007, the Company had unrecognized compensation costs of approximately \$276 related to non-vested options granted during the nine months ended November 30, 2007. The unrecognized compensation costs

related to these options was completely recognized at the fiscal year ending February 29, 2008.

(3) Discontinued Operations

The net income from discontinued operations for the nine months ended November 30, 2007 of \$2,111, net of income tax expense of \$1,137, is primarily due to legal settlements and related legal and administrative costs associated with contingencies pertaining to the Company's discontinued cellular business (see Note 16).

(4) Net (Loss) Income Per Common Share

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

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

|  | Three Months Ended<br>November 30, |            | Nine Months Ended<br>November 30, |            |
|--|------------------------------------|------------|-----------------------------------|------------|
|  | 2008                               | 2007       | 2008                              | 2007       |
| Weighted-average common shares outstanding                             | 22,864,668                         | 22,852,781 | 22,858,777                        | 22,853,108 |
| Effect of dilutive securities:   |                                    |            |                                   |            |
| Stock options and warrants   | 2,567                              | 4,574      | -                                 | 27,155     |
| Weighted-average common shares and potential common shares outstanding | 22,867,235                         | 22,857,355 | 22,858,777                        | 22,880,263 |

Audiovox Corporation and Subsidiaries  
Notes to Consolidated Financial Statements, continued  
November 30, 2008  
(Dollars in thousands, except share and per share data)  
(unaudited)

Stock options and warrants totaling 1,602,633 and 1,617,026 for the three months ended November 30, 2008 and 2007, respectively, and 1,570,279 and 1,354,482 for the nine months ended November 30, 2008 and 2007, respectively, were not included in the net (loss) income per diluted share calculation because the exercise price of these options and warrants was greater than the average market price of the Company's common stock during these periods or their inclusion would have been anti-dilutive.

(5) Fair Value Measurements

In September 2006, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 157, Fair Value Measurements ("SFAS No. 157"), which defines fair value, establishes a framework for measuring fair value in accordance with GAAP, and expands disclosures about fair value measurements. The statement clarifies that the exchange price is the price in an orderly transaction between market participants to sell an asset or transfer a liability at the measurement date. The statement emphasizes that fair value is a market-based measurement and not an entity-specific measurement. It also establishes a fair value hierarchy used in fair value measurements and expands the required disclosures of assets and liabilities measured at fair value. For financial assets and liabilities, this statement is effective for fiscal periods beginning after November 15, 2007 and does not require any new fair value measurements. In February 2008, the Financial Accounting Standards Board Staff Position No. 157-2 ("FSP No. 157-2") was issued which delayed the effective date of SFAS No. 157 to fiscal years beginning after November 15, 2008 for non-financial assets and liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually).

The Company adopted the provisions of SFAS No. 157, as amended by FSP No. 157-2, on March 1, 2008. Pursuant to the provisions of FSP No. 157-2, the Company will not apply the provisions of SFAS No. 157 until March 1, 2009 for non-financial assets and liabilities (principally goodwill and intangible assets).

In February 2007, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 159, The Fair Value Option for Financial Assets and Financial Liabilities ("SFAS No. 159"), to provide companies the option to report selected financial assets and liabilities at fair value. Upon adoption of the provisions of SFAS No. 159 on March 1, 2008, the Company did not elect the fair value option to report its financial assets and liabilities at fair value. Accordingly, the adoption of SFAS No. 159 did not have an impact on the Company's financial position or results of operations.

Fair Value Hierarchy

SFAS No. 157 specifies a hierarchy of valuation techniques based upon whether the inputs to those valuation techniques reflect assumptions other market participants would use based upon market data obtained from independent sources (observable inputs), or reflect the Company's own assumptions of market participant valuation (unobservable inputs). In accordance with SFAS No. 157, these two types of inputs have created the following fair value hierarchy:



Audiovox Corporation and Subsidiaries  
Notes to Consolidated Financial Statements, continued  
November 30, 2008  
(Dollars in thousands, except share and per share data)  
(unaudited)

- Level 1 – Quoted prices in active markets that are unadjusted and accessible at the measurement date for identical, unrestricted assets or liabilities.
- Level 2 – Quoted prices for identical assets and liabilities in markets that are not active, quoted prices for similar assets and liabilities in active markets or financial instruments for which significant inputs are observable, either directly or indirectly.
- Level 3 – Prices or valuations that require inputs that are both significant to the fair value measurement and unobservable.

SFAS No. 157 requires the use of observable market data if such data is available without undue cost and effort.

#### Measurement of Fair Value

The Company measures fair value as an exit price using the procedures described below for all assets and liabilities measured at fair value. When available, the Company uses unadjusted quoted market prices to measure fair value and classifies such items within Level 1. If quoted market prices are not available, fair value is based upon internally developed models that use, where possible, current market-based or independently-sourced market parameters such as interest rates and currency rates. Items valued using internally generated models are classified according to the lowest level input or value driver that is significant to the valuation. Thus, an item may be classified in Level 3 even though there may be inputs that are readily observable. If quoted market prices are not available, the valuation model used generally depends on the specific asset or liability being valued. The determination of fair value considers various factors including interest rate yield curves and time value underlying the financial instruments.

#### Items Measured at Fair Value on a Recurring Basis

The following table presents the Company's assets and liabilities that are measured and recorded at fair value on a recurring basis at November 30, 2008 consistent with the fair value hierarchy provisions of SFAS No. 157:

|  | Fair Value Measurements at Reporting Date Using   |   |  |
|--|---|---|--|
|  | Quoted<br>Prices in<br>Active<br>Markets for<br>Identical<br>Assets and<br>Liabilities<br>(Level 1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |
| <b>Cash and cash equivalents:</b>                    |   |   |  |
| Cash and money market funds                          | \$ 13,925   | \$ 13,925   |  |
| <b>Long-term investment securities:</b>              |   |   |  |
| Trading and available-for-sale marketable securities | 3,901   | 3,901   |  |
| Auction rate security                                | 3,658   |   | 3,658  |

|                                       |           |           |         |          |
|---------------------------------------|-----------|-----------|---------|----------|
| Other long-term investments           | 1,000     |           | 1,000   |          |
| Total long-term investment securities | 8,559     | 3,901     | 1,000   | 3,658    |
| Total assets measured at fair value   | \$ 22,484 | \$ 17,826 | \$1,000 | \$ 3,658 |

As of November 30, 2008, the Company's long-term investment securities consisted of marketable securities, an auction rate security and other long-term investments. As of November 30, 2008, the fair value of the Company's long-term investment securities as defined under SFAS No. 157 was approximately \$8,559. The Company's long-term investment securities are classified between trading and available-for-sale, and accordingly, unrealized gains and losses on long-term investment securities classified as available-for-sale are reflected as a component of accumulated other comprehensive income in stockholders' equity, net of tax. Unrealized holding gains and losses on trading securities are included in earnings.

As of November 30, 2008, the Company had \$4,550 (at par value) of an auction rate security included within its portfolio of long-term investment securities, which is collateralized by student loan portfolios, which are guaranteed by the United States government. Because there is no assurance that auctions for these securities will be successful in the near term, as of November 30, 2008, this auction rate security is classified as an available-for-sale long-term investment. As of November 30, 2008, the Company recorded approximately \$892 of unrealized losses on this auction rate note, which is included in other comprehensive loss in stockholders' equity, net of tax. The Company determined the decline in market value below cost to be temporary based upon the Company's ability to retain the investment over a period of time, which would be sufficient to allow for any recovery in market value. Any future fluctuation in the fair value related to this security that the Company deems to be temporary, including any recoveries of previous write-downs, would be recorded to accumulated other comprehensive income. If at any time in the future the Company determines that a valuation adjustment is other-than-temporary, it will record a charge to earnings in the period of determination.

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Due to recent events in the U.S. credit markets during fiscal 2009, the Company considered various valuation techniques for its auction rate security. These analyses consider, among other items, the collateral underlying the security, the creditworthiness of the issuer, the timing of the expected future cash flows, including the final maturity, and an assumption of when the next time the security is expected to have a successful auction. These securities were also compared, when possible, to other observable and relevant market data, which is limited at this time. Accordingly, these securities changed from Level 1 to Level 3 within SFAS No. 157's hierarchy since the Company's initial adoption of SFAS No. 157 on March 1, 2008. The following table presents the Company's assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) as defined in SFAS No. 157 at November 30, 2008:

|  | Fair Value<br>Measurements<br>Using<br>Significant<br>Unobservable<br>Inputs<br>(Level 3) |
|--|---|
| Balance at February 29, 2008   | \$ 0  |
| Auction rate security transferred to Level 3                             | 4,550   |
| Total unrealized loss included in accumulated other comprehensive income | (892)   |
| Balance at May 31, 2008, August 31, 2008 and November 30, 2008           | \$ 3,658  |

The carrying amount of the Company's bank obligations, long-term debt and deferred compensation (which is directly associated with the trading securities in connection with the Company's deferred compensation plan) approximates fair value (which was determined using level 1 inputs for deferred compensation and level 2 inputs for bank obligations and long-term debt) because of (i) the short-term nature of the financial instrument; (ii) the interest rate on the financial instrument being reset every quarter to reflect current market rates; (iii) the stated or implicit interest rate approximates the current market rates or are not materially different than market rates and (iv) are based on quoted prices in active markets.

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.

(6) Accumulated Other Comprehensive Income

Accumulated other comprehensive (loss) income of \$(3,275) and \$4,847 at November 30, 2008 and February 29, 2008, respectively, includes accumulated foreign currency translation (losses) gains of \$(4,848) and \$4,470, accumulated unrealized (losses) gains on investment securities classified as available-for-sale of \$(3,276) and \$377 at November 30, 2008 and February 29, 2008, respectively.

The Company's total comprehensive income was as follows:

|  | Three Months Ended<br>November 30, |          | Nine Months Ended<br>November 30, |           |
|--|------------------------------------|----------|-----------------------------------|-----------|
|  | 2008                               | 2007     | 2008                              | 2007      |
| Net income (loss)  | \$ 6,525                           | \$ 4,680 | \$ (1,008)                        | \$ 10,643 |
| Other comprehensive (loss) income:   |                                    |          |                                   |           |
| Foreign currency translation adjustments   | (4,552)                            | 2,021    | (4,848)                           | 3,378     |
| Unrealized holding (loss) gain on available-for-sale investment securities arising during the period, net of tax | (1,152)                            | 471      | (3,276)                           | 479       |
| Other comprehensive (loss) income, net of tax  | (5,704)                            | 2,492    | (8,124)                           | 3,857     |
| Total comprehensive income (loss)  | \$ 821                             | \$ 7,172 | \$ (9,132)                        | \$ 14,500 |

The changes in the net unrealized holding (loss) gain on available-for-sale investment securities arising during the periods presented above are net of tax benefits (expense) of \$737 and \$(301) for the three months ended November 30, 2008 and 2007, respectively and \$2,094 and \$(306) for the nine months ended November 30, 2008 and 2007, respectively.

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## (7) Supplemental Cash Flow Information/Changes in Stockholders' Equity

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

|                                   | Nine Months Ended<br>November 30, |          |
|-----------------------------------|-----------------------------------|----------|
|                                   | 2008                              | 2007     |
| Cash paid during the period:      |                                   |          |
| Interest (excluding bank charges) | \$ 1,224                          | \$ 1,904 |
| Income taxes (net of refunds)     | \$ 3,463                          | \$ 1,308 |

## Non-Cash Transactions

During the nine months ended November 30, 2008 and 2007, the Company recorded a non-cash compensation charge (benefit) of \$526 and \$(212), respectively, related to the rights under a call/put option previously granted to certain employees. The benefit recorded during the nine months ended November 30, 2007, was primarily due to a \$998 reduction in the call/put liability calculation as a result of the Oehlbach acquisition (Note 8). During the nine months ended November 30, 2008 and 2007, the Company recorded a non-cash stock based compensation and warrant expense of \$159 and \$609, respectively related to the grant of options and warrants to other employees, directors and certain outside service providers (Note 2).

## (8) Business Acquisitions

## Thomson Accessories

On January 29, 2007, the Company acquired certain assets and liabilities of Thomson's Americas consumer electronics accessory business as well as rights to the RCA®, Recoton®, Spikemaster®, Ambico® and Discwasher® brands for consumer electronics accessories for \$64,716, including a working capital payment of \$7,617, acquisition costs of \$2,414 and a fee currently estimated to be approximately \$4,685 related to 0.75% of future net sales of the RCA brand for five years from the date of acquisition. The fee related to the future net sales of the RCA brand was recorded in connection with the final purchase price allocation (increase to intangible assets, other current liabilities (\$890) and other long-term liabilities) as the estimated fair value of the net assets acquired exceeded the total purchase price. As the estimated fair value of the net assets acquired exceeded the total purchase price, after recording the estimated fee related to future net sales of the RCA brand, the Company reduced the estimated fair value of the non-financial assets acquired on a pro-rata basis to the adjusted purchase price of \$64,716.

The results of operations of this acquisition have been included in the consolidated financial statements from the date of acquisition. The purpose of this acquisition was to enhance the Company's market share in the accessory business, which includes rights to the RCA brand and other brand names.

## Oehlbach

On March 1, 2007, Audiovox German Holdings GmbH completed the stock acquisition of Oehlbach Kabel GmbH (“Oehlbach”), a European market leader in the accessories field for \$8,134, including acquisition costs of \$200 and an estimated contingent payment of approximately \$1,322.

The contingent payment may be due by the Company if certain earnings targets are generated by Oehlbach for a period of three years after the acquisition date (March 1, 2010). The earnings target calculation requires that if the accumulated Oehlbach operating income, including or excluding certain items exceeds 3,290 Euros over the cumulative three year period, the Company is liable to pay the excess of the operating income amount (as defined in the purchase agreement) over 3,290 Euros but not to exceed 1,000 Euros. The contingent payment was recorded in connection with the final purchase price allocation (increase to intangible assets and other long-term liabilities) as the estimated fair value of the net assets acquired exceeded the total purchase price. As the estimated fair value of the net assets acquired exceeded the total purchase price, after recording the maximum contingent payment, the Company reduced the estimated fair value of the non-financial assets acquired on a pro-rata basis to the adjusted purchase price of \$8,134.

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The results of operations of this acquisition have been included in the consolidated financial statements from the date of acquisition. The purpose of this acquisition was to expand the Company's accessory product lines to European Markets.

Incaar

On August 14, 2007, Audiovox German Holdings GmbH completed the acquisition of certain assets and the business of Incaar Limited ("Incaar"), an OEM business in Europe for \$801, including acquisition costs of \$51 and an estimated contingent payment of approximately \$400.

The contingent payment may be due by the Company if certain earnings targets are generated by Incaar for a period of two years after the acquisition date (August 14, 2009). The earnings target calculation requires that if the accumulated Incaar pre-tax income, including or excluding certain items, exceeds 1,055 Euros over the cumulative two year period, the Company is liable to pay an additional \$400, as defined in the purchase agreement. The contingent payment was recorded in connection with the final purchase price allocation (increase to intangible assets and other long-term liabilities) as the estimated fair value of the net assets acquired exceeded the total purchase price. As the estimated fair value of the net assets acquired exceeded the total purchase price, after recording the maximum contingent payment, the Company reduced the estimated fair value of the non-financial assets acquired on a pro-rata basis to the adjusted purchase price of \$801.

The results of operations of this acquisition have been included in the consolidated financial statements from the date of acquisition. The purpose of this acquisition was to add the experience, concepts and product development of an OEM business in Europe.

Technuity

On November 1, 2007, Audiovox Accessories Corporation completed the acquisition of all of the outstanding stock of Technuity, Inc. ("Technuity"), an emerging leader in the battery and power products industry and the exclusive licensee of the Energizer® brand in North and Latin Americas for rechargeable batteries and battery packs for camcorders, cordless phones, digital cameras, DVD players and other power supply devices. As consideration for Technuity, the Company paid the following:

|                                       |    |        |
|---------------------------------------|----|--------|
| Purchase Price (net of cash acquired) | \$ | 20,373 |
| Final working capital credit          | \$ | (317)  |
| Acquisition related costs             |    | 1,131  |
| Total Purchase Price                  | \$ | 21,187 |

In addition, a minimum working capital payment, as defined in the agreement, and a maximum contingent payment of \$1,000 may be due from the Company if certain sales and gross margin targets are met for a period of twelve months after the acquisition date. The sales and gross margin targets require that net sales exceed \$26.5 million and gross margin exceeds \$7.65 million, as defined in the purchase agreement. As of November 30, 2008, no amount has been

accrued for the contingency payment as the sales and gross margin targets have not been met.

The results of operations of this acquisition have been included in the consolidated financial statements from the date of acquisition. The purpose of this acquisition was to further strengthen our accessory product lines and core offerings, to be the exclusive licensee of the Energizer® brand in North and Latin Americas for rechargeable batteries and power supply systems and to increase the Company's market share in the consumer electronics accessory business.

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

Assets acquired:

|  |    |        |
|--|----|--------|
| Accounts receivable, net               | \$ | 3,920  |
| Inventory                              |    | 4,007  |
| Property, plant and equipment, net     |    | 103    |
| Other long-term assets                 |    | 241    |
| Trademarks and other intangible assets |    | 6,380  |
| Goodwill                               |    | 11,326 |
| Total assets acquired                  | \$ | 25,977 |

Liabilities assumed:

|  |    |        |
|--|----|--------|
| Accounts payable                       | \$ | 3,689  |
| Accrued expenses and other liabilities |    | 624    |
| Deferred tax liabilities               |    | 407    |
| Other liabilities                      |    | 70     |
| Total liabilities assumed              | \$ | 4,790  |
| Total purchase price                   | \$ | 21,187 |



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## Thomson Audio/Video

On December 31, 2007, the Company completed the acquisition of certain assets and liabilities of Thomson's U.S., Canada, Mexico, China and Hong Kong consumer electronics audio/video business as well as the rights to the RCA brand for the audio/video field of use. As consideration for Thomson's audio/video business, the Company paid the following:

|                              |           |
|------------------------------|-----------|
| Purchase price               | \$ 13,188 |
| Net asset payment            | 11,093    |
| Acquisition related costs    | 925       |
|                              | 25,206    |
| Less: Multimedia license fee | (10,000)  |
| Total net purchase price     | \$ 15,206 |

In addition, the Company agreed to pay Thomson a 1% fee related to future net sales of the RCA brand for the audio/video field of use for five years (beginning in 2010 through 2014).

Contemporaneous with this transaction, the Company entered into a license agreement with Multimedia Device Ltd., a Chinese manufacturer, to market certain product categories acquired in the acquisition for an upfront fee of \$10,000, the purchase of certain inventory, which amounted to approximately \$4,700, plus a 1% royalty payment on future net RCA sales beginning in 2008 and continuing in perpetuity. Beginning in 2010 through 2014, this royalty fee increases to 2% of future net sales. Accordingly, the upfront license fee of \$10,000 will reduce the Company's cost of the transaction (refer to purchase price above).

The results of operations of this acquisition have been included in the consolidated financial statements from the date of acquisition. The purpose of this acquisition was to control the RCA trademark for the audio/video field of use and to expand our core product offerings into certain developing markets.

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

## Assets acquired:

|   |           |
|---|-----------|
| Inventory   | \$ 19,178 |
| Tooling   | 102       |
| Trademarks and other intangible assets (less license fee) | 14,644    |
| Total assets acquired                                     | \$ 33,924 |

## Liabilities assumed:

|                            |           |
|----------------------------|-----------|
| Warranty accrual           | \$ 12,848 |
| Other liabilities acquired | 5,870     |
| Total liabilities assumed  | \$ 18,718 |
| Total purchase price       | \$ 15,206 |

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The allocation of the purchase price to assets acquired and liabilities assumed is preliminary.

The following unaudited pro-forma financial information for the three and nine months ended November 30, 2008 and 2007 represents the combined results of the Company's operations as if the Incaar, Technuity and Thomson Audio/Video acquisitions had occurred at March 1, 2007. The unaudited pro-forma financial information does not necessarily reflect the results of operations that would have occurred had the Company constituted a single entity during such period.

|                                     | Three Months Ended<br>November 30, |            | Nine Months Ended<br>November 30, |            |
|-------------------------------------|------------------------------------|------------|-----------------------------------|------------|
|                                     | 2008                               | 2007       | 2008                              | 2007       |
| Net sales                           | \$ 195,642                         | \$ 307,042 | \$ 487,433                        | \$ 835,552 |
| Net income (loss)                   | 6,525                              | (3,253)    | (1,008)                           | (12,840)   |
| Net income (loss) per share-diluted | \$ 0.29                            | \$ (0.14)  | \$ (0.04)                         | \$ (0.56)  |

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## (9) Goodwill and Intangible Assets

The change in goodwill is as follows:

|                              |           |
|------------------------------|-----------|
| Balance at February 29, 2008 | \$ 23,427 |
| Purchase of Technuity        | 5,671     |
| Balance at November 30, 2008 | \$ 29,098 |

At November 30, 2008, intangible assets consisted of the following:

|   | Gross<br>Carrying<br>Value | Amortization<br>Book Value | Accumulated<br>Total Net |
|---|----------------------------|----------------------------|--------------------------|
| Trademarks/Tradenames not subject to amortization           | \$ 81,937                  | -                          | \$ 81,937                |
| Customer relationships subject to amortization (5-20 years) | 9,866                      | 1,404                      | 8,462                    |
| Trademarks/Tradenames subject to amortization (3-12 years)  | 1,180                      | 222                        | 958                      |
| Patents subject to amortization (5-10 years)                | 1,345                      | 526                        | 819                      |
| Contract subject to amortization (5 years)                  | 1,104                      | 883                        | 221                      |
| License subject to amortization (5 years)                   | 1,400                      | -                          | 1,400                    |
| Total   | \$ 96,831                  | \$ 3,035                   | \$ 93,797                |

At February 29, 2008, intangible assets consisted of the following:

|   | Gross<br>Carrying<br>Value | Accumulated<br>Amortization | Total Net<br>Book Value |
|---|----------------------------|-----------------------------|-------------------------|
| Trademarks/Tradenames not subject to amortization           | \$ 86,368                  |                             | \$ 86,368               |
| Customer relationships subject to amortization (5-20 years) | 14,685                     | 741                         | 13,944                  |
| Patents subject to amortization (5-10 years)                | 695                        | 385                         | 310                     |
| Contract subject to amortization (5 years)                  | 1,104                      | 718                         | 386                     |
| Total   | \$ 102,852                 | \$ 1,844                    | \$ 101,008              |

The Company recorded amortization expense of \$265 and \$351 for the three months ended November 30, 2008 and 2007, respectively and \$1,162 and \$565 for the nine months ended November 30, 2008 and 2007, respectively. The estimated aggregate amortization expense for the cumulative five years ending November 30, 2013 amounts to \$6,401.

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The Company evaluates its goodwill and indefinite lived intangible assets for goodwill impairment triggering events at each reporting period in accordance with FAS No. 142. The Company's stock price has been trading below its book value and tangible book value for over four consecutive quarters. The Company attributes this low stock price to both the overall market conditions and company specific factors, including low trading volume of the Company's stock. As of November 30, 2008, the Company believes that based on operations to date and measures implemented, the amounts used in the discount cash flow model used in its February 29, 2008 annual impairment test are reasonable. Based on our evaluation, there was no impairment of goodwill or indefinite lived intangible assets in the third quarter ended November 30, 2008. Due to the recent economic volatility, including fluctuations in interest rates, growth rates and changes in demand for our products, there could be a change in the valuation of goodwill and indefinite lived intangible assets when the Company conducts its annual impairment test.

(10) Equity Investments

As of November 30, 2008 and February 29, 2008, the Company had a 50% non-controlling ownership interest in Audiovox Specialized Applications, Inc. (“ASA”) which acts as a distributor of televisions and other automotive sound, security and accessory products for specialized vehicles, such as RV’s and van conversions.

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

|                     | November<br>30,<br>2008           | February<br>29,<br>2008 |
|---------------------|-----------------------------------|-------------------------|
| Current assets      | \$ 26,514                         | \$ 26,344               |
| Non-current assets  | 4,650                             | 4,710                   |
| Current liabilities | 5,029                             | 4,611                   |
| Members' equity     | 26,135                            | 26,443                  |
|                     |                                   |                         |
|                     |                                   |                         |
|                     | Nine Months Ended<br>November 30, |                         |
|                     | 2008                              | 2007                    |
| Net sales           | \$ 43,261                         | \$ 55,194               |
| Gross profit        | 10,382                            | 16,099                  |
| Operating income    | 1,307                             | 5,010                   |
| Net income          | 1,850                             | 5,853                   |

The Company's share of income from ASA for the nine months ended November 30, 2008 and 2007, was \$925 and \$2,927, respectively. In addition, the Company received distributions from ASA totaling \$1,080 and \$1,215 during the nine months ended November 30, 2008 and 2007 respectively, which was recorded as a reduction to equity investments in the accompanying consolidated balance sheet.

(11) Income Taxes

The Company's provision for income taxes consists of U.S. and foreign taxes in amounts necessary to align the Company's year-to-date provision for income taxes with the effective tax rate that the Company expects to achieve for the full year. The Company's annual effective tax rate for fiscal 2009 is estimated to be 43.6% (which includes U.S., state and local and foreign taxes) based upon the Company's anticipated earnings both in the U.S. and in its foreign subsidiaries.

For the three months ended November 30, 2008 the Company recorded a provision for income taxes of \$4,180, which consisted of U.S., state and local and foreign taxes, as well as discrete items totaling \$301 related to a tax return to provision adjustment and the quarterly FIN No. 48 adjustment. For the three months ended November 30, 2007, the Company recorded a provision for income taxes of \$2,039 related to U.S., state and local and foreign taxes.

The Company's total unrecognized tax benefit as of November 30, 2008 was \$4,131, which, if recognized, would affect the Company's effective tax rate. As of November 30, 2008, the Company had approximately \$1,013 of accrued interest and penalties. The Company does not expect its unrecognized tax benefits to change significantly over the next twelve months.

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## (12) Accrued Sales Incentives

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

|  | Three Months Ended<br>November 30, |           | Nine Months Ended<br>November 30, |           |
|--|------------------------------------|-----------|-----------------------------------|-----------|
|  | 2008                               | 2007      | 2008                              | 2007      |
| Opening balance                          | \$ 11,796                          | \$ 11,403 | \$ 10,768                         | \$ 7,410  |
| Accruals                                 | 7,488                              | 7,385*    | 19,377                            | 22,467**  |
| Payments and credits                     | (5,845)                            | (2,980)   | (15,367)                          | (12,531)  |
| Reversals for unearned sales incentive   | (352)                              | (277)     | (524)                             | (682)     |
| Reversals for unclaimed sales incentives | (454)                              | (594)     | (1,621)                           | (1,727)   |
| Ending balance                           | \$ 12,633                          | \$ 14,937 | \$ 12,633                         | \$ 14,937 |

\* Includes \$646 of sales incentives acquired from the Technuity acquisition (Note 8).

\*\* Includes \$325 and \$646 of accrued sales incentives acquired from the Oehlbach and Technuity acquisitions (Note 9).

## (13) Product Warranties and Product Repair Costs

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

|   | Three Months Ended<br>November 30, |           | Nine Months Ended<br>November 30, |           |
|---|------------------------------------|-----------|-----------------------------------|-----------|
|   | 2008                               | 2007      | 2008                              | 2007      |
| Opening balance   | \$ 11,189                          | \$ 10,073 | \$ 17,002                         | \$ 9,586  |
| Liabilities accrued for warranties issued during the period                         | 2,653                              | 3,009     | 8,678                             | 8,178     |
| Warranty claims paid during the period (includes the acquired warranty liabilities) | (2,622)                            | (2,886)   | (14,460)                          | (7,568)   |
| Ending balance  | \$ 11,220                          | \$ 10,196 | \$ 11,220                         | \$ 10,196 |

## (14) Financing Arrangements

The Company has the following financing arrangements:

|                  | November 30,<br>2008 | February 29,<br>2008 |
|------------------|----------------------|----------------------|
| Bank Obligations |                      |                      |

|  |    |       |    |       |
|--|----|-------|----|-------|
| Domestic bank obligations<br>(a)           | \$ | -     | \$ | -     |
| Euro asset-based lending<br>obligation (b) |    | 2,018 |    | 3,070 |
| Total bank obligations                     | \$ | 2,018 | \$ | 3,070 |
| Debt                                       |    |       |    |       |
| Euro term loan agreements<br>(c)           | \$ | 5,876 | \$ | -     |
| Oehlbach (d)                               |    | 184   |    | 850   |
| Other (e)                                  |    | 1,178 |    | 853   |
| Total debt                                 | \$ | 7,238 | \$ | 1,703 |

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(a) Domestic Bank Obligations

At November 30, 2008, the Company had an unsecured credit line to fund the temporary short-term working capital needs of the domestic operations. This line expired on November 30, 2008 and was extended through December 23, 2008 when it was replaced with a secured line of credit. The new line of credit allows aggregate borrowings of up to \$15,000 at an interest rate of Prime (or similar designations) plus 1% or LIBOR plus 5%. As of November 30, 2008 and February 29, 2008, no direct amounts are outstanding under the former agreement. At November 30, 2008, the Company had \$3,526 in commercial and standby letters of credit outstanding under the unsecured credit line.

(b) Euro Asset-Based Lending Obligation

The Company has a 16,000 Euro accounts receivable factoring arrangement and a 6,000 Euro Asset-Based Lending ("ABL") (finished goods inventory and non-factored accounts receivable) credit facility for the Company's subsidiary, Audiovox Germany, which expires on October 1, 2010. Selected accounts receivable are purchased from the Company on a non-recourse basis at 85% of face value and payment of the remaining 15% upon receipt from the customer of the balance of the receivable purchased. The activity under this ABL is accounted for as a sale of accounts receivable in accordance with Statement of Financial Accounting Standards No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities" ("SFAS No. 140"), as such transfers met the criteria in SFAS No. 140. In respect of the ABL credit facility, selected finished goods are advanced at a 60% rate and non-factored accounts receivables are advanced at a 50% rate. The rate of interest is the three month Euribor plus 2.5%, and the Company pays 0.4% of its gross sales as a fee for the accounts receivable factoring arrangement. As of November 30, 2008, the amount of accounts receivable and finished goods available for factoring exceeded the amounts outstanding under this obligation.

(c) Euro Term Loan Agreement

On March 30, 2008, Audiovox Germany entered into a new 5 million Euro term loan agreement. This agreement is for a five-year term with a financial institution and was used to repay the Audiovox Germany intercompany debt to Audiovox Corporation. Payments under the term loan are to be made in two semi-annual installments of 500,000 Euros beginning on September 30, 2008 and ending on March 30, 2013. Interest accrues at a fixed rate of 4.82%. Any amount repaid can not be reborrowed. The term loan is secured by a pledge of the stock of Audiovox Germany and the Magnat brand name, prohibits the distribution of dividends, and takes precedence to all other intercompany loans with Audiovox Corporation.

(d) Oehlbach

In connection with the Oehlbach acquisition (Note 8), the Company acquired short and long term debt payable to various third parties. The interest rate on the debt ranges from 4.2% to 6.1% and is payable from November 2008 to March 2011.

(e) Other Debt

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



## (15) Other Income (Expense)

Other income (expense) is comprised of the following:

|                                   | Three Months Ended<br>November 30, |        | Nine Months Ended<br>November 30, |          |
|-----------------------------------|------------------------------------|--------|-----------------------------------|----------|
|                                   | 2008                               | 2007   | 2008                              | 2007     |
| Interest income                   | \$ 229                             | \$ 822 | \$ 1,095                          | \$ 3,379 |
| Rental income                     | 136                                | 138    | 412                               | 414      |
| Miscellaneous                     | (375)                              | (144)  | (1,132)                           | (349)    |
| Total other income (expense), net | \$ (10)                            | \$ 816 | \$ 375                            | \$ 3,444 |

Audiovox Corporation and Subsidiaries  
Notes to Consolidated Financial Statements, continued  
November 30, 2008  
(Dollars in thousands, except share and per share data)  
(unaudited)

(16) Contingencies and Derivative Settlement

Contingencies

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

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

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

Under the asset purchase agreement for the November 2004 sale of the Company's Cellular business to UTStarcom, Inc. ("UTSI"), the Company agreed to indemnify UTSI for any breach or violation by ACC and its representations, warranties and covenants contained in the asset purchase agreement and for other matters, subject to certain limitations, for a period of five years. Significant indemnification claims by UTSI could have a material adverse effect on the Company's financial condition and results of operation. The Company is not aware of any such claim(s) for indemnification.

Derivative Settlement

In November 2004, several purported double derivative, derivative and class actions were filed in the Court of Chancery of the State of Delaware, New Castle County challenging approximately \$27,000 made in payments from the proceeds of the sale of the Company's cellular business. These actions were subsequently consolidated into a single derivative complaint (the "Complaint"), In re Audiovox Corporation Derivative Litigation.

This matter was settled in May 2007 and received final Chancery court approval in June 2007. As a result of the settlement, the Company received \$6,750 in gross proceeds. The gross proceeds were offset by \$2,378 in plaintiff legal fees and \$1,023 in accrued legal and administrative costs for defending all remaining ACC legal claims. The items discussed above resulted in a pre-tax benefit of \$3,349 recorded in discontinued operations for the nine months ended November 30, 2007.

Audiovox Corporation and Subsidiaries  
Notes to Consolidated Financial Statements, continued  
November 30, 2008  
(Dollars in thousands, except share and per share data)  
(unaudited)

(17) New Accounting Pronouncements

On December 4, 2007, the Financial Accounting Standards Board ("FASB") issued Statement No. 141(R), Business Combinations ("Statement No. 141(R)") and Statement No. 160, Accounting and Reporting of Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No. 51 ("Statement No. 160"). These new standards will significantly change the financial accounting and reporting of business combination transactions and noncontrolling (or minority) interests in consolidated financial statements. Issuance of these standards is also noteworthy in that they represent the culmination of the first major collaborative convergence project between the International Accounting Standards Board and the FASB. Statement No. 141(R) is required to be adopted concurrently with Statement No. 160 and is effective for business combination transactions for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. Early adoption is prohibited. Application of Statement No. 141(R) and Statement No. 160 is required to be adopted prospectively, except for certain provisions of Statement No. 160, which are required to be adopted retrospectively. Business combination transactions accounted for before adoption of Statement No. 141(R) should be accounted for in accordance with Statement No. 141 and that accounting previously completed under Statement No. 141 should not be modified as of or after the date of adoption of Statement No. 141(R). The Company is currently evaluating the impact of Statement No. 141(R) and Statement No. 160, but does not expect the adoption of these pronouncements to have a material impact on the Company's financial position or results of operations.

In May 2008, the FASB issued Statement No. 162, "The Hierarchy of Generally Accepted Accounting Principles" ("Statement No. 162"). Statement No. 162 identifies the sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements presented in conformity with generally accepted accounting principles in the United States of America. Statement No. 162 will be effective 60 days following the SEC's approval of the Public Company Accounting Oversight Board (PCAOB) amendments to AU Section 411, "The Meaning of, Present fairly in conformity with generally accepted accounting principles". The Company does not believe the implementation of Statement No. 162 will have a material impact on its consolidated financial statements.

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

### Forward-Looking Statements

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

We begin Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") with an overview of the business. This is followed by a discussion of the Critical Accounting Policies and Estimates that we believe are important to understanding the assumptions and judgments incorporated in our reported financial results. In the next section, we discuss our results of operations for the three and nine months ended November 30, 2008 compared to the three and nine months ended November 30, 2007. We then provide an analysis of changes in our balance sheets and cash flows, and discuss our financial commitments in the sections entitled "Liquidity and Capital Resources". We conclude this MD&A with a discussion of "Related Party Transactions" and "Recent Accounting Pronouncements".

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

### Business Overview

Audiovox Corporation ("Audiovox", "We", "Our", "Us" or "Company") is a leading international distributor and value added service provider in the accessory, mobile and consumer electronics industries. We conduct our business through eight wholly-owned subsidiaries: American Radio Corp., Audiovox Accessories Corp. ("AAC"), Audiovox Consumer Electronics, Inc. ("ACE"), Audiovox Electronics Corporation ("AEC"), Audiovox German Holdings GmbH ("Audiovox Germany"), Audiovox Venezuela, C.A., Entretenimiento Digital Mexico, S. de C.V. ("Audiovox Mexico") and Code Systems, Inc. ("Code"). We market our products under the Audiovox® brand name and other brand names, such as Acoustic Research®, Advent®, Ambico®, Car Link®, Chapman®, Code-Alarm®, Discwasher®, Energizer®, Heco®, Incaar®, Jensen®, Mac Audio®, Magnat®, Movies2Go®, Oehlbach®, Phase Linear®, Prestige®, Pursuit®, RCA®, RCA Accessories™, Recoton®, Road Gear®, Spikemaster® and Terk®, as well as private labels through a large domestic and international distribution network. We also function as an OEM ("Original Equipment Manufacturer") supplier to several customers and presently have one reportable segment (the "Electronics Group"), which is organized by product category. We previously announced our intention to acquire synergistic businesses with gross profit margins higher than our core business, leverage our overhead, penetrate new markets and to expand our core business and distribution channels.

The Company is organized by product category as follows:

Electronics products include:

- mobile multi-media video products, including in-dash, overhead, headrest and portable mobile video systems,
  - autosound products including radios, speakers, amplifiers and CD changers,
  - satellite radios including plug and play models and direct connect models,

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- automotive security and remote start systems,
  - automotive power accessories,
  - car to car portable navigation systems,
- rear observation and collision avoidance systems,
- Liquid Crystal Display (“LCD”) flat panel televisions,
  - home and portable stereos,
    - two-way radios,
- digital multi-media products such as personal video recorders and MP3 products,
  - camcorders,
  - clock-radios,
  - digital voice recorders,
  - home speaker systems,
  - portable DVD players, and
    - digital picture frames.

Accessories products include:

- High-Definition Television (“HDTV”) Antennas,
  - Wireless Fidelity (“WiFi”) Antennas,
- High-Definition Multimedia Interface (“HDMI”) accessories,
  - home electronic accessories such as cabling,
    - other connectivity products,
      - power cords,
    - performance enhancing electronics,
      - TV universal remotes,
      - flat panel TV mounting systems,
        - iPod specialized products,
          - wireless headphones,
- rechargeable battery backups (UPS) for camcorders, cordless phones and portable video (DVD) batteries and accessories,
  - power supply systems and
  - electronic equipment cleaning products.

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

We have recently integrated and continue to integrate the following acquisitions, discussed below, into our existing business structure:

In December 2007, the Company completed the acquisition of certain assets and liabilities of Thomson’s U.S., Canada, Mexico, China and Hong Kong consumer electronics audio/video business for a total cash purchase price of approximately \$3,188 (net of license fee below), plus a net asset payment of \$11,093, transaction costs of \$921 and a fee related to the RCA® brand in connection with future sales for a stated period of time. The purpose of this acquisition was to control the RCA trademark for the audio video field of use and to expand our core product offerings in certain developing markets. Contemporaneous with this transaction, the Company entered into a license agreement with Multimedia Device Ltd., a Chinese manufacturer, to market certain product categories acquired in the acquisition for an upfront fee of \$10,000, the purchase of certain inventory and future royalty payments.

In November 2007, AAC completed the acquisition of all of the outstanding stock of Technuity, Inc., an emerging leader in the battery and power products industry and the exclusive licensee of the Energizer® brand in North America for rechargeable batteries and battery packs for camcorders, cordless phones, digital cameras, DVD players and other power supply devices, for a total cash purchase price of \$20,373 (net of cash acquired), plus a working capital credit of \$317, transaction costs of \$1,131 and a maximum contingent earn out payment of \$1,000, if certain sales and gross margin targets are met. The purpose of this acquisition was to further strengthen our accessory product lines and core offerings, to be the exclusive licensee of the Energizer® brand in North America for rechargeable batteries and power supply systems, and to increase the Company’s market share in the consumer electronics accessory business.

In August 2007, Audiovox Germany completed the acquisition of certain assets of Incaar Limited, a U.K. business that specializes in rear seat electronics systems, for a total purchase price of \$350, plus transaction costs of \$51 and a

maximum contingent earn out payment of \$400, if certain earnings targets are met. The purpose of this acquisition was to add the experience, concepts and product development of an Original Equipment Manufacturer (“OEM”) business to our European operations.

In March 2007, Audiovox Germany completed the stock acquisition of Oehlbach, a European market leader in the accessories business, for a total cash purchase price of \$6,661, plus transaction costs of \$200 and a contingent earn out payment, not to exceed 1 million Euros. The purpose of this acquisition was to add electronics accessory product lines to our European business.

In January 2007, we completed the acquisition of certain assets and liabilities of Thomson’s Americas consumer electronics accessory business for a total cash purchase price of approximately \$50,000, plus a working capital payment of \$7,617, plus a five year fee estimated to be \$4,685 related to the RCA brand in connection with future sales and approximately \$2,414 of transaction costs. The purpose of this acquisition was to expand our market presence in the accessory business. The acquisition included the rights to the RCA brand for consumer electronics accessories as well as the Recoton, Spikemaster, Ambico and Discwasher brands for use on any product category and the Jensen, Advent, Acoustic Research and Road Gear brands for consumer electronics accessories.



We continue to monitor economic and industry conditions in order to evaluate potential synergistic business acquisitions that would allow us to leverage overhead, penetrate new markets and expand our core business and distribution channels.

During the second quarter of fiscal year 2009, the Company approved a plan to reduce operating costs, which is primarily comprised of a world wide reduction in employees of approximately 8% of the Company's total workforce, or approximately 70 employees. For the nine months ended November 30, 2008 we have reduced our workforce by approximately 80 employees. These workforce reductions were primarily in the United States and Asia. We have incurred charges in connection with the plan of approximately \$947 for the nine months ended November 30, 2008, comprised largely of cash payments associated with one-time severance benefits. As a result of the plan, the company anticipates a cost savings in salary and compensation expenses of approximately \$6,042 on an annualized basis. The Company anticipates additional cost savings in non-employee related overhead.

The following table sets forth the workforce reduction charges recorded in the following line items in the Consolidated Statement of Operations:

|                              | Three and Nine<br>Months Ended<br>November 30, 2008 |     |
|------------------------------|---|-----|
| Selling                      | \$  | 107 |
| General & administrative     |   | 676 |
| Engineering and tech support |   | 164 |
| Total costs                  | \$  | 947 |

#### Reportable Segments

We have determined that we operate in one reportable segment, the Electronics Group, based on review of Statement of Financial Accounting Standards No. 131, "Disclosures about Segments of an Enterprise and Related Information" ("SFAS No. 131"). The characteristics of our operations that are relied on in making and reviewing business decisions include the similarities in our products, the commonality of our customers, suppliers and product developers across multiple brands, our unified marketing and distribution strategy, our centralized inventory management and logistics, and the nature of the financial information used by our Executive Officers. Management reviews the financial results of the Company based on the performance of the Electronics Group.

#### Critical Accounting Policies and Estimates

As disclosed in our Form 10-K for the fiscal year ended February 29, 2008, the discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in conformity with accounting principles generally accepted in the United States of America. The preparation of these financial statements require us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses reported in those financial statements. These judgments can be subjective and complex, and consequently, actual results could differ from those estimates. Our most critical accounting policies and estimates relate to revenue recognition; sales incentives; accounts receivable reserves; inventory reserves, goodwill and other intangible assets; warranties, stock-based compensation, income taxes and the fair value measurements of financial assets and liabilities. Since February 29, 2008, there have been no changes in our critical accounting policies or changes to the assumptions and estimates related to them, except for the accounting for the fair value measurements of financial assets and liabilities and the related disclosures, which is further discussed

in footnote 5, Fair Value Measurements, included in this Form 10-Q for the three and nine months ended November 30, 2008.

The Company evaluates its goodwill and indefinite lived intangible assets for goodwill impairment triggering events at each reporting period in accordance with FAS No. 142. The Company's stock price has been trading below its book value and tangible book value for over four consecutive quarters. The Company attributes this low stock price to both the overall market conditions and company specific factors, including low trading volume of the Company's stock. As of November 30, 2008, the Company believes that based on operations to date and measures implemented, the amounts used in the discount cash flow model used in its February 29, 2008 annual impairment test are reasonable. Based on our evaluation, there was no impairment of goodwill or indefinite lived intangible assets in the third quarter ended November 30, 2008. Due to the recent economic volatility, including fluctuations in interest rates, growth rates and changes in demand for our products, there could be a change in the valuation of goodwill and indefinted lived intangible assets when the Company conducts its annual impairment test.

### Results of Operations

As you read this discussion and analysis, refer to the accompanying consolidated statements of operations, which present the results of our operations for the three and nine months ended November 30, 2008 and 2007. We analyze and explain the differences between periods based on the specific line items of the consolidated statements of operations.

Three months ended November 30, 2008 compared to the three months ended November 30, 2007

The following tables set forth, for the periods indicated, certain statements of operations data for the three months ended November 30, 2008 and 2007.

### Net Sales

|                 | Three Months Ended November 30, |            | \$        | %      |
|-----------------|---------------------------------|------------|-----------|--------|
|                 | 2008                            | 2007       | Change    | Change |
| Electronics     | \$ 151,972                      | \$ 138,959 | \$ 13,013 | 9.4%   |
| Accessories     | 43,670                          | 44,604     | (934)     | (2.1)  |
| Total net sales | \$ 195,642                      | \$ 183,563 | \$ 12,079 | 6.6%   |

Electronic sales, which represented 77.7% of our net sales for the three months ended November 30, 2008 compared to 75.7% for the three months ended November 30, 2007 increased \$13,013, or 9.4%, primarily due to sales generated from the recently acquired RCA Audio/Video operations and increases in electronic sales of the Company's international operations in Mexico and Venezuela. This increase was partially offset by the absence of sales in select categories as the Company discontinued non-profitable product lines such as portable navigation and flat screen televisions. Additionally, sales increases were offset by declines in our mobile and audio/video categories primarily due to the weakening U.S. economy.

Accessories sales, which represented 22.3% of our net sales for the three months ended November 30, 2008 compared to 24.3% for the three months ended November 30, 2007, decreased \$934 or 2.1% as a result of the overall decline of the U.S. economy. This decrease was partially offset by sales of \$3,089 generated from the recently acquired Technuity operations.

Sales incentive expense increased \$168 to \$6,682 for the three months ended November 30, 2008 compared to the prior year period as a result of an increase in sales to those accounts that require sales incentive support. The increase in sales incentive expense also includes a \$65 decrease in reversals. The decrease in sales incentive reversals was primarily due to an increase of \$75 in unearned sales incentives partially offset by a \$140 decrease in unclaimed sales incentives, respectively, as a result of large retail customers not reaching their minimum sales targets and increased customer claims of their sales incentive funds. We believe the reversal of earned but unclaimed sales incentives upon the expiration of the claim period is a disciplined, rational, consistent and systematic method of reversing unclaimed sales incentives. These sales incentive programs are expected to continue and will either increase or decrease based upon competition and customer demands.

#### Gross Profit

|                         | Three Months Ended November |             | \$       | %     |
|-------------------------|-----------------------------|-------------|----------|-------|
|                         | 2008                        | 30,<br>2007 |          |       |
| Gross profit            | \$ 38,958                   | \$ 34,991   | \$ 3,967 | 11.3% |
| Gross margin percentage | 19.9%                       | 19.1%       |          |       |

The Company's gross margin improved 80 basis points as price increases instituted in the second quarter to offset increased warehouse, shipping, warranty and product costs took effect. Gross margins were also impacted by the increased sales of consumer electronics products during the quarter, which have a lower gross margin than mobile or accessory products.

#### Operating Expenses and Operating Loss

|                                   | Three Months Ended November |             | \$         | %        |
|-----------------------------------|-----------------------------|-------------|------------|----------|
|                                   | 2008                        | 30,<br>2007 |            |          |
| Operating Expenses:               |                             |             |            |          |
| Selling                           | \$ 8,370                    | \$ 9,828    | \$ (1,458) | (14.8) % |
| General and administrative        | 16,500                      | 16,948      | (448)      | (2.6)    |
| Engineering and technical support | 2,436                       | 2,600       | (164)      | (6.3)    |
| Operating expenses                | 27,306                      | 29,376      | (2,070)    | (7.0)    |

|                  |        |       |       |       |
|------------------|--------|-------|-------|-------|
| Operating income | 11,652 | 5,615 | 6,037 | 107.5 |
|------------------|--------|-------|-------|-------|

Operating expenses decreased \$2,070 or 7.0%, to \$27,306 for the three months ended November 30, 2008, from \$29,376 for the three months ended November 30, 2007. As a percentage of net sales, operating expenses decreased to 14.0% for the three months ended November 30, 2008, from 16.0% for the three months ended November 30, 2007. The decrease in total operating expenses is primarily due to our expense and workforce reduction programs partially offset by \$4,335 of costs related to the recently acquired Technuity and RCA Audio/Video operations.

The following table sets forth, for the periods indicated, total operating expenses from our core business and the incremental operating expenses related to the recently acquired Technuity and RCA Audio/Video businesses.

|   | Three Months Ended   |           | \$         | %        |
|---|----------------------|-----------|------------|----------|
|   | November 30,<br>2008 | 2007      |            |          |
| Core operating expenses                     | \$ 22,971            | \$ 29,103 | \$ (6,132) | (21.1) % |
| Operating expenses from acquired businesses | 4,335                | 273       | 4,062      | 1,487.9  |
| Total operating expenses                    | \$ 27,306            | \$ 29,376 | \$ (2,070) | (7.0) %  |

Selling expenses decreased \$1,458, or 14.8%, to \$8,370 for the three months ended November 30, 2008 from \$9,828 for the three months ended November 30, 2007, primarily due to workforce reductions, decreased commissions as a result of lower commissionable sales, a decline in travel and entertainment expenses as a result of expense control programs, and a decline in trade show expense as the Company has reviewed the amount of trade shows it attends. These decreases were partially offset by \$922 of selling expenses for the three months ended November 30, 2008 related to the recently acquired Technuity and RCA Audio/Video operations.

General and administrative expenses decreased \$448 or 2.6%, to \$16,500 for the three months ended November 30, 2008 from \$16,948 for the three months ended November 30, 2007 primarily due to workforce reductions as well as a decrease in general office expenses which were partially offset by \$3,055 of expenses for the three months ended November 30, 2008 for the recently acquired operations of Technuity and RCA Audio/Video, increased professional fees as a result of intellectual property costs, and a \$262 increase in bad debt reserves.

Engineering and technical support expenses decreased \$164, or 6.3%, to \$2,436 for the three months ended November 30, 2008 from \$2,600 for the three months ended November 30, 2007 due to workforce reductions, partially offset by \$358 of expenses for the three months ended November 30, 2008 related to the recently acquired Technuity and RCA Audio/Video operations.

#### Other Income (Expense)

|   | Three Months Ended   |          | \$         | %         |
|---|----------------------|----------|------------|-----------|
|   | November 30,<br>2008 | 2007     |            |           |
| Interest and bank charges                                 | \$ (453)             | \$ (723) | \$ 270     | (37.3) %  |
| Equity in income or (share in losses) of equity investees | (484)                | 1,011    | (1,495)    | (147.9)   |
| Other, net  | (10)                 | 816      | (826)      | (101.2)   |
| Total other income (loss), net                            | \$ (947)             | \$ 1,104 | \$ (2,051) | (185.8) % |

Interest and bank charges represent expenses for bank obligations of Audiovox Corporation and Audiovox Germany and interest for a capital lease. The decrease in interest and bank charges is primarily due to a reduction in the average monthly outstanding bank obligations of Audiovox Germany during the period.

Equity in income of equity investee decreased due to decreased equity income of Audiovox Specialized Applications, Inc (ASA) as a result of decreased sales due to the weakening U.S. economy and price competition in the LCD television market, which required ASA to take a markdown of its inventory totaling \$1,022 for the third quarter ending November 30, 2008.

Other income decreased due to a decline in interest income as a result of a decline in our short-term investment holdings due to cash utilized for acquisitions as well as current working capital requirements.

#### Income Tax Benefit/Provision

The effective tax rate for the three months ended November 30, 2008 was a provision of 37.1% compared to a provision of 30.3% in the prior period. For the three months ended November 30, 2008, the effective tax rate is higher than the statutory rate due to changes in anticipated earnings for fiscal 2009 and by discrete tax items related to return to provision adjustments and the quarterly FIN No. 48 adjustments. For the three months ended November 30, 2007, the effective tax rate was lower than the statutory rate due to the investment in tax exempt securities.

#### Net (Loss) Income

The following table sets forth, for the periods indicated, selected statement of operations data beginning with operating (loss) income from continuing operations to reported net (loss) income and basic and diluted net (loss) income per common share.

|   | Three Months Ended<br>November 30, |          |
|---|------------------------------------|----------|
|   | 2008                               | 2007     |
| Operating income                                      | \$ 11,652                          | \$ 5,615 |
| Other income (loss), net                              | (947)                              | 1,104    |
| Income from continuing operations before income taxes | 10,705                             | 6,719    |
| Income tax expense                                    | 4,180                              | 2,039    |
| Net income  | \$ 6,525                           | \$ 4,680 |
| Net income per common share:                          |                                    |          |
| Basic   | \$ 0.29                            | \$ 0.20  |
| Diluted   | \$ 0.29                            | \$ 0.20  |

Net income for the three months ended November 30, 2008 was \$6,525 compared to a net income of \$4,680 in the prior year period. Net income per share for the three months ended November 30, 2008 was \$0.29 (diluted) as compared to net income per share of \$0.20 (diluted) for the prior year period. Net loss was favorably impacted by sales incentive reversals of \$806 (\$491 after taxes) and \$871 (\$531 after taxes) for the three months ended November 30, 2008 and 2007, respectively.

Nine months ended November 30, 2008 compared to the nine months ended November 30, 2007

The following tables set forth, for the periods indicated, certain statement of operations data for the nine months ended November 30, 2008 and 2007.

#### Net Sales

|                 | Nine Months Ended    |            | \$        | %       |
|-----------------|----------------------|------------|-----------|---------|
|                 | November 30,<br>2008 | 2007       |           |         |
| Electronics     | \$ 377,353           | \$ 341,205 | \$ 36,148 | 10.6%   |
| Accessories     | 110,080              | 118,880    | (8,800)   | (7.4) % |
| Total net sales | \$ 487,433           | \$ 460,085 | \$ 27,348 | 5.9%    |

Electronics sales, which represented 77.4% of our net sales for the nine months ended November 30, 2008 compared to 74.2% in the prior year period, increased \$36,148 or 10.6% primarily due to sales generated from the recently acquired RCA Audio/Video operations, increases in the electronics sales of the Company's international operations in Mexico and Venezuela, and increases in our OEM business. These increases were partially offset by declines in our mobile audio and video product lines as a result of an overall decline in the U.S. economy, lower consumer demand for electronics products and a decline in vehicle sales.

Accessories sales, which represented 22.6% of our net sales for the nine months ended November 30, 2008 compared to 25.8% in the prior year period, decreased \$8,800 or 7.4% primarily due to a decline in demand for consumer electronics products as a result of the overall decline in the U.S. economy. This decrease was partially offset by sales of \$4,856 generated from the recently acquired Technuity operations.

Sales incentive expense decreased \$2,826 to \$17,232 for the nine months ended November 30, 2008 compared to the prior year period as a result of a decrease in sales to those accounts that require sales incentive support. The decrease in sales incentive expense was partially offset by a \$264 decrease in reversals. The decrease in sales incentive reversals was primarily due to a decrease of \$158 in unearned sales incentives as a result of large retail customers reaching their minimum sales targets and a \$106 decrease in unclaimed sales incentives due to decreased customer claims of their sales incentive funds. We believe the reversal of earned but unclaimed sales incentives upon the expiration of the claim period is a disciplined, rational, consistent and systematic method of reversing unclaimed sales incentives. These sales incentive programs are expected to continue and will either increase or decrease based upon competition and customer demands.

#### Gross Profit

|                         | Nine Months Ended    |           | \$       | %       |
|-------------------------|----------------------|-----------|----------|---------|
|                         | November 30,<br>2008 | 2007      |          |         |
| Gross profit            | \$ 86,533            | \$ 86,654 | \$ (121) | (0.1) % |
| Gross margin percentage | 17.8%                | 18.8%     | -1.0%    |         |





Gross margins decreased by 100 basis points from 18.8% to 17.8%. Gross margins during the first six months of this fiscal year were impacted by increased energy costs, transportation expenses, increases in labor and material costs, and foreign exchange increases versus the U.S. dollar. To offset this pressure on our gross margins, the Company instituted price increases in the second quarter. The impact of these price increases were not fully realized until the third quarter. Further, during the first quarter, the Company exited the portable navigation business as a result of industry trends and the highly competitive market. As a result, the Company took a charge of \$2,900.

#### Operating Expenses and Operating( Loss) Income

|                                   | Nine Months Ended |           | \$       | %         |
|-----------------------------------|-------------------|-----------|----------|-----------|
|                                   | 2008              | 2007      |          |           |
| <b>Operating Expenses:</b>        |                   |           |          |           |
| Selling                           | \$ 26,598         | \$ 26,534 | \$ 64    | 0.2%      |
| General and administrative        | 52,004            | 45,153    | 6,851    | 15.2      |
| Engineering and technical support | 8,219             | 7,010     | 1,209    | 17.2      |
| Operating expenses                | \$ 86,821         | \$ 78,697 | \$ 8,124 | 10.3      |
| Operating income (loss)           | (288)             | 7,957     | (8,245)  | (103.6) % |

Operating expenses increased \$8,124 or 10.3%, to \$86,821 for the nine months ended November 30, 2008, from \$78,697 for the nine months ended November 30, 2007. As a percentage of net sales, operating expenses increased to 17.8% for the nine months ended November 30, 2008, from 17.1% in the prior year period. The increase in total operating expenses is due to the incremental costs of \$12,315 related to the recently acquired Technuity and RCA Audio/Video operations, increased professional fees, direct labor, and general and administrative salaries and related benefits partially offset by decreased commissions, trade show expense, travel and entertainment expenses and a decrease in officers salaries. Operating expenses for the nine months ended November 30, 2007 included a \$998 benefit related to a call/put option previously granted to certain employees as a result of the reduction in the call/put liability calculation.

The following table sets forth, for the periods indicated, total operating expenses from our core business, workforce reduction charges, and the incremental operating expenses related to the recently acquired Technuity and RCA Audio/Video businesses.

|   | Nine Months Ended |           | \$         | %       |
|---|-------------------|-----------|------------|---------|
|   | 2008              | 2007      |            |         |
| Core operating expenses                     | \$ 73,559         | \$ 78,422 | \$ (4,863) | (6.2) % |
| Operating expenses from acquired businesses | 12,315            | 275       | 12,040     | 4,378.2 |
| Workforce reduction charges                 | 947               | 0         | 947        | N/A     |
| Total operating expenses                    | \$ 86,821         | \$ 78,697 | \$ 8,124   | 10.3%   |

Selling expenses increased \$64, or .2%, to \$26,598 for the nine months ended November 30, 2008 from \$26,534 for the nine months ended November 30, 2007 due to decreased commissions as a result of a decrease in commissionable sales, a decline in travel and entertainment expenses, and a decline in trade show expenses. These declines were partially offset by \$2,525 of selling expenses for the nine months ended November 30, 2008 related to the recently acquired Technuity and RCA Audio/Video operations and \$107 in workforce reduction charges.

General and administrative expenses increased \$6,851, or 15.2%, to \$52,004 for the nine months ended November 30, 2008, from \$45,153 for the nine months ended November 30, 2007 due to the following:

- \$8,621 of expenses for the nine months ended November 30, 2008 for the recently acquired operations of Technuity and RCA Audio/Video operations.
- An increase in salaries and related payroll taxes and benefits partially due to a \$998 benefit recorded in the prior year related to a call/put option previously granted to certain employees as a result of a reduction in the call/put option liability as well as general increases to fiscal wages,
- \$1,362 increase in professional fees due to an increase in legal fees as a result of intellectual property costs and increased consulting fees, and
  - \$676 in workforce reduction charges.

The above increases were partially offset by a reduction in general insurance and other office expenses and a decrease in executive bonuses as a result of the Company's operating results.

Engineering and technical support expenses increased \$1,209, or 17.2%, to \$8,219 for the nine months ended November 30, 2008 from \$7,010 for the nine months ended November 30, 2007 due to \$164 of workforce reduction charges and \$1,169 of expenses for the nine months ended November 30, 2008 related to the recently acquired Technuity and RCA Audio/Video operations and a \$272 increase in direct labor and related payroll taxes and benefits due to increases in the customer support group.

#### Other Income (Expense)

|                                      | Nine Months Ended    |            | \$         | %         |
|--------------------------------------|----------------------|------------|------------|-----------|
|                                      | November 30,<br>2008 | 2007       |            |           |
| Interest and bank charges            | \$ (1,439)           | \$ (2,087) | \$ 648     | (31.0) %  |
| Equity in income of equity investees | 926                  | 2,927      | (2,001)    | (68.4)    |
| Other, net                           | 375                  | 3,444      | (3,069)    | (89.1)    |
| Total other (loss) income, net       | \$ (138)             | \$ 4,284   | \$ (4,422) | (103.2) % |

Interest and bank charges represent expenses for bank obligations of Audiovox Corporation and Audiovox Germany and interest for a capital lease. The decrease in interest and bank charges is primarily due to a reduction in the average monthly outstanding bank obligations of Audiovox Germany during the period.

Equity in income of equity investee decreased due to decreased equity income of Audiovox Specialized Applications as a result of decreased sales due to the weakening U.S. economy and the impact of price competition in the LCD television market, which required ASA to take a markdown of its inventory totaling \$2,018 for the nine months ending November 30, 2008.

Other income decreased due to a decline in interest income as a result of a decline in our short-term investment holdings due to cash utilized for acquisitions as well as current working capital requirements.

#### Income Tax Benefit/Provision

The effective tax rate for the nine months ended November 30, 2008 was a provision of (136.6)% compared to a provision of 30.3% in the prior period. The effective tax rate is higher than the statutory rate due to certain discrete tax items totaling \$760 that were recorded during the nine months ended November 30, 2008, related to the quarterly FIN No. 48 adjustment and foreign tax jurisdictional items.

#### Net (Loss) Income

The following table sets forth, for the periods indicated, selected statement of operations data beginning with operating loss (income) from continuing operations to reported net (loss) income and basic and diluted net (loss) income per common share.

Nine Months Ended  
November 30,

|   | 2008       | 2007      |
|---|------------|-----------|
| Operating (loss) income                               | \$ (288)   | \$ 7,957  |
| Other (loss) income, net                              | (138)      | 4,284     |
| Income from continuing operations before income taxes | (426)      | 12,241    |
| Income tax (benefit) expense                          | 582        | 3,709     |
| Net (loss) income from continuing operations          | (1,008)    | 8,532     |
| Net income from discontinuing operations, net of tax  | -          | 2,111     |
| Net (loss) income                                     | \$ (1,008) | \$ 10,643 |
| Net (loss) income per common share:                   |            |           |
| Basic   | \$ (0.04)  | \$ 0.47   |
| Diluted   | \$ (0.04)  | \$ 0.47   |

Net loss for the nine months ended November 30, 2008 was \$1,008 compared to net income of \$10,643 in the prior year period. Net loss per share for the nine months ended November 30, 2008 was \$0.04 (diluted) as compared to net income per share of \$0.47 (diluted) for the prior year period. Net loss was favorably impacted by sales incentive reversals of \$2,145 (\$1,308 after taxes) and \$2,409 (\$1,469 after taxes) for the nine months ended November 30, 2008 and 2007, respectively.

## Liquidity and Capital Resources

### Cash Flows, Commitments and Obligations

As of November 30, 2008, we had working capital of \$269,575 which includes cash and equivalents of \$13,925, compared with working capital of \$275,787 at February 29, 2008, which included cash and equivalents of \$39,341. The decrease in cash and equivalents is primarily due to the increases in the accounts receivable balance. This increase was offset by increases in accounts payable and accrued expenses and borrowings from bank obligations. We plan to utilize our current cash position as well as collections from our accounts receivable to fund the current operations of the business. However, we may utilize all or a portion of current capital resources to pursue other business opportunities, including acquisitions.

Operating activities used cash of \$26,711 for the nine months ended November 30, 2008 compared to cash used of \$92,870 for the nine months ended November 30, 2007. The company used less cash for its operating activities compared to the prior year period due to improved inventory turns, a decrease in vendor receivables, an increase in accounts payable and accrued expenses and improved accounts receivable turns, offset by a decline in net income from continuing operations.

The following significant fluctuations in the balance sheet accounts impacted cash flows from operations:

- Cash flows from operating activities for the nine months ended November 30, 2008 were impacted by an increase in accounts receivable primarily due to higher sales volume during the third quarter. However, the Company experienced increased accounts receivable turnover which approximated 4.9 during the nine months ended November 30, 2008 compared to 4.6 during the nine months ended November 30, 2007.
- Cash flows from operations were impacted by an increase in our inventory balances due to increased purchases in connection with the upcoming holiday season. However, inventory turnover improved approximating 4.2 during the nine months ended November 30, 2008 compared to 4.0 during the nine months ended November 30, 2007.

Investing activities used cash of \$3,586 during the nine months ended November 30, 2008, primarily due to capital expenditures. Investing activities provided cash of \$100,224 during the nine months ended November 30, 2007, primarily due to the sales (net of purchases) of short-term investments partially offset by the Technuity, Oehlbach and Incaar acquisitions and purchases of property, plant and equipment.

Financing activities provided cash of \$5,523 during the nine months ended November 30, 2008, primarily from borrowings from the Euro term loan. Financing activities used cash of \$2,407 during the nine months ended November 30, 2007, primarily from the purchase of treasury stock and principal payments on debt partially offset by the proceeds received from the exercise of stock options.

As of December 23, 2008 we have a secured domestic credit line to fund the temporary short-term working capital needs of the Company. This line expires March 31, 2009 and allows aggregate borrowings of up to \$15,000 at an interest rate of Prime (or similar designations) plus 1% or LIBOR plus 5%. This line is secured by the Company's domestic accounts receivable and inventory and requires a borrowing base of 50% of accounts receivable. In addition, Audiovox Germany has a 16,000 Euro accounts receivable factoring arrangement and a 6,000 Euro Asset-Based Lending ("ABL") credit facility, which expires October 1, 2010.

As discussed in Note 5. Fair Value Measurements, to our unaudited consolidated financial statements included in this Form 10-Q for the nine months ended November 30, 2008, we adopted the provisions of SFAS No. 157, as amended by FSP No. 157-2, effective March 1, 2008. We utilized unobservable (Level 3) inputs in determining the fair value of an auction rate security we hold totaling \$3,658 at November 30, 2008.

As of November 30, 2008, \$4,550 (at par value) of our long-term investment securities was comprised of an auction rate security. Liquidity for this auction rate security is typically provided by an auction process, which allows holders to sell their notes, and resets the applicable interest rate at pre-determined intervals. During the first calendar quarter of 2008, we began experiencing failed auctions on this auction rate security. An auction failure means that the parties wishing to sell their securities could not be matched with an adequate volume of buyers. In the event that there is a failed auction, the indenture governing the security requires the issuer to pay interest at a contractually defined rate. The securities for which the auctions have failed will continue to accrue interest at the contractual rate and continue to reset at the next auction date every 7 or 28 days until the auction succeeds, the issuer calls the securities, or they mature. Because there is no assurance that auctions for these securities will be successful in the near term and due to our ability and intent to hold these securities to maturity, this auction rate security is classified as a long-term investment in our consolidated balance sheets as of November 30, 2008 and February 29, 2008.

Our auction rate security is classified as available-for-sale and is reflected at fair value. In prior periods during the auction process, which took place every 7-28 days for most securities, quoted market prices were readily available, which would qualify as Level 1 under SFAS No. 157. However, due to events in credit markets during fiscal 2009, the auction events for most of these instruments failed, and, therefore, we have determined the estimated fair value of this security utilizing a discounted cash flow analysis or other type of valuation model as of November 30, 2008. These analyses consider, among other items, the collateral underlying the security, the credit worthiness of the issuer, the timing of the expected future cash flows, including the final maturity, associated with this security, and an assumption of when the next time the security is expected to have a successful auction. This security was also compared, when possible, to other observable and relevant market data, which is limited at this time. Due to these events, we reclassified this instrument as Level 3 during the first quarter of fiscal 2009 and recorded a temporary unrealized decline in fair value of approximately \$892, with an offsetting entry to accumulated other comprehensive income. We currently believe that this temporary decline in fair value is primarily due to liquidity concerns, because the underlying asset is backed by the U.S. Government. In addition, our auction rate security represented approximately 16.2% of our combined cash equivalents and long-term investment securities balance at November 30, 2008, which we believe allows us sufficient time for the security to return to full value. Because we believe that the current decline in fair value is temporary and based primarily on liquidity issues in the credit markets, any difference between our estimate and an estimate that would be arrived at by another party would have no impact on our earnings, since such difference would also be recorded to accumulated other comprehensive income. We will re-evaluate each of these factors as market conditions change in subsequent periods.

Certain contractual cash obligations and other commercial commitments will impact our short and long-term liquidity. At November 30, 2008, such obligations and commitments are as follows:

| Contractual Cash Obligations       | Total     | Payments Due by Period |              |              |                  |
|------------------------------------|-----------|------------------------|--------------|--------------|------------------|
|                                    |           | Less than<br>1 Year    | 1-3<br>Years | 4-5<br>Years | After<br>5 Years |
| Capital lease obligation (1)       | \$ 11,058 | \$ 521                 | \$ 1,043     | \$ 1,147     | \$ 8,347         |
| Operating leases (2)               | 31,155    | 4,112                  | 6,554        | 5,096        | 15,393           |
| Total contractual cash obligations | \$ 42,213 | \$ 4,633               | \$ 7,597     | \$ 6,243     | \$ 23,740        |

| Other Commercial Commitments           | Total<br>Amounts<br>Committed | Amount of Commitment Expiration per period |              |              |                  |
|--|-------------------------------|--|--------------|--------------|------------------|
|  |                               | Less than<br>1 Year                        | 1-3<br>Years | 4-5<br>Years | After<br>5 years |
| Bank obligations (3)                   | \$ 2,018                      | \$ 2,018                                   | -            | -            | -                |
| Stand-by letters of credit (4)         | 2,356                         | 2,356                                      | -            | -            | -                |
| Commercial letters of credit (4)       | 1,170                         | 1,170                                      | -            | -            | -                |
| Debt (5)                               | 7,238                         | 1,294                                      | 3,945        | 1,999        | -                |
| Contingent earn-out payments (6)       | 5,158                         | 890  | 3,621        | 647          | -                |
| Unconditional purchase obligations (7) | 42,718                        | 42,718                                     | -            | -            | -                |
| Total commercial commitments           | \$ 60,658                     | \$ 50,446                                  | \$ 7,566     | \$ 2,646     | \$ -             |

1. Represents total payments (interest and principal) due under a capital lease obligation which has a current (included in other current liabilities) and long term principal balance of \$74 and \$5,551, respectively at November 30, 2008.

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

3. Represents amounts outstanding under the Audiovox Germany Euro asset-based lending facility at November 30, 2008.
4. Commercial letters of credit are issued during the ordinary course of business through major domestic banks as requested by certain suppliers. We also issue standby letters of credit to secure certain bank obligations and insurance requirements.
5. Represents amounts outstanding under a loan agreement for Audiovox Germany. This amount also includes amounts due under a call-put option with certain employees of Audiovox Germany.
6. Represents contingent payments in connection with the Thomson Accessory, Oehlbach and Incaar acquisitions (see Note 8 of the Consolidated Financial Statements).
7. Open purchase obligations represent inventory commitments. These obligations are not recorded in the consolidated financial statements until commitments are fulfilled and such obligations are subject to change based on negotiations with manufacturers.



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

#### Off-Balance Sheet Arrangements

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

#### Subsequent Events

As of December 31, 2008, the Company sold certain assets and liabilities of American Radio, Inc. to former employees. The sale did not generate any income or loss.

#### Related Party Transactions

During 1998, we entered into a 30-year capital lease for a building with our principal stockholder and chairman, which was the headquarters of the discontinued Cellular operation. Payments on the capital lease were based upon the construction costs of the building and the then-current interest rates. This capital lease was refinanced in December 2006 and the lease expires on November 30, 2026. The effective interest rate on the capital lease obligation is 8%. On November 1, 2004, we entered into an agreement to sublease the building to Personal Communication Devices, LLC (Formerly UTStarcom) for monthly payments of \$46 until November 1, 2009. We also lease another facility from our principal stockholder which expires on November 30, 2016. Total lease payments required under all related party leases for the five-year period ending November 30, 2013 are \$17,306.

#### New Accounting Pronouncements

On December 4, 2007, the Financial Accounting Standards Board ("FASB") issued Statement No. 141(R), Business Combinations ("Statement No. 141(R)") and Statement No. 160, Accounting and Reporting of Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No. 51 ("Statement No. 160"). These new standards will significantly change the financial accounting and reporting of business combination transactions and noncontrolling (or minority) interests in consolidated financial statements. Issuance of these standards is also noteworthy in that they represent the culmination of the first major collaborative convergence project between the International Accounting Standards Board and the FASB. Statement No. 141(R) is required to be adopted concurrently with Statement No. 160 and is effective for business combination transactions for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. Early adoption is prohibited. Application of Statement No. 141(R) and Statement No. 160 is required to be adopted prospectively, except for certain provisions of Statement No. 160, which are required to be adopted retrospectively. Business combination transactions accounted for before adoption of Statement No. 141(R) should be accounted for in accordance with Statement No. 141 and that accounting previously completed under Statement No. 141 should not be modified as of or after the date of adoption of Statement No. 141(R). The Company is currently evaluating the impact of Statement No. 141(R) and Statement No.

160, but does not expect the adoption of these pronouncements to have a material impact on the Company's financial position or results of operations.

In May 2008, the FASB issued Statement No. 162, "The Hierarchy of Generally Accepted Accounting Principles" ("Statement No. 162"). Statement No. 162 identifies the sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements presented in conformity with generally accepted accounting principles in the United States of America. Statement No. 162 will be effective 60 days following the SEC's approval of the Public Company Accounting Oversight Board (PCAOB) amendments to AU Section 411, "The Meaning of, Present fairly in conformity with generally accepted accounting principles". The Company does not believe the implementation of Statement No. 162 will have a material impact on its consolidated financial statements.

ITEM 3                    QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There has been no significant change in our market risk sensitive instruments since May 31, 2008.

ITEM 4.                    CONTROLS AND PROCEDURES

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

There were no material changes in our internal control over financial reporting (as such term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) during the nine month period ended November 30, 2008 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

**PART II - OTHER INFORMATION**

**ITEM 1. LEGAL PROCEEDINGS**

See Note 16 of the Notes to the Consolidated Financial Statements in Part I, Item 1 of this Form 10-Q and Note 16 of the Form 10-K for the fiscal year ended February 29, 2008 for information regarding legal proceedings.

**ITEM 1A. RISK FACTORS**

There have been no material changes from the risk factors previously disclosed in the Company's Form 10-K for the fiscal year ended February 29, 2008.

**ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

There were no shares of common stock repurchased during the nine months ended November 30, 2008.

ITEM 6. EXHIBITS

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

SIGNATURES

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

AUDIOVOX CORPORATION

January 9, 2009

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

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

