

**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, 2007

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**

(State or other jurisdiction of  
incorporation or organization)

**13-1964841**

(I.R.S. Employer  
Identification No.)

**180 Marcus Blvd., Hauppauge, New York**

(Address of principal executive offices)

**11788**

(Zip Code)

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

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

Yes X No \_\_\_\_

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

Large accelerated filer \_\_\_\_ Accelerated filer X Non-accelerated filer \_\_\_\_

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

Yes \_\_\_\_ No X

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

<u>Class</u>	<u>As of January 9, 2008</u>
Class A Common Stock	20,593,660 Shares
Class B Common Stock	2,260,954 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)*

	<b>November 30, 2007</b>	<b>February 28, 2007</b>
	(unaudited)	
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 20,669	\$ 15,473
Short-term investments	8,277	140,872
Accounts receivable, net	157,664	86,003
Inventory	147,830	104,972
Receivables from vendors	26,701	13,935
Prepaid expenses and other current assets	12,652	11,427
Income tax receivable	581	3,518
Deferred income taxes	2,705	2,492
Total current assets	<u>377,079</u>	<u>378,692</u>
Investment securities	14,353	13,179
Equity investments	13,064	11,353
Property, plant and equipment, net	21,181	18,019
Goodwill	40,009	17,514
Intangible assets	58,101	57,874
Deferred income taxes	2,503	1,858
Other assets	649	631
Total assets	<u>\$ 526,939</u>	<u>\$ 499,120</u>

*See accompanying notes to consolidated financial statements.*

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

	<b>November 30, 2007</b>	<b>February 28, 2007</b>
	(unaudited)	
<b>Liabilities and Stockholders' Equity</b>		
Current liabilities:		
Accounts payable	\$ 39,664	\$ 34,344
Accrued expenses and other current liabilities	25,319	26,564
Accrued sales incentives	14,937	7,410
Bank obligations	3,929	2,890
Current portion of long-term debt	79	1,524
Total current liabilities	83,928	72,732
Long-term debt	2,236	5,430
Other tax liabilities	4,450	3,347
Capital lease obligation	5,625	5,676
Deferred compensation	8,618	7,573
Total liabilities	104,857	94,758
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, 22,414,212 and 22,005,346 shares issued, 20,593,660 and 20,312,299 shares outstanding at November 30, 2007 and February 28, 2007, respectively	224	220
Class B convertible, \$.01 par value; 10,000,000 shares authorized, 2,260,954 shares issued and outstanding	22	22
Paid-in capital	275,830	271,056
Retained earnings	161,873	151,363
Accumulated other comprehensive income (loss)	2,537	(1,320)
Treasury stock, at cost, 1,820,552 and 1,693,047 shares of Class A common stock at November 30, 2007 and February 28, 2007, respectively	(18,404)	(16,979)
Total stockholders' equity	422,082	404,362
Total liabilities and stockholders' equity	\$ 526,939	\$ 499,120

*See accompanying notes to consolidated financial statements.*

**Audiovox Corporation and Subsidiaries**  
**Consolidated Statements of Operations**  
**For the Three and Nine Months Ended November 30, 2007 and 2006**  
*(In thousands, except share and per share data)*  
*(unaudited)*

	Three Months Ended November 30,		Nine Months Ended November 30,	
	2007	2006	2007	2006
Net sales	\$ 183,563	\$ 151,833	\$ 460,085	\$ 360,556
Cost of sales	148,572	126,462	373,431	299,332
Gross profit	<u>34,991</u>	<u>25,371</u>	<u>86,654</u>	<u>61,224</u>
Operating expenses:				
Selling	9,828	8,114	26,534	21,626
General and administrative	16,948	13,649	45,153	36,682
Engineering and technical support	2,600	1,888	7,010	5,418
Total operating expenses	<u>29,376</u>	<u>23,651</u>	<u>78,697</u>	<u>63,726</u>
Operating income (loss)	<u>5,615</u>	<u>1,720</u>	<u>7,957</u>	<u>(2,502)</u>
Other income (expense):				
Interest and bank charges	(723)	(429)	(2,087)	(1,491)
Equity in income of equity investees	1,011	659	2,927	2,423
Other, net	816	1,118	3,444	4,827
Total other income, net	<u>1,104</u>	<u>1,348</u>	<u>4,284</u>	<u>5,759</u>
Income from continuing operations before income taxes	6,719	3,068	12,241	3,257
Income tax (expense) benefit	(2,039)	780	(3,709)	740
Net income from continuing operations	<u>4,680</u>	<u>3,848</u>	<u>8,532</u>	<u>3,997</u>
Net income (loss) from discontinued operations, net of tax	<u>-</u>	<u>6</u>	<u>2,111</u>	<u>(576)</u>
Net income	<u>\$ 4,680</u>	<u>\$ 3,854</u>	<u>\$ 10,643</u>	<u>\$ 3,421</u>
Net income (loss) per common share (basic):				
From continuing operations	\$ 0.20	\$ 0.17	\$ 0.38	\$ 0.18
From discontinued operations	-	-	0.09	(0.03)
Net income per common share (basic)	<u>\$ 0.20</u>	<u>\$ 0.17</u>	<u>\$ 0.47</u>	<u>\$ 0.15</u>
Net income (loss) per common share (diluted):				
From continuing operations	\$ 0.20	\$ 0.17	\$ 0.38	\$ 0.18
From discontinued operations	-	-	0.09	(0.03)
Net income per common share (diluted)	<u>\$ 0.20</u>	<u>\$ 0.17</u>	<u>\$ 0.47</u>	<u>\$ 0.15</u>
Weighted-average common shares outstanding (basic)	<u>22,852,781</u>	<u>22,234,399</u>	<u>22,853,108</u>	<u>22,345,183</u>
Weighted-average common shares outstanding (diluted)	<u>22,857,355</u>	<u>22,445,164</u>	<u>22,880,263</u>	<u>22,540,476</u>

*See accompanying notes to consolidated financial statements.*

**Audiovox Corporation and Subsidiaries**  
**Consolidated Statements of Cash Flows**  
**For the Nine Months Ended November 30, 2007 and 2006**  
*(In thousands)*  
*(unaudited)*

	<u>2007</u>	<u>2006</u>
Cash flows from operating activities:		
Net income	\$ 10,643	\$ 3,421
Net (income) loss from discontinued operations	<u>(2,111)</u>	<u>576</u>
Net income from continuing operations	8,532	3,997
Adjustments to reconcile net income to net cash used in continuing operating activities:		
Depreciation and amortization	3,782	2,863
Bad debt expense (recovery)	166	(51)
Equity in income of equity investees	(2,927)	(2,423)
Non-cash compensation adjustment	(212)	231
Non-cash stock based compensation and warrant expense	609	432
Loss on disposal of property, plant and equipment	14	33
Tax benefit on stock options exercised	(1,020)	(22)
Changes in operating assets and liabilities (net of assets and liabilities acquired):		
Accounts receivable	(62,762)	(44,996)
Inventory	(33,995)	8,562
Receivables from vendors	(12,696)	274
Prepaid expenses and other	2,602	(2,502)
Investment securities-trading	(1,042)	(757)
Accounts payable, accrued expenses, accrued sales incentives and other current liabilities	2,947	12,412
Income taxes payable	<u>3,132</u>	<u>518</u>
Net cash used in operating activities	<u>(92,870)</u>	<u>(21,429)</u>
Cash flows from investing activities:		
Purchases of property, plant and equipment	(5,772)	(1,917)
Proceeds from sale of property, plant and equipment	43	24
Proceeds from distribution from an equity investee	1,215	2,589
Proceeds from a liquidating distribution from an available-for-sale security	645	-
Purchase of short-term investments	(13,775)	(66,905)
Proceeds from sale of short-term investments	146,255	91,900
Purchase of patents	-	(475)
Purchase of long term investment	-	(1,000)
Purchase of acquired businesses, less cash acquired	<u>(28,387)</u>	<u>-</u>
Net cash provided by investing activities	<u>100,224</u>	<u>24,216</u>

**Audiovox Corporation and Subsidiaries**  
**Consolidated Statements of Cash Flows, continued**  
**For the Nine Months Ended November 30, 2007 and 2006**  
*(In thousands)*  
*(unaudited)*

	<b>2007</b>	<b>2006</b>
Cash flows from financing activities:		
Repayments on bank obligations	(860)	(1,425)
Principal payments on capital lease obligation	(50)	(64)
Proceeds from exercise of stock options and warrants	3,148	1,444
Principal payments on debt	(4,240)	(1,089)
Repurchase of Class A common stock	(1,425)	(4,155)
Repurchase of preferred stock	-	(5)
Tax benefit on stock options exercised	1,020	22
Net cash used in financing activities	(2,407)	(5,272)
Effect of exchange rate changes on cash	249	83
Net increase (decrease) in cash and cash equivalents	5,196	(2,402)
Cash and cash equivalents at beginning of period	15,473	16,280
Cash and cash equivalents at end of period	\$ 20,669	\$ 13,878

*See accompanying notes to consolidated financial statements.*

**Audiovox Corporation and Subsidiaries**  
**Notes to Consolidated Financial Statements**  
**November 30, 2007**  
*(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 28, 2007. Certain reclassifications have been made to prior year amounts on the accompanying balance sheet in order to conform to the current year presentation (see Note 10).

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 and warranty reserves. 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 28, 2007. There have been no changes to the Company's significant accounting policies subsequent to February 28, 2007, except for the accounting for uncertain tax positions (see Note 10).

The Company has one reportable segment, the Electronics Group, which is organized by product category. The Electronics Group consists of seven wholly-owned subsidiaries: American Radio Corp., Audiovox Electronics Corporation, Audiovox Consumer Electronics, Inc., Audiovox Accessories Corporation, Audiovox German Holdings GmbH, Audiovox Venezuela, C.A. 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 28, 2007.

Stock-Based Compensation Expense

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



**Audiovox Corporation and Subsidiaries**  
**Notes to Consolidated Financial Statements, continued**  
**November 30, 2007**  
*(Dollars in thousands, except share and per share data)*  
*(unaudited)*

	<b>Three Months ended</b>		<b>Nine Months ended</b>	
	<b>November 30,</b>		<b>November 30,</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
Cost of sales	\$ 5	\$ 21	\$ 10	\$ 21
Selling expenses	64	156	128	156
General and administrative expenses	202	207	404	245
Engineering and technical support	5	10	10	10
Stock-based compensation expense before income tax benefit	<u>\$ 276</u>	<u>\$ 394</u>	<u>\$ 552</u>	<u>\$ 432</u>

The Company granted 257,500 stock options during August 2007, which vest 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), have 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 (\$10.90), have a contractual term between 2 years and 3.7 years and a grant date fair value of \$3.26 per share determined based upon a Black-Sholes valuation model (refer to the table below for assumptions used to determine fair value). In connection with this option grant, there were also 15,000 options granted to an outside director that expire on September 9, 2009, which have 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 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 are exercisable immediately, expire three years from date of issuance and have 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 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.

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 period was as follows:

	<b>Nine Months Ended</b>
	<b>November 30, 2007</b>
Dividend yield	0%
Weighted-average expected volatility	47.0%
Risk-free interest rate	4.57%
Expected life of options (in years)	2.00 - 3.00
Fair value of options/warrants granted	\$3.26 (3 year option) \$2.57 (2 year option)

**Audiovox Corporation and Subsidiaries**  
**Notes to Consolidated Financial Statements, continued**  
**November 30, 2007**  
*(Dollars in thousands, except share and per share data)*  
*(unaudited)*

The Company granted 105,000 stock options during the three and nine months ended November 30, 2006, which vested immediately, had exercise prices equal to the fair market value of the stock on the date of grant and a contractual term of two years. The per share fair value of stock options granted during the three and nine months ended November 30, 2006 was \$4.15 and \$3.75. These fair values were determined using the Black-Sholes option valuation model with the following assumptions:

	<u>Three Months Ended</u> <u>November 30, 2006</u>	<u>Nine Months</u> <u>Ended</u> <u>November 30, 2006</u>
Dividend yield	0%	0%
Weighted-average expected volatility	49.9%	48.8%
Risk-free interest rate	4.67%	4.97%
Expected life of options (in years)	2.00	2.00
Fair value of options granted	\$ 4.15	\$ 3.75

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 is summarized below:

	<u>Number of Shares</u>	<u>Weighted</u> <u>Average</u> <u>Exercise</u> <u>Price</u>	<u>Weighted</u> <u>Average</u> <u>Remaining</u> <u>Contractual</u> <u>Term</u>
Outstanding at February 28, 2007	1,784,652	\$12.97	
Granted	275,000	10.90	
Exercised	(408,866)	7.70	
Forfeited/expired	(83,750)	13.68	
Outstanding at November 30, 2007	<u>1,567,036</u>	<u>13.96</u>	<u>1.86</u>
Exercisable at November 30, 2007	<u>1,481,203</u>	<u>\$14.13</u>	<u>1.78</u>

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 will be completely recognized by the fiscal year ending February 29, 2008. At February 28, 2007 and November 30, 2006, the Company had no unrecognized compensation cost as all stock options were fully vested.

**Audiovox Corporation and Subsidiaries**  
**Notes to Consolidated Financial Statements, continued**  
**November 30, 2007**  
*(Dollars in thousands, except share and per share data)*  
*(unaudited)*

(3) Discontinued Operations

The net income (loss) from discontinued operations for the three and nine months ended November 30, 2007 and 2006 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 15).

The following is a summary of the results of discontinued operations:

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>November 30,</b>		<b>November 30,</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
Net sales from discontinued operations	\$ -	\$ -	\$ -	\$ -
Income (loss) from discontinued operations before income taxes	\$ -	\$ (148)	\$ 3,248	\$ (886)
Income tax (expense) benefit	-	154	(1,137)	310
Net income (loss) from discontinued operations	<u>\$ -</u>	<u>\$ 6</u>	<u>\$ 2,111</u>	<u>\$ (576)</u>

(4) Net Income Per Common Share

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

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

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>November 30,</b>		<b>November 30,</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
Weighted-average common shares outstanding	22,852,781	22,234,399	22,853,108	22,345,183
Effect of dilutive securities:				
Stock options and warrants	4,574	210,765	27,155	195,293
Weighted-average common shares and potential common shares outstanding	<u>22,857,355</u>	<u>22,445,164</u>	<u>22,880,263</u>	<u>22,540,476</u>

Stock options totaling 1,617,026 and 1,013,000 for the three months ended November 30, 2007 and 2006, respectively, and 1,354,482 and 1,209,635 for the nine months ended November 30, 2007 and 2006,

**Audiovox Corporation and Subsidiaries**  
**Notes to Consolidated Financial Statements, continued**  
**November 30, 2007**  
*(Dollars in thousands, except share and per share data)*  
*(unaudited)*

respectively, were not included in the net income per diluted share calculation because the exercise price of these options was greater than the average market price of the Company's common stock during these periods.

(5) Accumulated Other Comprehensive Income (Loss)

Accumulated other comprehensive income (loss) of \$2,537 and \$(1,320) at November 30, 2007 and February 28, 2007, respectively, includes the net accumulated unrealized gain (loss) on the Company's available-for-sale investment securities of \$(1,082) and \$(1,561) at November 30, 2007 and February 28, 2007, respectively, and foreign currency translation gains of \$3,619 and \$241 at November 30, 2007 and February 28, 2007, respectively.

The Company's total comprehensive income (loss) was as follows:

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>November 30,</b>		<b>November 30,</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
Net income	\$ 4,680	\$ 3,854	\$ 10,643	\$ 3,421
Other comprehensive income (loss) :				
Foreign currency translation adjustments	2,021	200	3,378	1,080
Unrealized holding gain (loss) on available-for-sale investment securities arising during the period, net of tax	471	(264)	479	(2,659)
Other comprehensive income (loss), net of tax	<u>2,492</u>	<u>(64)</u>	<u>3,857</u>	<u>(1,579)</u>
Total comprehensive income	<u>\$ 7,172</u>	<u>\$ 3,790</u>	<u>\$ 14,500</u>	<u>\$ 1,842</u>

The changes in the net unrealized holding gain (loss) on available-for-sale investment securities arising during the periods presented above are net of tax expense (benefits) of \$301 and \$(162) for the three months ended November 30, 2007 and 2006, respectively and \$306 and \$(1,630) for the nine months ended November 30, 2007 and 2006, respectively.

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

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

	<b>Nine Months Ended</b>	
	<b>November 30,</b>	
	<b>2007</b>	<b>2006</b>
Cash paid during the period:		
Interest (excluding bank charges)	\$ 1,904	\$ 929
Income taxes (net of refunds)	\$ 1,308	\$ 53

**Audiovox Corporation and Subsidiaries**  
**Notes to Consolidated Financial Statements, continued**  
**November 30, 2007**  
*(Dollars in thousands, except share and per share data)*  
*(unaudited)*

Non-Cash Transactions

During the nine months ended November 30, 2007 and 2006, the Company recorded a non-cash compensation (benefit) charge of \$(212) and \$231, respectively, related to the rights under a call/put option previously granted to certain employees. The net 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 (see Note 7). In addition, the Company recorded a non-cash stock based compensation and warrant expense of \$609 and \$432 during the nine months ended November 30, 2007 and 2006, respectively, related to the grant of options and warrants to employees, directors and certain outside service providers (see Note 2).

During the nine months ended November 2007, the Company recorded an incremental non-cash amortization expense of \$244 related to the amortization of an intangible asset in connection with the Thomson accessories acquisition (see Note 7).

Changes in Stockholders' Equity

During the nine months ended November 30, 2007, 408,866 stock options were exercised yielding proceeds of \$3,148 to the Company. In addition, the Company recorded a \$1,020 increase to paid in capital as a result of the tax benefit realized upon exercise of stock options during the nine months ended November 30, 2007.

During the nine months ended November 30, 2007, the Company purchased 128,100 shares of its Class A Common Stock for \$1,425 in connection with its share repurchase program.

As a result of the implementation of FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* ("FIN 48"), an adjustment of \$133 was recorded to decrease the beginning balance of retained earnings at March 1, 2007 in connection with a cumulative effect of a change in accounting principle (see Note 10).

(7) 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 \$60,427, including a working capital payment of \$7,617.

As part of the acquisition price, the Company agreed to pay Thomson a 0.75% fee related to future net sales of the RCA brand for five years from the date of acquisition. This fee amounted to \$562 for the nine months ended November 30, 2007, and has been preliminarily allocated to intangible assets (see Note 8).

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

**Audiovox Corporation and Subsidiaries**  
**Notes to Consolidated Financial Statements, continued**  
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in the accessory business, which includes rights to the RCA brand and other brand names.

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	\$31,664
Prepaid expenses and other current assets	2,312
Tradename and other intangible assets	<u>46,735</u>
Total assets acquired	<u>\$80,711</u>
Liabilities assumed:	
Accounts payable	\$17,489
Accrued expenses and other liabilities	<u>2,795</u>
Total liabilities assumed	<u>\$20,284</u>
Cash paid	<u>\$60,427</u>

The allocation of the purchase price to assets acquired and liabilities assumed is preliminary (see Note 8).

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. As consideration for Oehlbach, the Company paid the following:

Purchase price (net of cash acquired)	\$6,411
Acquisition related costs	<u>146</u>
Total purchase price	<u>\$6,557</u>

In addition, a 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. As of November 30, 2007, no amount has been accrued for the contingency payment as the earnings target was not 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 expand the Company’s accessory product lines to European 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:

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Assets acquired:	
Accounts receivable, net	\$2,215
Inventory	1,939
Prepaid expenses and other current assets	60
Property, plant and equipment	337
Goodwill	6,688
Total assets acquired	<u>\$11,239</u>
Liabilities assumed:	
Accounts payable	\$601
Accrued expenses and other liabilities	2,383
Income taxes payable	891
Long-term debt	807
Total liabilities assumed	<u>\$4,682</u>
Cash paid	<u>\$6,557</u>

The allocation of the purchase price to assets acquired and liabilities assumed is preliminary (see Note 8).

*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. As consideration for Incaar, the Company paid the following:

Purchase price	\$350
Acquisition related costs	<u>52</u>
Total purchase price	<u>\$402</u>

In addition, a 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 earn-out payment of \$400, as defined in the purchase agreement. As of November 30, 2007, no amount has been accrued for the contingency payment as the earnings target was not 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 is to add the experience, concepts and product development of an OEM business in Europe.

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

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Assets acquired:	
Patent	\$ 402
Cash paid	<u>\$ 402</u>

The allocation of the purchase price to the assets acquired is preliminary (see Note 8).

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 America 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
Acquisition related costs	<u>1,085</u>
Total purchase price	<u>\$21,458</u>

In addition, a minimum working capital payment, as defined in the agreement, and a maximum contingent payment of \$1,000 may be due by 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 exceeds \$26.5 million and gross margin exceeds \$7.65 million, as defined in the purchase agreement. As of November 30, 2007, 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 America 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 preliminary allocation of the purchase price to the fair value of the assets acquired and liabilities assumed at the date of acquisition:

Assets acquired:	
Accounts receivable, net	\$4,071
Inventory	5,008
Prepaid expenses and other current assets	652
Property, plant and equipment, net	108
Goodwill	<u>15,807</u>
Total assets acquired	<u>\$25,646</u>



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Liabilities assumed:	
Accounts payable	\$3,689
Accrued expenses and other liabilities	467
Other liabilities	32
Total liabilities assumed	<u>\$4,188</u>
Cash paid	<u>\$21,458</u>

The allocation of the purchase price to the assets acquired and liabilities assumed is preliminary (see Note 8).

The following unaudited pro-forma financial information for the three and nine months ended November 30, 2007 and 2006 represents the combined results of the Company's operations as if the Technuity, Incaar, Oehlbach and Thomson acquisitions occurred on March 1, 2006. 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.

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>November 30,</b>		<b>November 30,</b>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Net sales	\$ 188,252	\$ 208,705	\$ 477,501	\$ 528,492
Net income	5,032	4,984	11,733	5,825
Net income per share-diluted	\$ 0.22	\$ 0.22	\$ 0.51	\$ 0.26

(8) Goodwill and Intangible Assets

The change in goodwill is as follows:

Balance at February 28, 2007	\$17,514
Purchase of Oehlbach	6,688
Purchase of Technuity	<u>15,807</u>
Balance at November 30, 2007	<u>\$40,009</u>

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At November 30, 2007, intangible assets consisted of the following:

	<b>Gross Carrying Value</b>	<b>Accumulated Amortization</b>	<b>Total Net Book Value</b>
Trademarks/Tradenames not subject to amortization	\$ 50,650	\$ -	\$ 50,650
Intangible assets subject to amortization	6,500	244	6,256
Contract subject to amortization (5 years)	1,104	662	442
Patents subject to amortization	1,097	344	753
Total	<u>\$ 59,351</u>	<u>\$ 1,250</u>	<u>\$ 58,101</u>

At February 28, 2007, intangible assets consisted of the following:

	<b>Gross Carrying Value</b>	<b>Accumulated Amortization</b>	<b>Total Net Book Value</b>
Trademarks/Tradenames not subject to amortization	\$ 56,835	\$ -	\$ 56,835
Contract subject to amortization (5 years)	1,104	497	607
Patents subject to amortization	625	193	432
Total	<u>\$ 58,564</u>	<u>\$ 690</u>	<u>\$ 57,874</u>

During the nine months ended November 30, 2007, the Company made total payments of \$562 primarily relating to a contingent payment in connection with the acquired RCA accessory brand, which has been preliminarily allocated to trademarks not subject to amortization (see Note 7).

The Company recorded amortization expense of \$351 and \$103 for the three months ended November 30, 2007 and 2006, respectively and \$565 and \$225 for the nine months ended November 30, 2007 and 2006, respectively. The estimated aggregate amortization expense for the cumulative five years ending November 30, 2012 amounts to \$2,507.

(9) Equity Investments

As of November 30, 2007 and February 28, 2007, 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.

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	<b>November 30, 2007</b>	<b>February 28, 2007</b>
Current assets	\$ 26,894	\$ 23,409
Non-current assets	4,773	4,716
Current liabilities	5,538	5,420
Members' equity	26,129	22,705
<b>Nine Months Ended November 30,</b>		
	<b>2007</b>	<b>2006</b>
Net sales	\$ 55,194	\$ 45,072
Gross profit	16,099	13,480
Operating income	5,010	4,058
Net income	5,853	4,846

The Company's share of income from ASA for the nine months ended November 30, 2007 and 2006, was \$2,927 and \$2,423 respectively. In addition, the Company received distributions from ASA totaling \$1,215 and \$2,589 during the nine months ended November 30, 2007 and 2006, respectively, which was recorded as a reduction to equity investments in the accompanying consolidated balance sheets.

(10) Income Taxes

Quarterly Tax Provision

Interim period tax provisions are generally based upon an estimated annual effective tax rate per taxable entity, including evaluations of possible current and future events and transactions, and are subject to subsequent refinement or revision. When the Company is unable to estimate a part of its annual income or loss, or the related tax expense or benefit, the tax expense or benefit applicable to that item is reported in the interim period in which the income or loss occurs. A valuation allowance is provided when it is more likely than not that some portion, or all, of the deferred tax assets will not be realized.

The effective tax rate from continuing operations for the three and nine months ended November 30, 2007 was a provision of 30.3% compared to a benefit of 25.4% and 22.7% for the three and nine months ended November 30, 2006, respectively. The increase in the effective tax rate is due to increased income from operations and lower tax exempt interest income earned on our short-term investments. Accordingly, the Company's effective tax rate is less than the statutory rate due to the impact of tax exempt interest income.

FIN 48

In June 2006, the Financial Accounting Standards Board ("FASB") issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109, Accounting for Income Taxes" ("FIN 48"). FIN 48 addresses the determination of whether tax benefits claimed or

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expected to be claimed on a tax return should be recorded in the financial statements. Under FIN 48, the Company may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities based on the technical merits of the position. The tax benefits recognized in the financial statements from such position should be measured based on the largest benefit that has a greater than fifty percent likelihood of being realized upon ultimate settlement. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods and disclosure requirements.

The Company adopted the provisions of FIN 48 on March 1, 2007, which resulted in a \$133 adjustment to decrease retained earnings in connection with a cumulative effect of a change in accounting principle. The amount of gross unrecognized tax benefits at November 30, 2007 was \$4,450 (related to gross unrecognized tax benefits for tax positions taken during a prior period), all of which would impact the Company's effective tax rate, if recognized. The Company increased its gross unrecognized tax benefits related to unrecognized tax benefits for tax positions taken during a prior period by \$139 and \$417 during the three and nine months ended November 30, 2007. The Company recognizes accrued interest and penalties associated with unrecognized tax benefits as part of the income tax provision. As of November 30, 2007, the Company had \$812 of accrued interest and penalties in connection with unrecognized tax benefits of which \$91 and \$275 of interest and penalties were recognized during the three and nine months ended November 30, 2007.

It is possible that the amount of unrecognized tax benefits could change in the next 12 months, however, the Company does not expect the change to have a significant impact on its results of operations or financial position.

The Internal Revenue Service ("IRS") is conducting an examination of the Company's U.S. federal income tax returns for the fiscal years 2004, 2005 and 2006 as part of the IRS's Compliance Assurance Process program. In addition, the Company files in numerous states and foreign jurisdictions with varying statutes of limitations.

(11) Accrued Sales Incentives

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

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>November 30,</b>		<b>November 30,</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
Opening balance	\$ 11,403	\$ 7,405	\$ 7,410	\$ 8,512
Accruals	7,385	5,614	22,467	11,797
Payments and credits	(2,980)	(2,559)	(12,531)	(8,585)
Reversals for unearned sales incentive	(277)	(451)	(682)	(1,152)
Reversals for unclaimed sales incentives	(594)	(77)	(1,727)	(640)
Ending balance	<u>\$ 14,937</u>	<u>\$ 9,932</u>	<u>\$ 14,937</u>	<u>\$ 9,932</u>

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- \* Includes \$646 of sales incentives acquired from the Technuity acquisition (see Note 7).  
\*\* Includes \$325 and \$646 of accrued sales incentives acquired from the Oehlbach and Technuity acquisitions (see Note 7).

(12) Product Warranties and Product Repair Costs

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

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>November 30,</b>		<b>November 30,</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
Opening balance	\$ 10,073	\$ 8,576	\$ 9,586	\$ 9,947
Liabilities accrued for warranties issued during the period	3,009	2,864	8,178	6,019
Warranty claims paid during the period	(2,886)	(2,283)	(7,568)	(6,809)
Ending balance	<u>\$ 10,196</u>	<u>\$ 9,157</u>	<u>\$ 10,196</u>	<u>\$ 9,157</u>

(13) Financing Arrangements

The Company has the following financing arrangements:

	<b>November 30,</b>	<b>February 28,</b>
	<b>2007</b>	<b>2007</b>
<i><u>Bank Obligations</u></i>		
Domestic bank obligation (a)	\$ -	\$ -
Venezuela bank obligations (b)	-	-
Euro Asset-Based lending obligation (c)	3,929	2,890
Total bank obligations	<u>\$ 3,929</u>	<u>\$ 2,890</u>
<i><u>Debt</u></i>		
Euro term loan agreement (d)	\$ -	\$ 5,461
Oehlbach (e)	874	-
Other (f)	1,441	1,493
Total debt	<u>\$ 2,315</u>	<u>\$ 6,954</u>

(a) Domestic Bank Obligations

At November 30, 2007, the Company has an unsecured credit line to fund the temporary short-term working capital needs of the domestic operations. This line expires on March 31, 2008, is

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renewable on a periodic basis and allows aggregate borrowings of up to \$25,000 at an interest rate of Prime (or similar designations) plus 1%. As of November 30, 2007 and February 28, 2007, no direct amounts are outstanding under this agreement. At November 30, 2007, the Company had \$2,277 in commercial and standby letters of credit outstanding, which reduces the amount available under the unsecured credit line.

(b) Venezuela Bank Obligations

In October 2005, Audiovox Venezuela entered into a credit facility borrowing arrangement which allows for principal borrowings up to \$1,000 plus accrued interest. The facility requires minimum monthly interest payments at an annual interest rate of 13% until the expiration of the facility on February 14, 2008. Audiovox Corporation has secured this facility with a \$1,200 standby letter of credit. At November 30, 2007 and February 28, 2007, no amounts were outstanding under this agreement.

(c) 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 German Holdings GmbH, which expires on October 25, 2008 and is renewable on an annual basis. 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. 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, 2007, the amount of accounts receivable and finished goods available for factoring exceeded the amounts outstanding under this obligation.

(d) Euro Term Loan Agreement

On September 2, 2003, Audiovox Germany borrowed 12 million Euros under a new term loan agreement. This agreement was for a 5-year term loan with a financial institution consisting of two tranches. Tranche A is for 9 million Euros and Tranche B is for 3 million Euros. Tranche B had been fully repaid in prior years. During September 2007, the Company repaid in full the amount outstanding under the Tranche A term loan using the Company's available cash on hand at the time. Accordingly, the Company has been released from its 3 million Euro guarantee under this loan as well as the pledge of stock, brands and trademarks of Audiovox Germany.

(e) Oehlbach

In connection with the Oehlbach acquisition (see Note 7), 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 May 2008 to March 2011.

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(f) Other Debt

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

(14) Other Income

Other income is comprised of the following:

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>November 30,</b>		<b>November 30,</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
Interest income	\$ 822	\$ 1,397	\$ 3,379	\$ 4,681
Rental income	138	138	414	414
Miscellaneous	(144)	(417)	(349)	(268)
Total-Other, net	<u>\$ 816</u>	<u>\$ 1,118</u>	<u>\$ 3,444</u>	<u>\$ 4,827</u>

(15) 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 there has been no material change to the matters disclosed in Note 17 of the Company's Form 10-K for the fiscal year ended February 28, 2007, however, due to the uncertainty of these matters, the Company disclosed the following:

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.

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Under the asset purchase agreement for the sale of the Company's Cellular business to UTSI, the Company agreed to indemnify UTSI for any breach or violation by Audiovox Communications Corporation and its representations, warranties and covenants contained in the asset purchase agreement and for other matters, subject to certain limitations. 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.

(16) Recent Accounting Pronouncements

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements" ("SFAS No. 157"). SFAS No. 157 defines fair value, establishes guidelines for measuring fair value and expands disclosures regarding fair value measurement. SFAS No. 157 does not require any new fair value measurements, but rather eliminates inconsistencies in guidance found in other accounting pronouncements. SFAS No. 157 is effective for fiscal years beginning after November 15, 2008, as it was amended by FASB Staff Position No. 157-b, Effective Date of FASB Statement No. 157. The transition adjustment of the difference between the carrying amounts and the fair values of those financial instruments should be recognized as a cumulative effect adjustment to retained earnings as of the beginning of the year of adoption. The Company is currently evaluating the impact of SFAS No. 157, but does not expect the adoption of this pronouncement to have a material impact on the Company's financial position or results of operations.

In February 2007, the FASB released SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities" ("SFAS No. 159") to provide companies with an option to report selected financial assets and liabilities at fair value. The objective of SFAS No. 159 is to reduce both the complexity in accounting for financial instruments and the volatility in earnings caused by measuring related assets and liabilities differently. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007 with early adoption permitted. The Company is currently evaluating the impact of SFAS No. 159, but does not expect the adoption of this pronouncement to have a material impact on the Company's financial position or results of operations.

On December 4, 2007, the Financial Accounting Standards Board ("FASB") issued Statement No. 141(R),



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*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.

(17) Subsequent Events

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 for a total purchase price of approximately \$19,700, plus a net asset payment 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.

## **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, 2007 compared to the three and nine months ended November 30, 2006. 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 for per share amounts.

### **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 seven wholly-owned subsidiaries: American Radio Corp., Audiovox Electronics Corporation ("AEC"), Audiovox Consumer Electronics, Inc., Audiovox Accessories Corp. ("AAC"), Audiovox German Holdings GmbH ("Audiovox Germany"), Audiovox Venezuela, C.A 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®, Jensen®, Mac Audio®, Magnate®, Movies 2 Go®, Oehlbach®, Phase Linear®, Prestige®, Pursuit®, RCA® (effective January 1, 2008), 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.

We have recently acquired 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 purchase price of approximately \$19,700, plus a net asset payment 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, Audiovox Accessories Corporation 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 purchase price of \$21,458, plus a minimum working capital payment, as defined in the agreement, 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 German Holdings GmbH 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 \$402, in addition to 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 German Holdings GmbH completed the stock acquisition of Oehlbach, a European market leader in the accessories business, for a total purchase price of \$6,557, in addition to 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 purchase price of approximately \$60,427, including a working capital payment of \$7,617, plus a five year fee related to the RCA brand in connection with future sales. The purpose of this acquisition was to expand our market presence in the accessory business. The acquisition included the rights to the RCA Accessories brand for consumer electronics accessories as well as the Recoton, Spikemaster, Ambico and Dishwasher 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 or expand our core business and distribution channels.

Effective March 1, 2007, the Company reported "Accessories" as a separate product group due to the Thomson and Oehlbach acquisitions and now during the fiscal 2008 third quarter, the Technuity acquisition. In addition, the Company's former mobile and consumer product categories are now combined and recorded in the "Electronics" product group. As such, certain reclassifications have been made to prior year amounts as the Company currently reports sales data for the following two product categories:

Electronics products include:

- mobile multi-media video products, including in-dash, overhead, headrest and portable mobile video systems,
- autosound products including radios, speakers, amplifiers and CD changers,
- satellite radios including plug and play models and direct connect models,
- automotive security and remote start systems,
- automotive power accessories,
- car to car portable navigation systems,
- rear observation and collision avoidance systems,
- Liquid Crystal Display ("LCD") and Plasma flat panel televisions,

- home and portable stereos,
- two-way radios,
- digital multi-media products such as personal video recorders and MP3 products,
- home speaker systems and home theater in a box, and
- portable DVD players.

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,
- battery backups (UPS),
- camcorder, digital camera, notebook, cordless phone and portable video (DVD) batteries and accessories,
- portable audio batteries, and
- power supply systems.

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 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.

### **Reportable Segments**

We have determined that we operate in one reportable segment, the Electronics Group, based on review of Statement of Financial Accounting Standards (“SFAS”) No. 131, “*Disclosures about Segments of an Enterprise and Related Information*”. 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 across multiple brands, our unified marketing strategy, 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 28, 2007, 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; inventory, goodwill and other intangible assets; warranties, stock-based compensation and income taxes. Since February 28, 2007, 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 uncertain tax positions, which is further discussed in footnote 10. Income Taxes, included in this Form 10-Q, for the three and nine months ended November 30, 2007.

## 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, 2007 and 2006. 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, 2007 compared to the three months ended November 30, 2006

#### Continuing Operations

The following tables set forth, for the periods indicated, certain statement of operations data for the three months ended November 30, 2007 and 2006.

#### *Net Sales*

	<b>Three Months Ended November 30,</b>		<b>\$</b>	<b>%</b>
	<b>2007</b>	<b>2006</b>	<b>Change</b>	<b>Change</b>
Electronics	\$ 138,959	\$ 148,273	\$ (9,314)	(6.3) %
Accessories	44,604	3,560	41,044	1,153
Total net sales	<u>\$ 183,563</u>	<u>\$ 151,833</u>	<u>\$ 31,730</u>	<u>20.9 %</u>

Electronics sales, which include mobile and consumer electronics, represented 75.7% of our net sales for the three months ended November 30, 2007, decreased by 6.3% or \$9,314 primarily due to a decrease in consumer electronics sales as a result of lower than anticipated holiday sales and shortages of LCD panels. This industry-wide shortage adversely impacted fiscal 2008 third quarter sales of LCD TV's, portable DVD's and digital picture frames. Electronic sales also declined in certain mobile video categories due to a decline in OEM sales as a result of a decline in new car sales.

The above decreases were partially offset by an increase in mobile audio sales as a result of improved sales in the Jensen® mobile, Phase Linear® and satellite radio product lines and increases in the electronic sales of the Company's international operations in Germany and Venezuela.

Accessories sales, which represented 24.3% of our net sales for the three months ended November 30, 2007, increased 1,153% or \$41,044 due to incremental sales generated from the recently acquired Thomson, Oehlbach and Technuity operations. The Company expects accessory sales to continue to represent a higher percentage of total net sales and margin as compared to the prior year due to these acquisitions.

Sales incentive expense increased \$1,815 to \$6,901 for the three months ended November 30, 2007, as a result of an increase in accessories net sales which offer more sales incentive programs, which is partially offset by a \$343 increase in sales incentive reversals during the period. The increase in the reversals is primarily due to an increase of unclaimed sales incentives upon the expiration of the claim period. 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*

	<u>2007</u>	<u>2006</u>
Gross profit	\$34,991	\$25,371
Gross margin percentage	19.1%	16.7%

Gross margins increased by 240 basis points from 16.7% to 19.1%. Gross margins were favorably impacted by higher margins generated from the recently acquired accessory companies as well as improved overall margins in our core business. Gross margins were adversely impacted by increased warehouse and assembly costs as a result of incremental costs necessary to facilitate the newly acquired companies as well as increased warranty and repair costs, freight and shipping costs and inventory provisions as a result of increased accessories sales.

*Operating Expenses and Operating Income*

	<b>Three Months Ended November</b>		<b>\$</b>	<b>%</b>
	<b>30,</b>			
	<u>2007</u>	<u>2006</u>	<u>Change</u>	<u>Change</u>
Operating Expenses:				
Selling	\$ 9,828	\$ 8,114	\$ 1,714	21.1 %
General and administrative	16,948	13,649	3,299	24.2
Engineering and technical support	2,600	1,888	712	37.7
Operating expenses	<u>\$ 29,376</u>	<u>\$ 23,651</u>	<u>\$ 5,725</u>	<u>24.2 %</u>
Operating income	\$ 5,615	\$ 1,720	\$ 3,895	226.5 %

Operating expenses increased \$5,725 for the three months ended November 30, 2007, as compared to the prior year. As a percentage of net sales, operating expenses increased to 16% for the three months ended November 30, 2007, from 15.6% in the prior year due to incremental costs to operate the acquired companies. The increase in total operating expenses is due to the incremental costs related to the recently acquired Thomson, Oehlbach, Incaar and Technuity operations, which contributed total operating expenses of \$6,263 for the three months ended November 30, 2007. Operating expenses for our core business was \$23,113 for the three months ended November 30, 2007, a decrease of approximately \$538 over prior year.

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 Thomson, Oehlbach, Incaar and Technuity businesses.

	<b>Three Months Ended November 30,</b>		<b>\$</b>	<b>%</b>
	<u>2007</u>	<u>2006</u>		
Core operating expenses	\$ 23,113	\$ 23,651	\$ (538)	(2.3) %
Operating expenses from acquired businesses	6,263	-	6,263	100.0
Total operating expenses	<u>\$ 29,376</u>	<u>\$ 23,651</u>	<u>\$ 5,725</u>	<u>24.2 %</u>

Selling expenses increased \$1,714 due to \$2,781 of selling expenses during the three months ended November 30, 2007 for the recently acquired operations of Thomson, Oehlbach, Incaar and Technuity, as well as

increases in salesmen salaries due to a change in compensation programs and increases in the cost of travel and share-based compensation expense. These increases were partially offset by a decrease in advertising expenses due to a decline in the budgeted amounts for general and print media advertising in fiscal 2008. Selling expenses for our core business was \$7,047 for the three months ended November 30, 2007, a decrease of \$1,067 over the prior year.

General and administrative expenses increased \$3,299 due to:

- \$2,883 of expenses during the three months ended November 30, 2007 for the recently acquired operations of Thomson, Oehlbach, Incaar and Technuity,
- \$1,085 increase in executive bonuses and profit sharing as a result of the Company meeting certain earnings targets and fiscal wage increases,
- \$156 increase in depreciation and amortization due to an increase in capital expenditures as a result of acquisitions and investments in new systems,
- \$276 increase in a non-cash stock-based compensation expense due to the vesting of options to employees during the period,
- \$426 increase in the cost of travel and communication expenses and an increase in the cost of the Company's medical plan as a result of an increase in the usage of the plan.

The above increases were partially offset by a \$1,578 decline in professional fees due to reduced audit fees, legal and consulting costs.

General and Administrative expenses for our core business was \$14,065 for the three months ended November 30, 2007, decreased by \$416 over the prior year.

Engineering and technical support expenses increased \$712 due to \$599 of expenses during the three months ended November 30, 2007 for the recently acquired operations of Thomson, Oehlbach, Incaar and Technuity, and an increase in domestic direct labor and related payroll benefits as a result of fiscal wage increases. Engineering and technical support expense for our core business was \$2,001 for the three months ended November 30, 2007, an increase of \$113 over the prior year.

*Other Income (Expense)*

	<b>Three Months Ended November 30,</b>		<b>\$</b>	<b>%</b>
	<b>2007</b>	<b>2006</b>	<b>Change</b>	<b>Change</b>
Interest and bank charges	\$ (723)	\$ (429)	\$ (294)	68.5 %
Equity in income of equity investees	1,011	659	352	53.4
Other, net	816	1,118	(302)	(27.0)
Total other income, net	<u>\$ 1,104</u>	<u>\$ 1,348</u>	<u>\$ (244)</u>	<u>(18.1) %</u>

Interest and bank charges increased as a result of the assumption of additional debt in connection with the acquisition of Oehlbach as well as increased working capital needs of our domestic and foreign subsidiaries. Interest and bank charges represent expenses for bank obligations of Audiovox Corporation, Audiovox Germany and Venezuela and interest for a capital lease.

Income from equity investments increased due to increased income earned by Audiovox Specialized Applications ("ASA") as a result of increased sales and gross margins in Jensen® audio and other product lines.

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

### *Income Tax Provision (Benefit)*

The effective tax rate for the three months ended November 30, 2007 was a provision of 30.3% compared to a benefit of 25.4% in the prior period. The increase in the effective tax rate is due to lower tax exempt interest income earned on our short-term investments and an increase in our operating income. Accordingly, our effective tax rate is less than the statutory rate due to the impact of our tax exempt interest income.

### *Income (Loss) from Discontinued Operations*

The following is a summary of financial results included within discontinued operations:

	<b>Three Months Ended</b>	
	<b>November 30,</b>	
	<b>2007</b>	<b>2006</b>
Net sales from discontinued operations	\$ -	\$ -
Loss from discontinued operations before income taxes	-	(148)
Recovery of income taxes	-	154
Net income from discontinued operations	\$ -	\$ 6

Net income from discontinued operations for the three months ended November 30, 2006 is primarily due to legal and related costs offset by associated income tax benefits pertaining to our discontinued Cellular business.

### *Net Income*

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

	<b>Three Months Ended November 30,</b>	
	<b>2007</b>	<b>2006</b>
Operating income	\$ 5,615	\$ 1,720
Other income, net	1,104	1,348
Income from continuing operations before income taxes	6,719	3,068
Income tax (expense) benefit	(2,039)	780
Net income from continuing operations	4,680	3,848
Net income from discontinuing operations, net of tax	-	6
Net income	\$ 4,680	\$ 3,854
Net income per common share:		
Basic	\$ 0.20	\$ 0.17
Diluted	\$ 0.20	\$ 0.17

Net income was favorably impacted by sales incentive reversals of \$871 (\$531 after taxes) and \$528 (\$343 after taxes) for the three months ended November 30, 2007 and 2006, respectively.



## Nine months ended November 30, 2007 as compared to the nine months ended November 30, 2006

### Continuing Operations

The following tables set forth, for the periods indicated, certain statement of operations data for the nine months ended November 30, 2007 and 2006.

#### *Net Sales*

	<u>Nine Months Ended November 30,</u>		<u>\$</u>	<u>%</u>
	<u>2007</u>	<u>2006</u>		
Electronics	\$ 341,205	\$ 349,793	\$ (8,588)	(2.5) %
Accessories	118,880	10,763	108,117	1,004.5 %
Total net sales	<u>\$ 460,085</u>	<u>\$ 360,556</u>	<u>\$ 99,529</u>	<u>27.6 %</u>

Electronics sales, which include mobile and consumer electronics, represented 74.2% of our net sales for the nine months ended November 30, 2007, decreased by 2.5% or \$8,588 primarily due to a decrease in consumer electronics sales as a result of lower than anticipated holiday sales and an industry-wide shortage of LCD panels that adversely affected sales of LCD TV's, portable DVD's and digital picture frames. Electronic sales also declined in certain mobile video categories due to increased OEM programs that include the video system as "standard" on more vehicles and a decline in new car sales.

The above decreases were partially offset by an increase in mobile audio sales as a result of improved sales in the Jensen® mobile, Phase Linear and satellite radio product lines and increases in the electronic sales of the Company's international operations in Germany and Venezuela.

Accessories sales, which represented 25.8% of our net sales for the nine months ended November 30, 2007, increased 1,004.5% or \$108,117 due to incremental sales generated from the recently acquired Thomson, Oehlbach and Technuity operations. The Company expects accessories sales to continue to represent a higher percentage of total net sales and margin as compared to the prior year due to these acquisitions.

Sales incentive expense increased \$10,440 to \$20,445 for the nine months ended November 30, 2007 as a result of a general increase in sales, specifically an increase in accessories net sales which offer more sales incentive programs, which is partially offset by a \$617 increase in reversals during the period. The increase in reversals is primarily due to a \$1,087 increase in reversals of unclaimed sales incentives upon the expiration of the claim period. 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*

	<u>2007</u>	<u>2006</u>
Gross profit	\$ 86,654	\$ 61,224
Gross margin percentage	18.8%	17.0%

Gross margins increased by 180 basis points from 17.0% to 18.8% for the nine months ended November 30, 2007 as compared to the prior period. Gross margins were favorably impacted by higher margins generated from the recently acquired companies as well as improved overall margins in our core business as well as improved buying programs and inventory management. Gross margins were adversely impacted by increased

warehouse and assembly costs as a result of incremental transition costs necessary to facilitate the newly acquired companies as well as increased warranty and repair costs, freight and shipping costs and inventory provisions as a result of increased accessories sales. In addition, reversals of sales incentive expense favorably impacted gross margins by 0.5% during the nine months ended November 30, 2007 and 2006, respectively.

*Operating Expenses and Operating Income (Loss)*

	<b>Nine Months Ended</b>		<b>\$</b>	<b>%</b>
	<b>November 30,</b>			
	<b>2007</b>	<b>2006</b>	<b>Change</b>	<b>Change</b>
<b>Operating Expenses:</b>				
Selling	\$ 26,534	\$ 21,626	\$ 4,908	22.7 %
General and administrative	45,153	36,682	8,471	23.1
Engineering and technical support	7,010	5,418	1,592	29.4
Operating expenses	<u>\$ 78,697</u>	<u>\$ 63,726</u>	<u>\$ 14,971</u>	<u>23.5 %</u>
Operating income (loss)	\$ 7,957	\$ (2,502)	\$ 10,459	418.0 %

Operating expenses increased \$14,971 for the nine months ended November 30, 2007, as compared to 2006. As a percentage of net sales, operating expenses decreased to 17.1% for the nine months ended November 30, 2007, from 17.7% in 2006 due to higher sales and better controls over our fixed costs. The increase in total operating expenses is due to the incremental costs related to the recently acquired Thomson, Oehlbach, Incaar and Technuity operations, which contributed total operating expenses of \$16,789 for the nine months ended November 30, 2007. Operating expenses for our core business was \$61,908 for the nine months ended November 30, 2007, a decrease of \$1,818 over prior year.

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 Thomson, Oehlbach, Incaar and Technuity businesses.

	<b>Nine Months Ended November 30,</b>		<b>\$</b>	<b>%</b>
	<b>2007</b>	<b>2006</b>		
Core operating expenses	\$ 61,908	\$ 63,726	\$ (1,818)	(2.9) %
Operating expenses from acquired businesses	16,789	-	16,789	100.0
Total operating expenses	<u>\$ 78,697</u>	<u>\$ 63,726</u>	<u>\$ 14,971</u>	<u>23.5 %</u>

Selling expenses increased \$4,908 primarily due to \$7,166 of selling expenses during the nine months ended November 30, 2007 for the recently acquired operations of Thomson, Oehlbach, Incaar and Technuity, an increase in the cost of travel and an increase in commission expense as a result of increases in commissionable sales and salesmen salaries. These increases were partially offset by a decline in advertising expenses due to a decline in the budgeted amounts for general and print media advertising in fiscal 2008. Selling expenses for our core business was \$19,368 for the nine months ended November 30, 2007, a decrease of \$2,258 over prior year.

General and administrative expenses increased \$8,471 due to the following:

- \$8,189 of expenses during the nine months ended November 30, 2007 for the recently acquired operations of Thomson, Oehlbach, Incaar and Technuity,
- \$1,548 increase to executive bonuses and profit sharing as a result of the Company meeting certain earnings targets and fiscal wage increases,
- \$394 increase in depreciation and amortization due to an increase in capital expenditures as a result of acquisitions and investments in new systems,

- \$178 increase in a non-cash stock-based compensation and warrant expense due to the vesting of options to employees,
- \$447 increase in the cost of the Company's medical plan, as a result of an increase in the usage of the plan, and an increase in the cost of travel due to acquisition activity, and
- \$442 increase in communication expenses.

The above increases were partially offset by a \$1,701 decrease in professional fees due to a reduction in audit fees, legal costs and consulting costs.

General and administrative expenses from our core business was \$36,964 for the nine months ended November 30, 2007, an increase of \$282 over the prior year.

Engineering and technical support expenses increased \$1,592 due to \$1,435 of expenses during the nine months ended November 30, 2007 for the recently acquired operations of Thomson, Oehlbach, Incaar and Technuity and an increase in domestic direct labor and related payroll benefits as a result of wage increases. Engineering and technical support expenses for our core business was \$5,575 for the nine months ended November 30, 2007, an increase of \$157 over the prior years.

*Other Income (Expense)*

	<u>Nine Months Ended November 30,</u>		\$	%
	<u>2007</u>	<u>2006</u>	<u>Change</u>	<u>Change</u>
Interest and bank charges	\$ (2,087)	\$ (1,491)	\$ (596)	40.0 %
Equity in income of equity investees	2,927	2,423	504	20.8
Other, net	3,444	4,827	(1,383)	(28.7)
Total other income, net	<u>\$ 4,284</u>	<u>\$ 5,759</u>	<u>\$ (1,475)</u>	<u>(25.6) %</u>

Interest and bank charges increased as a result of the assumption of additional debt in connection with the acquisition of Oehlbach as well as increased working capital needs of our domestic and foreign subsidiaries. Interest and bank charges represent expenses for bank obligations of Audiovox Corporation, Audiovox Germany and Venezuela and interest for a capital lease.

Equity in income of equity investees increased due to increased equity income of Audiovox Specialized Applications, Inc. ("ASA") as a result of increased sales and gross margins in the Jensen Audio and Voyager product lines.

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

*Income Tax Provision*

The effective tax rate for the nine months ended November 30, 2007, was a provision of 30.3% compared to a benefit of 22.7% in the prior period. The increase in the effective tax rate is due to lower tax exempt interest income earned on our short-term investments and increased income from operations. Accordingly, our effective tax rate is less than the statutory rate due to the impact of our tax exempt interest income.

*Income (loss) from Discontinued Operations*

The following is a summary of financial results included within discontinued operations:

	<b>Nine Months Ended November 30,</b>	
	<b>2007</b>	<b>2006</b>
Net sales from discontinued operations	\$ -	\$ -
Income (loss) from discontinued operations before income taxes	3,248	(886)
Income tax (expense) benefit	(1,137)	310
Net income (loss) from discontinued operations	<u>\$ 2,111</u>	<u>\$ (576)</u>

The income (loss) from discontinued operations for the nine months ended November 30, 2006 is primarily due to legal and related costs associated with contingencies pertaining to our discontinued Cellular business. The increase in income from discontinued operations for the nine months ended November 30, 2007 is due to a derivative legal settlement which resulted in pre-tax income of \$3,348, net of legal fees and other administrative costs of \$3,401 (see Note 15 of Notes to the Consolidated Financial Statements).

#### *Net Income*

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

	<b>Nine months ended November 30,</b>	
	<b>2007</b>	<b>2006</b>
Operating income (loss)	\$ 7,957	\$ (2,502)
Other income, net	4,284	5,759
Income from continuing operations before income taxes	12,241	3,257
Income tax (expense) benefit	(3,709)	740
Net income from continuing operations	8,532	3,997
Net income (loss) from discontinuing operations, net of tax	2,111	(576)
Net income	<u>\$ 10,643</u>	<u>\$ 3,421</u>
Net income per common share:		
Basic	<u>\$ 0.47</u>	<u>\$ 0.15</u>
Diluted	<u>\$ 0.47</u>	<u>\$ 0.15</u>

Net income was favorably impacted by sales incentive reversals of \$2,409 (\$1,469 after taxes) and \$1,792 (\$1,165 after taxes) for the nine months ended November 30, 2007 and 2006, respectively, and pre-tax income of \$3,248 (\$2,111 after taxes) recorded in discontinued operations for the nine months ended November 30, 2007.

### **Liquidity and Capital Resources**

#### **Cash Flows, Commitments and Obligations**

As of November 30, 2007, we had working capital of \$293,151, which includes cash and short-term investments of \$28,946 compared with working capital of \$305,960 at February 28, 2007, which included cash and short-term investments of \$156,345. The decrease in short-term investments is primarily due to the acquisitions of Oehlbach, Incaar and Technuity, the purchase of capital expenditures as well as additional

working capital needs to support current operations. We plan to utilize our current cash and short-term investments as well as collections from accounts receivable to fund the current operations of the business. However, we may utilize all or a portion of our current capital resources to pursue other business opportunities, including acquisitions.

Operating activities used cash of \$92,870 for the nine months ended November 30, 2007 compared to cash used of \$21,429 in 2006. Net income from continuing operations for the nine months ended November 30, 2007 was \$8,532 compared to \$3,997 in the prior year. The increase in cash used by operating activities as compared to the prior year was primarily due to an increase in accounts receivable (including vendor receivables) and inventory balances.

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, 2007 were impacted by an increase in accounts receivable and receivables from vendors primarily due to increased sales and the timing of collections. Accounts receivable turnover approximated 5.0 times during the nine months ended November 30, 2007 compared to 4.2 times in the prior year.
- Cash flows from operations were impacted by an increase in inventory due to increased purchases for future sales projections during the holiday selling season. Inventory turnover approximated 3.9 times during the nine months ended November 30, 2007 compared to 4.1 times in the prior year.
- In addition, cash flows from operating activities for the nine months ended November 30, 2007 were favorably impacted by an increase in accounts payable and accrued expenses due to the timing of payments. The timing of payments made can fluctuate and are often impacted by the timing of inventory purchases, operating expenses and the amount of inventory on hand.

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. Investing activities provided cash of \$24,216 during the nine months ended November 30, 2006, primarily due to purchase (net of sales) of short-term investments.

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. Financing activities for the nine months ended November 30, 2006 used cash of \$5,272, primarily from the purchase of treasury stock and payment of bank obligations and debt partially offset by proceeds received from the exercise of stock options and warrants.

As of November 30, 2007, we have a domestic credit line to fund the temporary short-term working capital needs of the Company. This line expires on March 31, 2008 and allows aggregate borrowings of up to \$25,000 at an interest rate of Prime (or similar designations) plus 1%. In addition, Audiovox Germany has a 16,000 Euro accounts receivable factoring arrangement and a 6,000 Euro Asset-Based Lending (“ABL”) credit facility and Audiovox Venezuela has a \$1,000 credit facility borrowing arrangement with an interest rate of 13%.

Certain contractual cash obligations and other commercial commitments will impact our short and long-term liquidity. At November 30, 2007, such obligations and commitments are as follows:

<u>Contractual Cash Obligations</u>	<u>Payments Due by Period</u>				
	<u>Total</u>	<u>Less than 1 Year</u>	<u>1-3 Years</u>	<u>4-5 Years</u>	<u>After 5 Years</u>
Capital lease obligation (1)	\$ 11,580	\$ 521	\$ 1,043	\$ 1,095	\$ 8,920
Operating leases (2)	18,816	2,976	4,298	3,361	8,182
Total contractual cash obligations	\$ 30,396	\$ 3,497	\$ 5,341	\$ 4,456	\$ 17,102

<u>Other Commercial Commitments</u>	<u>Amount of Commitment Expiration per period</u>				
	<u>Total Amounts Committed</u>	<u>Less than 1 Year</u>	<u>1-3 Years</u>	<u>4-5 Years</u>	<u>After 5 years</u>
Bank obligations (3)	\$ 3,929	\$ 3,929	\$ -	\$ -	\$ -
Stand-by letters of credit (4)	2,244	2,244	-	-	-
Commercial letters of credit (4)	33	33	-	-	-
Debt (5)	2,315	79	1,695	541	-
Unconditional purchase obligations (6)	78,877	78,877	-	-	-
Total commercial commitments	\$ 87,398	\$ 85,162	\$ 1,695	\$ 541	\$ 0

1. Represents total payments (interest and principal) due under capital lease obligations, which has a current (included in other current liabilities) and long term principal balance of \$74 and \$5,625, respectively at November 30, 2007.
2. We enter into operating leases in the normal course of business.
3. Represents amounts outstanding under the Audiovox Germany factoring agreement at November 30, 2007.
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. During September 2007, the Company paid the outstanding balance of the Germany term loan (approximately \$4,868) in full with current cash balances.
6. Open purchase obligations represent inventory commitments. These obligations are not recorded in the consolidated financial statements until these 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, access to equity capital markets, taken together, provides 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.

#### 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. The current effective interest rate on the capital lease obligation is 8%. On November 1, 2004, we entered into an agreement to sublease the building to 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, 2012 are \$6,139.

#### Recent Accounting Pronouncements

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements" ("SFAS No. 157"). SFAS 157 defines fair value, establishes guidelines for measuring fair value and expands disclosures regarding fair value measurement. SFAS No. 157 does not require any new fair value measurements, but rather eliminates inconsistencies in guidance found in other accounting pronouncements. SFAS No. 157 is effective for fiscal years beginning after November 15, 2008, as it was amended by FASB Staff Position No. 157-b, Effective Date of FASB Statement No. 157. The transition adjustment of the difference between the carrying amounts and the fair values of those financial instruments should be recognized as a cumulative effect adjustment to retained earnings as of the beginning of the year of adoption. The Company is currently evaluating the impact of SFAS No. 157, but does not expect the adoption of this pronouncement to have a material impact on the Company's financial position or results of operations.

In February 2007, the FASB released SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities" ("SFAS No. 159") to provide companies with an option to report selected financial assets and liabilities at fair value. The objective of SFAS No. 159 is to reduce both the complexity in accounting for financial instruments and the volatility in earnings caused by measuring related assets and liabilities differently. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007 with early adoption permitted. The Company is currently evaluating the impact of SFAS No. 159, but does not expect the adoption of this pronouncement to have a material impact on the Company's financial position or results of operations.

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.



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

There has been no significant change in our market risk sensitive instruments since February 28, 2007.

**ITEM 4. CONTROLS AND PROCEDURES**

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

There were no material changes in our internal control over financial reporting (as such term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) during the three month period ended November 30, 2007 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 15 of the Notes to the Consolidated Financial Statements in Part I, Item 1 of this Form 10-Q and Note 17 of the Form 10-K for the fiscal year ended February 28, 2007 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 28, 2007.

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

#### Treasury Stock/Share Repurchase Program

In September 2000, we were authorized by the Board of Directors to repurchase up to 1,563,000 shares of Class A Common Stock in the open market under a share repurchase program (the "Program"). In July 2006, the Board of Directors authorized an additional repurchase up to 2,000,000 Class A common stock in the open market in connection with the program. As of November 30, 2007, the cumulative total of acquired shares pursuant to the program was 1,821,147 reducing the remaining authorized share repurchase balance to 1,741,853. During the nine months ended November 30, 2007, we purchased 128,100 shares for \$1,431,000 as outlined in the following table:

<u>Period</u>	<u>Total Number of Shares Purchased</u>	<u>Average Price Paid Per Share</u>	<u>Total Number of Shares Purchased as Part of Publicly Announced Program</u>	<u>Maximum Number of Shares that May Yet Be Purchased Under the Program (1)</u>
As of February 28, 2007	-	\$10.03	1,693,047	1,869,953
July 2007 purchases	98,200	\$11.44	1,791,247	1,771,753
August 2007 purchases	29,900	\$10.29	1,821,147	1,741,853
September 2007 purchases	-	-	-	-
October 2007 purchases	-	-	-	-
November 2007 purchases	-	-	-	-
Total purchases	128,100			

- (1) Prior to the purchases made during the nine months ended November 30, 2007, we had 1,693,047 shares of treasury stock purchased as part of a publicly announced program. As of November 30, 2007, we had 1,821,147 shares of treasury stock with an average paid price per share of \$10.11.

**ITEM 6. EXHIBITS**

<u>Exhibit Number</u>	<u>Description</u>
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

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

Dated: January 9, 2008

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