

AUDIOVOX CORP
Form 10-K
May 14, 2009

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

FORM 10-K

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

For the fiscal year ended February 28, 2009

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
(IRS Employer Identification No.)

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

11788
(Zip Code)

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

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

Title of each class:

Name of Each Exchange on which Registered

Class A Common Stock \$.01 par
value

The Nasdaq Stock Market LLC

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

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes No

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

Yes No

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

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

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

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

Yes No

The aggregate market value of the common stock held by non-affiliates of the Registrant was \$180,435,697 (based upon closing price on the Nasdaq Stock Market on August 29, 2008).

The number of shares outstanding of each of the registrant's classes of common stock, as of May 14, 2009 was:

| Class | Outstanding |
|--------------------------------------|-------------|
| Class A common stock \$.01 par value | 20,604,460 |
| Class B common stock \$.01 par value | 2,260,954 |

DOCUMENTS INCORPORATED BY REFERENCE

Part III - (Items 10, 11, 12, 13 and 14) Proxy Statement for Annual Meeting of Stockholders to be filed on or before June 28, 2009.

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CAUTIONARY STATEMENT RELATING TO THE SAFE HARBOR PROVISIONS OF THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

This Annual Report on Form 10-K and the information incorporated by reference includes "forward-looking statements" within the meaning of section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. We intend those forward looking-statements to be covered by the safe harbor provisions for forward-looking statements. All statements regarding our expected financial position and operating results, our business strategy, our financing plans and the outcome of any contingencies are forward-looking statements. Any such forward-looking statements are based on current expectations, estimates, and projections about our industry and our business. Words such as "anticipates," "expects," "intends," "plans," "believes," "seeks," "estimates," or variations of those words and similar expressions are intended to identify such forward-looking statements. Forward-looking statements are subject to risks and uncertainties that could cause actual results to differ materially from those stated in or implied by any forward-looking statements. Factors that could cause actual results to differ materially from forward-looking statements include, but are not limited to, matters listed in Item 1A under "Risk Factors".

NOTE REGARDING DOLLAR AMOUNTS AND FISCAL YEAR END CHANGE

In this annual report, all dollar amounts are expressed in thousands, except for share prices and per-share amounts. Unless specifically indicated otherwise, all amounts and percentages in our Form 10-K are exclusive of discontinued operations.

In February 2006, the Company changed its fiscal year end from November 30th to February 28th. The Company's current fiscal year began March 1, 2008 and ended February 28, 2009.

PART I

Item 1-Business

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 Accessories Corp. ("AAC"), Audiovox Consumer Electronics, Inc., Audiovox Electronics Corporation ("AEC"), 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®, Incaar®, Jensen®, Mac Audio®, Magnat®, Movies2Go®, Oehlbach®, Phase Linear®, Prestige®, Pursuit®, RCA®, RCA Accessories®, Recoton®, Road Gear®, Spikemaster® and Terk®, as well as private labels through a large domestic and international distribution network. We also function as an OEM ("Original Equipment Manufacturer") supplier to several customers and presently have one reportable segment (the "Electronics Group"), which is organized by product category. We previously announced our intention to acquire synergistic businesses with gross profit margins higher than our core business, leverage our overhead, penetrate new markets and to expand our core business and distribution channels.

Audiovox was incorporated in Delaware on April 10, 1987, as successor to a business founded in 1960 by John J. Shalam, our Chairman and controlling stockholder. Our extensive distribution network and long-standing industry relationships have allowed us to benefit from growing market opportunities and emerging niches in the electronics business.

We make available financial information, news releases and other information on our web site at www.audiovox.com. There is a direct link from the web site to the Securities and Exchange Commission's ("SEC") filings web site, where our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and any amendments to these reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 are available free of charge as soon as reasonably practicable after we file such reports and amendments with, or furnish them to the SEC. In addition, we have adopted a code of business conduct and ethics which is available free of charge upon request. Any such request should be directed to the attention of: Chris Lis Johnson, Company Secretary, 180 Marcus Boulevard, Hauppauge, New York 11788, (631) 231-7750.

Acquisitions

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, as well as the rights to the RCA brand for the audio/video field of use, for a total cash purchase price of approximately \$18,953, plus a net asset payment of \$10,079, transaction costs of \$926 and a fee related to the RCA® brand in connection with future sales for a stated period of time. The purpose of this acquisition was to control the RCA trademark for the audio video field of use and to expand our core product offerings in certain developing markets. Contemporaneous with this transaction, the Company entered into a license agreement with Multimedia Device Ltd., a Chinese manufacturer, to market certain product categories acquired in the acquisition for an upfront fee of \$10,000, the purchase of certain inventory and future royalty payments.

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

In August 2007, Audiovox Germany completed the acquisition of certain assets of Incaar Limited, a U.K. business that specializes in rear seat electronics systems, for a total purchase price of \$350, plus transaction costs of \$51 and a maximum contingent earn out payment of \$400, if certain earnings targets are met. The purpose of this acquisition was to add the experience, concepts and product development of an Original Equipment Manufacturer ("OEM") business to our European operations.

In March 2007, Audiovox Germany completed the stock acquisition of Oehlbach, a European market leader in the accessories business, for a total cash purchase price of \$6,611, plus transaction costs of \$200 and a contingent earn out payment, not to exceed 1 million euros. The purpose of this acquisition was to add electronics accessory product lines to our European business.

In January 2007, we completed the acquisition of certain assets and liabilities of Thomson's Americas consumer electronics accessory business for a total cash purchase price of approximately \$50,000, plus a working capital payment of \$7,617, plus a five year fee estimated to be \$4,685 related to the RCA brand in connection with future sales and approximately \$2,414 of transaction costs. The purpose of this acquisition was to expand our market presence in the accessory business. The acquisition included the rights to the RCA 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 and expand our core business and distribution channels.

Refer to Note 3 "Business Acquisitions" of the Notes to Consolidated Financial Statements for additional information regarding the aforementioned acquisitions.

Divestitures (Discontinued Operations)

On November 7, 2005, we completed the sale of our majority owned subsidiary, Audiovox Malaysia ("AVM") to the then current minority interest shareholder due to increased competition from non-local OEM's and deteriorating credit quality of local customers.

On November 1, 2004, we completed the divestiture of our Cellular business (formerly known as "ACC", "Cellular" or "Wireless") to UTStarcom, Inc. ("UTSI"). After paying outstanding domestic obligations, taxes and other costs associated with the divestiture, we received net proceeds of approximately \$144,053. We have utilized the net proceeds to invest in strategic and complementary acquisitions and invest in our current operations.

These divestitures have been presented as discontinued operations. Refer to Note 2 "Discontinued Operations" of the Notes to Consolidated Financial Statements for additional information regarding the aforementioned divestitures.

Strategy

Our objective is to grow our business by acquiring new brands, embracing new technologies, expanding product development and applying this to a continued stream of new products that should increase gross margins and improve operating income. In addition, we plan to continue to acquire synergistic companies that would allow us to leverage our overhead, penetrate new markets and expand existing product categories through our business channels.

The key elements of our strategy are as follows:

Capitalize on the Audiovox® family of brands. We believe the "Audiovox®" family of brands, which includes Acoustic Research®, Advent®, Ambico®, Car Link®, Chapman®, Code-Alarm®, Discwasher®, Energizer®, Heco®, Incaar®, Jensen®, Mac Audio®, Magnat®, Movies2Go®, Oehlbach®, Phase Linear®, Prestige®, Pursuit®, RCA®, RCA Accessories®, Recoton®, Road Gear®, Spikemaster® and Terk®, is one of our greatest strengths and offers us significant opportunity for increased market penetration. To further benefit from the Audiovox® family of brands, we continue to invest and introduce new products using our brand names.

Capitalize on niche product and distribution opportunities in the electronics industry. We intend to use our extensive distribution and supply networks to capitalize on niche product and distribution opportunities in the mobile, consumer and accessory electronics categories.

Leverage our domestic and international distribution network. We believe our distribution network which includes power retailers, mass merchandisers, distributors, car dealers and OEM's will allow us to increase market penetration.

Grow our international presence. We continue to expand our international presence through our companies in Germany, Canada, Mexico and Hong Kong. We also continue to export from our domestic operations in the United States. We will pursue additional business opportunities through acquisition.

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

Continue to outsource manufacturing to increase operating leverage. A key component of our business strategy is outsourcing the manufacturing of our products, which allows us to deliver the latest technological advances without the fixed costs associated with manufacturing.

Monitor operating expenses. We maintain continuous focus on evaluating the current business structure in order to create operating efficiencies, including investments in management information systems, with the primary goal of increasing operating income.

Industry

We participate in selected product categories in the mobile, consumer and accessory electronics markets. The mobile and consumer electronics and accessory industries are large and diverse and encompass a broad range of products. The significant competitors in our industries are Sony, Panasonic, JVC, Kenwood, Alpine, Directed Electronics, Phillips, Monster Cable and Delphi. There are other companies that specialize in niche product offerings such as those we offer. The introduction of new products and technological advancements are the major growth drivers in the electronics industry. Based on this, we continue to introduce new products across all product lines.

Products

Effective March 1, 2007, the Company reported "Accessories" as a separate product group due to the Thomson Accessory, Oehlbach and Technuity acquisitions. 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,
 - rear observation and collision avoidance systems,
 - Liquid Crystal Display ("LCD") flat panel televisions,
 - home and portable stereos,

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- two-way radios,
- digital multi-media products such as personal video recorders and MP3 products,
 - camcorders,
 - clock-radios,
 - digital voice recorders,
 - home speaker systems,
- portable DVD players, and
 - digital picture frames.

Accessories products include:

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

We believe our product groups have expanding market opportunities with certain levels of volatility related to 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.

Net sales by product category are as follows:

| | Year Ended February 28, 2009 | Year Ended February 29, 2008 | Year Ended February 28, 2007 |
|-----------------|--|--|--|
| Electronics | \$ 449,433 | \$ 437,018 | \$ 432,943 |
| Accessories | 153,666 | 154,337 | 23,747 |
| Total net sales | \$ 603,099 | \$ 591,355 | \$ 456,690 |

Electronics sales, which include both mobile and consumer electronics, represented approximately 74.5% of net sales in Fiscal 2009 compared to 73.9% in Fiscal 2008, and increased by 2.8% or \$12,415 primarily due to increases in consumer electronics sales as a result of product sales from the Thomson acquisition and increased sales in our OEM group. These increases were partially offset by declines in sales of mobile audio, security, video and electronics.

Accessories sales, which represented 25.5% of our net sales in Fiscal 2009 compared to 26.1% in Fiscal 2008, decreased approximately 0.4% or \$671.

Gross margins have declined due to discontinuance of certain product lines and increased inventory markdowns. We anticipate an increase in margins through the introduction of new products with technologies that take advantage of market opportunities created by the digital convergence of data, navigation and multi-media entertainment as well as future operating improvements.

Licensing and Royalties

We have various license and royalty programs with manufacturers, customers and other electronic suppliers. Such agreements entitle us to receive license and royalty income for Audiovox products sold by the licensees without adding any significant costs. Depending on the terms of each agreement, income is based on either a fixed amount per unit or percentage of net sales. Current license and royalty agreements have duration periods, which range from 1 to 20 years, whereas other agreements are in perpetuity and certain agreements may be renewed at the end of termination of the agreement. Certain renewals of license and royalty agreements are dependent on negotiations with licensees as well as current Audiovox products being sold by the licensee.

License and royalty income is recorded upon sale to the end-user and amounted to \$4,430, \$2,190 and \$2,200 for the years ended February 28, 2009, February 29, 2008 and February 28, 2007, respectively.

Distribution and Marketing

We sell our products to:

- power retailers,
- mass merchants,
- regional chain stores,
- specialty and internet retailers,
- independent 12 volt retailers,
 - distributors,
 - new car dealers,
- vehicle equipment manufacturers (OEM), and
 - the U.S. military

We sell our products under OEM arrangements with domestic and/or international subsidiaries of automobile manufacturers such as Ford Motor Company, Daimler Chrysler, General Motors Corporation, Toyota, Kia, Mazda, Jaguar, BMW, Subaru and beginning in Fiscal 2009, Porsche. These projects require a close partnership with the customer as we develop products to meet specific requirements. OEM projects accounted for approximately 9% of net sales for the years ended February 28, 2009 and February 29, 2008 and 11% of net sales for the year ended February 28, 2007.

Our five largest customers represented 36%, 25% and 18% of net sales during the years ended February 28, 2009, February 29, 2008 and February 28, 2007, respectively. During the year ended February 28, 2009, one customer accounted for approximately 22% of the Company's net sales. However during the years ended February 29, 2008 and February 28, 2007, no single customer accounted for more than 10% of net sales.

We also provide value-added management services, which include:

- product design and development,
 - engineering and testing,
- sales training and customer packaging,
 - instore display design,
- installation training and technical support,
 - product repair services and warranty,
 - nationwide installation network, and
 - warehousing.

We have flexible shipping policies designed to meet customer needs. In the absence of specific customer instructions, we ship products within 24 to 48 hours from the receipt of an order from public warehouses and leased facilities throughout the United States, Canada, Mexico, Venezuela and Germany.

Product Development, Warranty and Customer Service

Our product development cycle includes:

- identifying consumer trends and potential demand,
- responding to those trends through product design and feature integration, which includes software design, electrical engineering, industrial design and pre-production testing. In the case of OEM customers, the product

development cycle may also include product validation to customer quality standards, and

- evaluating and testing new products in our own facilities to ensure compliance with our design specifications and standards.

We work closely with customers and suppliers throughout the product design, testing and development process in an effort to meet the expectations of consumer demand for technologically-advanced and high quality products. Our Hauppauge, New York and Troy, Michigan facilities are ISO 14001:2004 and/or ISO/TS 16949:2002 certified, which requires the monitoring of quality standards in all facets of business.

We are committed to providing product warranties for all our product lines, which generally range from 90 days up to the life of the vehicle for the original owner on some automobile-installed products. To support our warranties, we have independent warranty centers throughout the United States, Canada, Mexico, Europe and Venezuela. We have a customer service group that provides product information, answers questions and serves as a technical hotline for installation help for end-users and customers.

Suppliers

We work directly with our suppliers on industrial design, feature sets, product development and testing in order to ensure that our products are manufactured to our design specifications.

We purchase our products from manufacturers principally located in several Pacific Rim countries, including Japan, China, Hong Kong, Indonesia, Malaysia, Taiwan and Singapore, and the United States. In selecting our manufacturers, we consider quality, price, service and reputation. In order to provide local supervision of supplier performance such as price negotiations, delivery and quality control, we maintain buying offices or inspection offices in Malaysia, China and Hong Kong. We consider relations with our suppliers to be good and alternative sources of supply are generally available within 120 days. We do not have long-term contracts with our suppliers and we generally purchase our products under short-term purchase orders. Although we believe that alternative sources of supply are currently available, an unplanned shift to a new supplier could result in product delays and increased cost, which may have a material impact on our operations.

Competition

The electronics industry is highly competitive across all product categories, and we compete with a number of well-established companies that manufacture and sell similar products. Brand name, design, advancement of technology and features as well as price are the major competitive factors within the electronics industry. Our Mobile Electronic products compete against factory-supplied products, including those provided by, among others, General Motors, Ford and Daimler Chrysler. Our Mobile Electronic products also compete in the automotive aftermarket against major companies such as Sony, Panasonic, Kenwood, Alpine, Directed Electronics, Pioneer and Delphi. Our Accessories and Consumer Electronics product lines compete against major companies, such as JVC, Sony, Panasonic, Phillips and Monster Cable.

Financial Information About Foreign and Domestic Operations

The amounts of net sales and long-lived assets, attributable to foreign and domestic operations for all periods presented are set forth in Note 14 of the Notes to Consolidated Financials Statements, included herein.

Equity Investment

We have 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 to specialized markets for specialized vehicles, such as, but not limited to, RV's, van conversions and marine vehicles. The goal of this equity investment is to blend financial and product resources with local operations in an effort to expand our distribution and marketing capabilities.

Employees

As of February 28, 2009, we employed approximately 800 people worldwide. We consider our relations with employees to be good and no employees are covered by collective bargaining agreements.

Item 1A-Risk Factors

We have identified certain risk factors that apply to us. You should carefully consider each of the following risk factors and all of the other information included or incorporated by reference in this Form 10-K. If any of these risks,

or other risks not presently known to us or that we currently believe not to be significant, develop into actual events, then our business, financial condition, liquidity, or results of operations could be adversely affected. If that happens, the market price of our common stock would likely decline, and you may lose all or part of your investment.

The asset purchase agreement with UTSI exposes the Company to contingent liabilities.

Under the asset purchase agreement for the sale of the Cellular business to UTSI we agreed to indemnify UTSI for any breach or violation of ACC 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 our financial condition and results of operations.

Our success will depend on a less diversified line of business.

Currently, we generate substantially all of our sales from the Consumer and Mobile Electronics and Accessories businesses. We cannot assure you that we can grow the revenues of our Electronics and Accessories businesses or maintain profitability. As a result, the Company's revenues and profitability will depend on our ability to maintain and generate additional customers and develop new products. A reduction in demand for our existing products and services would have a material adverse effect on our business. The sustainability of current levels of our Electronics and Accessories businesses and the future growth of such revenues, if any, will depend on, among other factors:

- the overall performance of the economy and discretionary consumer spending,
 - competition within key markets,
- customer acceptance of newly developed products and services, and
 - the demand for other products and services.

We cannot assure you that we will maintain or increase our current level of revenues or profits from the Electronics and Accessories businesses in future periods.

The Electronics and Accessories Businesses are Highly Competitive and Face Significant Competition from Original Equipment Manufacturers (OEMs) and Direct Imports By Our Retail Customers.

The market for consumer electronics and accessories is highly competitive across all product lines. We compete against many established companies who have substantially greater financial and engineering resources than we do. We compete directly with OEMs, including divisions of well-known automobile manufacturers, in the autosound, auto security, mobile video and accessories industry. We believe that OEMs have diversified and improved their product offerings and place increased sales pressure on new car dealers with whom they have close business relationships to purchase OEM-supplied equipment and accessories. To the extent that OEMs succeed in their efforts, this success would have a material adverse effect on our sales of automotive entertainment and security products to new car dealers. In addition, we compete with major retailers who may at any time choose to direct import products that we may currently supply.

Sales Category Dependent on Economic Success of Automotive Industry.

A portion of our OEM sales are to American automobile manufacturers, specifically Chrysler, General Motors and Ford. Recently, Chrysler has announced filing for bankruptcy and General Motors is in discussions with the U.S. government for further support. If these two manufacturers are not successful in their reorganization, it could have a material adverse effect on a portion of our OEM business.

We Do Not Have Long-term Sales Contracts with Any of Our Customers.

Sales of our products are made by written purchase orders and are terminable at will by either party. The unexpected loss of all or a significant portion of sales to any one of our large customers could have a material adverse effect on our performance.

We Depend on a Small Number of Key Customers for a Large Percentage of Our Sales

The electronics industry is characterized by a number of key customers. Specifically 36%, 25% and 18% of our sales were to five customers in fiscal 2009, 2008 and 2007, respectively. The loss of one or more of these customers could have a material impact on our business.

Sales in Our Electronics and Accessories Businesses are Dependent on New Products, Product Development and Consumer Acceptance.

Our Electronics and Accessories businesses depend, to a large extent, on the introduction and availability of innovative products and technologies. Significant sales of new products in niche markets, such as navigation, satellite radios, flat-panel TVs, mobile video systems and the acquisition of certain consumer electronic accessory businesses, has fueled the recent growth of our business. If we are not able to continually introduce new products that achieve consumer acceptance, our sales and profit margins may decline.

Since We Do Not Manufacture Our Products, We Depend on Our Suppliers to Provide Us with Adequate Quantities of High Quality Competitive Products on a Timely Basis.

We do not manufacture our products, and we do not have long-term contracts with our suppliers. Most of our products are imported from suppliers under short-term purchase orders. Accordingly, we can give no assurance that:

- our supplier relationships will continue as presently in effect,
 - our suppliers will not become competitors,
- our suppliers will be able to obtain the components necessary to produce high-quality, technologically-advanced products for us,
 - we will be able to obtain adequate alternatives to our supply sources should they be interrupted,
- if obtained, alternatively sourced products of satisfactory quality would be delivered on a timely basis, competitively priced, comparably featured or acceptable to our customers, and
 - our suppliers have sufficient financial resources to fulfill their obligations.

On occasion our suppliers have not been able to produce the quantities of products that we desire. Our inability to supply sufficient quantities of products that are in demand could reduce our profitability and have a material adverse effect on our relationships with our customers. If any of our supplier relationships were terminated or interrupted, we could experience an immediate or long-term supply shortage, which could have a material adverse effect on our business.

The Impact of Future Selling Prices and Technological Advancements may cause Price Erosion and Adversely Impact our Profitability and Inventory Value

Since we do not make any of our own products and do not conduct our own research, we cannot assure you that we will be able to source technologically advanced products in order to remain competitive. Furthermore, the introduction or expected introduction of new products or technologies may depress sales of existing products and technologies. This may result in declining prices and inventory obsolescence. Since we maintain a substantial investment in product inventory, declining prices and inventory obsolescence could have a material adverse effect on our business and financial results.

Our estimates of excess and obsolete inventory may prove to be inaccurate, in which case the provision required for excess and obsolete inventory may be understated or overstated. Although we make every effort to ensure the accuracy of our forecasts of future product demand, any significant unanticipated changes in demand or technological developments could have a significant impact on the value of our inventory and operating results.

Because We Purchase a Significant Amount of Our Products from Suppliers in Pacific Rim Countries, We Are Subject to the Economic Risks Associated with Changes in the Social, Political, Regulatory and Economic Conditions Inherent in These Countries.

We import most of our products from suppliers in the Pacific Rim. Countries in the Pacific Rim have experienced significant social, political and economic upheaval over the past several years. Due to the large concentrations of our purchases in Pacific Rim countries, particularly China, Hong Kong, Malaysia and Taiwan, any adverse changes in the social, political, regulatory and economic conditions in these countries may materially increase the cost of the products that we buy from our foreign suppliers or delay shipments of products, which could have a material adverse effect on our business. In addition, our dependence on foreign suppliers forces us to order products further in advance than we would if our products were manufactured domestically. This increases the risk that our products will become obsolete or face selling price reductions before we can sell our inventory.

We Plan to Expand the International Marketing and Distribution of Our Products, Which Will Subject Us to Additional Business Risks.

As part of our business strategy, we intend to increase our international sales, although we cannot assure you that we will be able to do so. Conducting business outside of the United States subjects us to significant additional risks, including:

- export and import restrictions, tax consequences and other trade barriers,
 - currency fluctuations,
 - greater difficulty in accounts receivable collections,
 - economic and political instability,
 - foreign exchange controls that prohibit payment in U.S. dollars, and
- increased complexity and costs of managing and staffing international operations.

Our Products Could Infringe the Intellectual Property Rights of Others and We May Be Exposed to Costly Litigation.

The products we sell are continually changing as a result of improved technology. Although we and our suppliers attempt to avoid infringing known proprietary rights of third parties in our products, we may be subject to legal proceedings and claims for alleged infringement by us, our suppliers or our distributors, of third party's 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 us to either enter into royalty or license agreements which are not advantageous to us or pay material amounts of damages. In addition, parties making these claims may be able to obtain an injunction, which could prevent us from selling our products. We may increasingly be subject to infringement claims as we expand our product offerings.

If Our Sales During the Holiday Season Fall below Our Expectations, Our Annual Results Could Also Fall below Expectations.

Seasonal consumer shopping patterns significantly affect our business. We generally make a substantial amount of our sales and net income during September, October and November. We expect this trend to continue. December is also a key month for us, due largely to the increase in promotional activities by our customers during the holiday season. If the economy faltered in these periods, if our customers altered the timing or frequency of their promotional activities or if the effectiveness of these promotional activities declined, particularly around the holiday season, it could have a material adverse effect on our annual financial results.

A Decline in General Economic Conditions Could Lead to Reduced Consumer Demand for the Discretionary Products We Sell.

Consumer spending patterns, especially discretionary spending for products such as mobile, consumer and accessory electronics, are affected by, among other things, prevailing economic conditions, energy costs, raw material costs, wage rates, inflation, consumer confidence and consumer perception of economic conditions. A general slowdown in the U.S. and certain international economies or an uncertain economic outlook could have a material adverse effect on our sales and operating results.

Acquisitions and Strategic Investments May Divert Our Resources and Management Attention; Results May Fall Short of Expectations.

We intend to continue pursuing selected acquisitions of and investments in businesses, technologies and product lines as a key component of our growth strategy. Any future acquisition or investment may result in the use of significant amounts of cash, potentially dilutive issuances of equity securities, incurrence of debt and amortization expenses related to intangible assets. Acquisitions involve numerous risks, including:

- difficulties in the integration and assimilation of the operations, technologies, products and personnel of an acquired business;
 - diversion of management's attention from other business concerns;
 - increased expenses associated with the acquisition; and
- potential loss of key employees or customers of any acquired business.

We cannot assure you that our acquisitions will be successful and will not adversely affect our business, results of operations or financial condition.

We have recorded, or may record in the future, goodwill and other intangible assets as a result of acquisitions, and changes in future business conditions could cause these investments to become impaired, requiring substantial write-downs that would reduce our operating income.

Intangible assets recorded on our balance sheet as of February 28, 2009 was \$88,524. We evaluate the recoverability of recorded goodwill and other intangible asset amounts annually, or when evidence of potential impairment exists. The annual impairment test is based on several factors requiring judgment. As of February 28, 2009, the Company recorded an impairment charge of \$38,814 as a result of its impairment review (see Note 1(k)). Changes in our operating performance or business conditions, in general, could result in an impairment of goodwill, if applicable, and/or other intangible assets, which could be material to our results of operations.

We Depend Heavily on Existing Directors, Management and Key Personnel and Our Ability to Recruit and Retain Qualified Personnel.

Our success depends on the continued efforts of our directors, executives and senior vice presidents, many of whom have worked with Audiovox for over two decades, as well as our other executive officers and key employees. We have no employment contracts with any of our executive officers or key employees, except our President and Chief Executive Officer. The loss or interruption of the continued full-time service of certain of our executive officers and key employees could have a material adverse effect on our business.

In addition, to support our continued growth, we must effectively recruit, develop and retain additional qualified personnel both domestically and internationally. Our inability to attract and retain necessary qualified personnel could have a material adverse effect on our business.

We Are Responsible for Product Warranties and Defects.

Even though we outsource manufacturing, we provide warranties for all of our products for which we have provided an estimated liability. Therefore, we are highly dependent on the quality of our supplier's products.

Our Capital Resources May Not Be Sufficient to Meet Our Future Capital and Liquidity Requirements.

We believe that we currently have sufficient resources to fund our existing operations for the foreseeable future.

However, we may need additional capital to operate our business if:

- market conditions change,
- our business plans or assumptions change,
 - we make significant acquisitions, and
- we need to make significant increases in capital expenditures or working capital.

Our Stock Price Could Fluctuate Significantly.

The market price of our common stock could fluctuate significantly in response to various factors and events, including:

- operating results being below market expectations,
- announcements of technological innovations or new products by us or our competitors,
 - loss of a major customer or supplier,
- changes in, or our failure to meet, financial estimates by securities analysts,
 - industry developments,
 - economic and other external factors,
- general downgrading of our industry sector by securities analysts,
 - inventory write-downs, and
 - ability to integrate acquisitions.

In addition, the securities markets have experienced significant price and volume fluctuations over the past several years that have often been unrelated to the operating performance of particular companies. These market fluctuations may also have a material adverse effect on the market price of our common stock.

John J. Shalam, Our Chairman, Owns a Significant Portion of Our Common Stock and Can Exercise Control over Our Affairs.

Mr. Shalam beneficially owns approximately 54% of the combined voting power of both classes of common stock. This will allow him to elect our Board of Directors and, in general, to determine the outcome of any other matter submitted to the stockholders for approval. Mr. Shalam's voting power may have the effect of delaying or preventing a change in control of the Company.

We have two classes of common stock: Class A common stock is traded on the Nasdaq Stock Market under the symbol VOXX and Class B common stock, which is not publicly traded and substantially all of which is beneficially owned by Mr. Shalam. Each share of Class A common stock is entitled to one vote per share and each share of Class B common stock is entitled to ten votes per share. Both classes vote together as a single class, except in certain circumstances, for the election and removal of directors and as otherwise may be required by Delaware law. Since our charter permits shareholder action by written consent, Mr. Shalam may be able to take significant corporate actions without prior notice and a shareholder meeting.

Other Risks

Other risks and uncertainties include:

- changes in U.S. federal, state and local law,
- our ability to implement operating cost structures that align with revenue growth,
 - trade sanctions against or for foreign countries,

- successful integration of business acquisitions and new brands in our distribution network,
 - compliance with the Sarbanes-Oxley Act, and
- compliance with complex financial accounting and tax standards.

Item 1B-Unresolved Staff Comments

As of the filing of this annual report on Form 10-K, there were no unresolved comments from the staff of the Securities and Exchange Commission.

Item 2-Properties

Our Corporate headquarters is located at 180 Marcus Blvd. in Hauppauge, New York. In addition, as of February 28, 2009, the Company leased a total of 29 operating facilities or offices located in 14 states as well as Germany, China, Malaysia, Canada, Venezuela, Mexico, Hong Kong and England. The leases have been classified as operating leases, with the exception of one, which is recorded as a capital lease. These facilities are located in Arkansas, California, Florida, Georgia, New York, Ohio, Tennessee, Indiana, Michigan and Massachusetts. These facilities serve as offices, warehouses, distribution centers or retail locations. Additionally, we utilize public warehouse facilities located in Virginia, Nevada, Mississippi, Illinois, Indiana, Mexico, Germany and Canada.

Item 3-Legal Proceedings

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

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 fiscal year ended February 29, 2008.

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

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

Under the asset purchase agreement for the 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.

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

No matters were submitted to a vote of security holders during the quarter ended February 28, 2009.

PART II

Item 5-Market for the Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Market Information

The Class A Common Stock of Audiovox is traded on the Nasdaq Stock Market under the symbol "VOXX". The following table sets forth the low and high sale price of our Class A Common Stock, based on the last daily sale in each of the last eight fiscal quarters:

| Year ended February 28, 2009 | High | Low |
|------------------------------|----------|----------|
| First Quarter | \$ 11.16 | \$ 8.45 |
| Second Quarter | 11.00 | 7.57 |
| Third Quarter | 10.45 | 3.36 |
| Fourth Quarter | 6.56 | 2.80 |
| Year ended February 29, 2008 | | |
| First Quarter | \$ 15.29 | \$ 12.67 |
| Second Quarter | 13.48 | 9.63 |
| Third Quarter | 13.04 | 10.02 |
| Fourth Quarter | 13.47 | 9.00 |

Dividends

We have not paid or declared any cash dividends on our common stock. We have retained, and currently anticipate that we will continue to retain, all of our earnings for use in developing our business. Future cash dividends, if any, will be paid at the discretion of our Board of Directors and will depend, among other things, upon our future operations and earnings, capital requirements and surplus, general financial condition, contractual restrictions and such other factors as our Board of Directors may deem relevant.

Holders

There are approximately 797 holders of record of our Class A Common Stock and 4 holders of Class B Convertible Common Stock.

Issuer Purchases of Equity Securities

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 February 28, 2009, the cumulative total of acquired shares pursuant to the program was 1,819,762, with a cumulative value of \$18,396 reducing the remaining authorized share repurchase balance to 1,743,238. During the year ended February 28, 2009, the Company did not purchase any shares.

Performance Graph

The following table compares the annual percentage change in our cumulative total stockholder return on our common Class A common stock during a period commencing on February 29, 2004 and ending on February 28, 2009 with the cumulative total return of the Nasdaq Stock Market (US) Index and our SIC Code Index, during such period.

Item 6-Selected Consolidated Financial Data

The following selected consolidated financial data for the last five years should be read in conjunction with the consolidated financial statements and related notes and "Management's Discussion and Analysis of Financial Condition and Results of Operations" of this Form 10-K.

| | Year Ended February 28, 2009 | Year Ended February 29, 2008 (5) | Year Ended February 28, 2007 (4) | Three Months Ended February 28, 2006 | Years ended November 30, 2005 (3) 2004 | |
|---|--|--|--|---|--|------------|
| Consolidated Statement of Operations Data | | | | | | |
| Net sales (1) | \$ 603,099 | \$ 591,355 | \$ 456,690 | \$ 103,050 | \$ 539,716 | \$ 563,653 |
| Operating income (loss) (1) | (53,443) | 4,422 | (5,077) | (3,159) | (27,690) | (1,356) |
| Net income (loss) from continuing operations (1) | (71,029) | 6,746 | 3,692 | 367 | (6,687) | 64 |
| Net income (loss) from discontinued operations (2) | - | 1,719 | (756) | (184) | (2,904) | 77,136 |
| Net income (loss) | \$ (71,029) | \$ 8,465 | \$ 2,936 | \$ 183 | \$ (9,591) | \$ 77,200 |
| Net income (loss) per common share from continuing operations: | | | | | | |
| Basic | \$ (3.11) | \$ 0.29 | \$ 0.16 | \$ 0.02 | \$ (0.30) | \$ 0.00 |
| Diluted | \$ (3.11) | \$ 0.29 | \$ 0.16 | \$ 0.02 | \$ (0.30) | \$ 0.00 |
| Net income (loss) per common share: | | | | | | |
| Basic | \$ (3.11) | \$ 0.37 | \$ 0.13 | \$ 0.01 | \$ (0.43) | \$ 3.52 |
| Diluted | \$ (3.11) | \$ 0.37 | \$ 0.13 | \$ 0.01 | \$ (0.43) | \$ 3.45 |

| | As of February 28, 2009 | As of February 29, 2008 | As of February 28, 2007 | As of February 28, 2006 | As of November 30, 2005 | As of November 30, 2004 |
|--|----------------------------------|----------------------------------|----------------------------|----------------------------|----------------------------|----------------------------|
|--|----------------------------------|----------------------------------|----------------------------|----------------------------|----------------------------|----------------------------|

Consolidated Balance Sheet Data

| | | | | | | |
|-----------------------|------------|------------|------------|------------|------------|------------|
| Total assets | \$ 461,296 | \$ 533,036 | \$ 499,120 | \$ 466,012 | \$ 485,864 | \$ 543,338 |
| Working capital | 241,080 | 275,787 | 305,960 | 340,564 | 340,488 | 362,018 |
| Long-term obligations | 31,651 | 27,260 | 22,026 | 18,385 | 18,425 | 18,598 |
| Stockholders' equity | 340,502 | 423,513 | 404,362 | 400,732 | 401,157 | 404,187 |

(1) Amounts exclude the financial results of discontinued operations (see Note 2 of the Notes to Consolidated Financial Statements).

(2)

2004 amount reflects the results of the divestiture of the Cellular business and 2005 amount reflects the divestiture of Malaysia.

(3) 2005 amounts reflect the acquisition of Terk.

(4) 2007 amounts reflect the acquisition of Thomson Accessory business.

(5) 2008 amounts reflect the acquisition of Oehlbach, Incaar, Technuity and Thomson A/V (see Note 3 of the Notes to Consolidated Financial Statements).

Item 7-Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A")

This section should be read in conjunction with the "Cautionary Statements" and "Risk Factors" in Item 1A of Part I, and Item 8 of Part II, "Consolidated Financial Statements and Supplementary Data."

We begin Management's Discussion and Analysis of Financial Condition and Results of Operations with an overview of the business, including our strategy to give the reader a summary of the goals of our business and the direction in which our business is moving. 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 year ended February 28, 2009 compared to the years ended February 29, 2008 and February 28, 2007. We then provide an analysis of changes in our balance sheet and cash flows, and discuss our financial commitments in the sections entitled "Liquidity and Capital Resources, including Contractual and Commercial Commitments". We conclude this MD&A with a discussion of "Related Party Transactions" and "Recent Accounting Pronouncements".

Segment

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

Outlook

The Company's domestic and international business is subject to retail industry conditions and the sales of new and used vehicles. The current worldwide economic condition has adversely impacted consumer spending and vehicle sales. If the global macroeconomic environment continues to be weak or deteriorates further, this could have a negative effect on the Company's revenues and earnings. In an attempt to offset the current market condition, the Company has reduced its operating expenses and has been introducing new product to obtain a greater market share. The Company continues to focus on cash flow and anticipates having sufficient resources to operate during Fiscal 2010 and 2011.

Business Overview and Strategy

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®, Incaar®, Jensen®, Mac Audio®, Magnat®, Movies2Go®, Oehlbach®, Phase Linear®, Prestige®, Pursuit®, RCA®, RCA Accessories®, Recoton®, Road Gear®, Spikemaster® and Terk®, as well as private labels through a large domestic and international distribution network. We also function as an OEM ("Original Equipment Manufacturer") supplier to several customers and presently have one reportable segment (the "Electronics Group"), which is organized by product category. We previously announced our intention to acquire synergistic businesses with gross profit margins higher than our core business, leverage overhead, penetrate new markets and to expand our core business and distribution channels.

Effective March 1, 2007, the Company reported “Accessories” as a separate product group due to the Thomson Accessory, Oehlbach and Technuity acquisitions. 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,
 - rear observation and collision avoidance systems,
- Liquid Crystal Display (“LCD”) flat panel televisions,
 - home and portable stereos,
 - two-way radios,
- digital multi-media products such as personal video recorders and MP3 products,
 - camcorders,
 - clock-radios,
 - digital voice recorders,
 - home speaker systems,
 - portable DVD players, and
 - digital picture frames.

Accessories products include:

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

We believe our product groups have expanding market opportunities with certain levels of volatility related to 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.

Acquisitions

We have acquired and integrated several acquisitions which are outlined in the Acquisitions section of Part I and presented in detail in Note 3.

Divestitures

On November 7, 2005, we completed the sale of our majority owned subsidiary, Audiovox Malaysia (“AVM”), to the then current minority interest shareholder due to increased competition from non-local OEM’s and deteriorating credit quality of local customers. We sold our remaining equity in AVM in exchange for a \$550 promissory note and were released from all of our Malaysian liabilities, including bank obligations resulting in a loss on sale of \$2,079.

On November 1, 2004, we completed the divestiture of our Cellular business to UTSI. See notes 2 and 15 for select information included in the Company’s financial statements presented.

Net Sales Growth

Net sales have a compound growth rate of 3.2% from \$510,899 for the year ended November 30, 2003 to \$603,099 for the year ended February 28, 2009. During this period, our sales were impacted by the following items:

- acquisition of Thomson’s Americas consumer electronics accessory business,
 - acquisition of Oehlbach’s accessory business,
 - acquisition of Incaar’s OEM business,
 - acquisition of Technuity’s accessory business,
 - acquisition of Thomson’s audio/video business,
 - acquisition of Terk Technologies,
 - acquisition of Recoton and growth in Jensen sales,
 - acquisition of Code-Alarm branded products,
- the introduction of new products and lines such as portable DVD players, satellite radio, digital antennas and mobile multi-media devices,
- volatility in core mobile, consumer and accessories sales due to increased competition, lower selling prices and decline in the national and global economy.

Strategy

Our objective is to grow our business by acquiring new brands, embracing new technologies, expanding product development and applying this to a continued stream of new products that should increase gross margins and improve operating income. In addition, we plan to continue to acquire synergistic companies that would allow us to leverage overhead, penetrate new markets and expand existing product categories through our business channels.

The key elements of our strategy are as follows:

- Capitalize and increase the Audiovox® family of brands,
- Capitalize on niche product and distribution opportunities in the electronics industry,
 - Leverage our distribution network,
 - Grow our international presence,
- Pursue strategic and complementary acquisitions,
- Continue to outsource manufacturing to increase operating leverage, and
 - Monitor operating expenses.

Critical Accounting Policies and Estimates

General

Our consolidated financial statements are prepared in conformity with accounting principles generally accepted in the United States of America. The preparation of these financial statements require us to make certain estimates, judgments and assumptions that we believe are reasonable based upon the information available. These estimates and assumptions can be subjective and complex and may affect the reported amounts of assets and liabilities, revenues and expenses reported in those financial statements. As a result, actual results could differ from such estimates and assumptions. The significant accounting policies and estimates which we believe are the most critical in fully understanding and evaluating the reported consolidated financial results include the following:

Revenue Recognition

We recognize revenue from product sales at the time of passage of title and risk of loss to the customer either at FOB Shipping Point or FOB Destination, based upon terms established with the customer. Any customer acceptance provisions, which are related to product testing, are satisfied prior to revenue recognition. We have no further obligations subsequent to revenue recognition except for returns of product from customers. We do accept returns of products, if properly requested, authorized and approved. We continuously monitor and track such product returns and record the provision for the estimated amount of such future returns at point of sale, based on historical experience and any notification we receive of pending returns.

Sales Incentives

We offer sales incentives to our customers in the form of (1) co-operative advertising allowances; (2) market development funds; (3) volume incentive rebates and (4) other trade allowances. We account for sales incentives in accordance with EITF 01-9, "Accounting for Consideration Given by a Vendor to a Customer (Including a Reseller of Vendor's Products)" ("EITF 01-9"). Except for other trade allowances, all sales incentives require the customer to purchase our products during a specified period of time. All sales incentives require customers to claim the sales incentive within a certain time period (referred to as the "claim period") and claims are settled either by the customer claiming a deduction against an outstanding account receivable or by the customer requesting a check. All costs associated with sales incentives are classified as a reduction of net sales, and the following is a summary of the various sales incentive programs:

Co-operative advertising allowances are offered to customers as a reimbursement towards their costs for print or media advertising in which our product is featured on its own or in conjunction with other companies' products. The amount offered is either a fixed amount or is based upon a fixed percentage of sales revenue or fixed amount per unit sold to the customer during a specified time period.

Market development funds are offered to customers in connection with new product launches or entrance into new markets. The amount offered for new product launches is based upon a fixed amount or fixed percentage of our sales revenue to the customer or a fixed amount per unit sold to the customer during a specified time period. We accrue the cost of co-operative advertising allowances and market development funds at the later of when the customer purchases our products or when the sales incentive is offered to the customer.

Volume incentive rebates offered to customers require that minimum quantities of product be purchased during a specified period of time. The amount offered is either based upon a fixed percentage of our sales revenue to the customer or a fixed amount per unit sold to the customer. We make an estimate of the ultimate amount of the rebate customers will earn based upon past history with the customer and other facts and circumstances. We have the ability to estimate these volume incentive rebates, as there does not exist a relatively long period of time for a particular rebate to be claimed. Any changes in the estimated amount of volume incentive rebates are recognized immediately using a cumulative catch-up adjustment.

Other trade allowances are additional sales incentives that we provide to customers subsequent to the related revenue being recognized. In accordance with EITF 01-9, we record the provision for these additional sales incentives at the later of when the sales incentive is offered or when the related revenue is recognized. Such additional sales incentives are based upon a fixed percentage of the selling price to the customer, a fixed amount per unit, or a lump-sum amount.

The accrual balance for sales incentives at February 28, 2009 and February 29, 2008 was \$7,917 and \$10,768, respectively. Although we make our best estimate of sales incentive liabilities, many factors, including significant unanticipated changes in the purchasing volume and the lack of claims from customers could have a significant impact on the liability for sales incentives and reported operating results.

We reverse earned but unclaimed sales incentives based upon the expiration of the claim period of each program. Unclaimed sales incentives that have no specified claim period are reversed in the quarter following one year from the end of the program. We believe that 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.

For the years ended February 28, 2009, February 29, 2008 and February 28, 2007, reversals of previously established sales incentive liabilities amounted to \$4,083, \$4,108 and \$2,460, respectively. These reversals include unearned and unclaimed sales incentives. Unearned sales incentives are volume incentive rebates where the customer did not purchase the required minimum quantities of product during the specified time. Volume incentive rebates are reversed into income in the period when the customer did not reach the required minimum purchases of product during the specified time. Reversals of unearned sales incentives for the years ended February 28, 2009, February 29, 2008 and February 28, 2007 amounted to \$1,664, \$1,970 and \$1,148, respectively. Unclaimed sales incentives are sales incentives earned by the customer but the customer has not claimed payment within the claim period (period after program has ended). Reversals of unclaimed sales incentives for the years ended February 28, 2009, February 29, 2008 and February 28, 2007 amounted to \$2,419, \$2,138 and \$1,312, respectively.

Accounts Receivable

We perform ongoing credit evaluations of our customers and adjust credit limits based upon payment history and current credit worthiness, as determined by a review of current credit information. We continuously monitor collections from our customers and maintain a provision for estimated credit losses based upon historical experience and any specific customer collection issues that have been identified. We record charges for estimated credit losses against operating expenses and charges for price adjustments against net sales in the consolidated financial statements. The reserve for estimated credit losses at February 28, 2009 February 29, 2008 was \$7,361 and \$6,386, respectively. While such credit losses have historically been within management's expectations and the provisions established, we cannot guarantee that we will continue to experience the same credit loss rates that have been experienced in the past. Since our accounts receivable are concentrated in a relatively few number of large customers, a significant change in the liquidity or financial position of any one of these customers could have a material adverse impact on the collectability of accounts receivable and our results of operations.

Inventories

We value our inventory at the lower of the actual cost to purchase (primarily on a weighted moving average basis) and/or the current estimated market value of the inventory less expected costs to sell the inventory. We regularly review inventory quantities on-hand and record a provision, in cost of sales, for excess and obsolete inventory based primarily from selling price reductions subsequent to the balance sheet date, indications from customers based upon current negotiations, and purchase orders. A significant sudden increase in the demand for our products could result in a short-term increase in the cost of inventory purchases while a significant decrease in demand could result in an increase in the amount of excess inventory quantities on-hand. In addition, our industry is characterized by rapid technological change and frequent new product introductions that could result in an increase in the amount of obsolete inventory quantities on-hand. During the years ended February 28, 2009, February 29, 2008 and February 28, 2007, we recorded inventory write-downs of \$13,818, \$4,925 and \$2,977, respectively.

Estimates of excess and obsolete inventory may prove to be inaccurate, in which case we may have understated or overstated the provision required for excess and obsolete inventory. Although we make every effort to ensure the accuracy of our forecasts of future product demand, any significant unanticipated changes in demand or technological developments could have a significant impact on the carrying value of inventory and our results of operations.

Goodwill and Other Intangible Assets

Goodwill and other intangible assets, which consists of the excess cost over fair value of assets acquired (goodwill) and other intangible assets (patents, contracts, trademarks and customer relationships) amounted to \$88,524 at February 28, 2009 and \$124,435 at February 29, 2008. Goodwill and other intangible assets are determined in accordance with Statement of Financial Accounting Standards No. 141 "Business Combinations" ("SFAS No. 141") and Statement of Financial Accounting Standards No. 142 "Goodwill and Other Intangible Assets" ("SFAS No. 142"), see Goodwill and Other Intangible Assets (Note 1(k)).

Goodwill, which includes equity investment goodwill, is calculated as the excess of the cost of purchased businesses over the value of their underlying net assets. The Company has used the Discounted Future Cash Flow Method (DCF) as the principle method to determine the Fair Value ("FV") of acquired businesses. The discount rate used for our analysis was 14%. For all acquisitions, a five-year period was analyzed using a risk adjusted discount rate.

The value of potential intangible assets separate from goodwill are evaluated and assigned to the respective categories using certain methodologies (see Note 1(k)). Certain estimates and assumptions are used in applying these methodologies including projected sales, which include incremental revenue to be generated from the product markets that the Company has not been previously exposed to, disclosed future contracts and adjustments for declines in existing core sales; ongoing market demand for the relevant products; and required returns on tangible and intangible assets. In the event that actual results or market conditions deviate from these estimates and assumptions used, the future FV may be different than that determined by management and may result in an impairment loss.

The Company categorizes its intangible assets between goodwill and intangible assets. Goodwill and other intangible assets that have an indefinite useful life are not amortized. Intangible assets that have a definite useful life are amortized over their estimated useful life.

On an annual basis, or as needed for a triggering event, we test goodwill and other indefinite lived intangible assets for impairment (see Note 1(k)). To determine the fair value of these intangible assets, there are many assumptions and estimates used that directly impact the results of the testing. We have the ability to influence the outcome and ultimate results based on the assumptions and estimates we choose. To mitigate undue influence, we set criteria that are

reviewed and approved by various levels of management. Additionally, we may evaluate our recorded intangible assets with the assistance of a third-party valuation firm, as necessary. All reports and conclusions are reviewed by management who have ultimate responsibility for their content. For fiscal 2009, the Company's impairment test resulted in a full goodwill impairment of \$28,838 and an impairment loss of \$9,976 for other intangible assets.

Determining whether impairment of indefinite lived intangibles has occurred requires an analysis of each identifiable asset. If estimates used in the valuation of each identifiable asset proved to be inaccurate based on future results, there could be additional impairment charges in subsequent periods.

Warranties

We offer warranties of various lengths depending upon the specific product. Our standard warranties require us to repair or replace defective product returned by both end users and customers during such warranty period at no cost. We record an estimate for warranty related costs, in cost of sales, based upon actual historical return rates and repair costs at the time of sale. The estimated liability for future warranty expense, which has been included in accrued expenses and other current liabilities, amounted to \$7,779 and \$13,272 at February 28, 2009 and February 29, 2008, respectively. While warranty costs have historically been within expectations and the provisions established, we cannot guarantee that we will continue to experience the same warranty return rates or repair costs that have been experienced in the past. A significant increase in product return rates, or a significant increase in the costs to repair products, could have a material adverse impact on our operating results.

Stock-Based Compensation

As discussed further in “Notes to Consolidated Financial Statements – Note 1(t) Accounting for Stock-Based Compensation,” we adopted Statement of Financial Accounting Standards (“SFAS”) No. 123(R) on December 1, 2005 using the modified prospective method. Through November 30, 2005 we accounted for our stock option plans under the intrinsic value method of Accounting Principles Board (“APB”) Opinion No. 25, and as a result no compensation costs had been recognized in our historical consolidated statements of operations.

We have used and expect to continue to use the Black-Scholes option pricing model to compute the estimated fair value of stock-based awards. The Black-Scholes option pricing model includes assumptions regarding dividend yields, expected volatility, expected option term and risk-free interest rates. The assumptions used in computing the fair value of stock-based awards reflect our best estimates, but involve uncertainties relating to market and other conditions, many of which are outside of our control. We estimate expected volatility by considering the historical volatility of our stock, the implied volatility of publicly traded stock options in our stock and our expectations of volatility for the expected term of stock-based compensation awards. As a result, if other assumptions or estimates had been used for options granted in the current and prior periods, the stock-based compensation expense of \$309 that was recorded for the year ended February 28, 2009 could have been materially different. Furthermore, if different assumptions are used in future periods, stock-based compensation expense could be materially impacted in the future.

Income Taxes

We account for income taxes in accordance with Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes" and Financial Accounting Standards Board Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" ("FIN No. 48"). We record a valuation allowance to reduce our deferred tax assets to the amount of future tax benefit that is more likely than not to be realized. We decrease the valuation allowance when, based on the weight of available evidence, it is more likely than not that the amount of future tax benefit will be realized. During fiscal 2009, the Company provided a valuation allowance against substantially all of its deferred tax assets. Any decline in the valuation allowance could have a material favorable impact on our income tax provision and net income in the period in which such determination is made.

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. It is possible that the amount of unrecognized tax benefits could change in the next 12 months and the Company believes that it is reasonably possible that its uncertain tax positions will decrease by approximately \$2,323 as a result of lapses in the statute of limitations for various jurisdictions. Furthermore, the Company provides loss contingencies for state and international tax matters relating to potential tax examination issues, planning initiatives and compliance responsibilities. The development of these reserves requires judgments about tax issues, potential outcomes and timing, which if different, may materially impact the Company's financial condition and results of operations.

Results of Operations

In February 2006, we changed our fiscal year end from November 30th to February 28th. Included in Item 8 of this annual report on Form 10-K are the consolidated balance sheets at February 28, 2009 and February 29, 2008 and the consolidated statements of operations, consolidated statements of stockholders' equity and consolidated statements of cash flows for the years ended February 28, 2009, February 29, 2008 and February 28, 2007. In order to provide the reader meaningful comparison, the following analysis provides comparison of the audited year ended February 28,

2009 with the audited year ended February 29, 2008, and the audited year ended February 29, 2008 with the audited year ended February 28, 2007. We analyze and explain the differences between periods in the specific line items of the consolidated statements of operations.

Year Ended February 28, 2009 Compared to the Year Ended February 29, 2008

Continuing Operations

The following table sets forth, for the periods indicated, certain Statement of Operations data for the years ended February 28, 2009 ("Fiscal 2009") and February 29, 2008 ("Fiscal 2008").

Net Sales

| | Fiscal 2009 | Fiscal 2008 | \$ Change | % Change |
|-----------------|----------------|----------------|-----------|----------|
| Electronics | \$ 449,433 | \$ 437,018 | \$ 12,415 | 2.8% |
| Accessories | 153,666 | 154,337 | (671) | (0.4) |
| Total net sales | \$ 603,099 | \$ 591,355 | \$ 11,744 | 2.0% |

Electronics sales, which include both mobile and consumer electronics were \$449,433 in Fiscal Year 2009, an increase of 2.8% as compared to \$437,018 reported in fiscal 2008. This increase was primarily related to higher sales of consumer electronics products, particularly new product categories under the RCA brand, increases in the Company's OEM business and, in its International operations in Venezuela and Mexico as compared to the prior year. Offsetting this increase were lower sales of mobile electronics products as a result of the local economic downturn, lower car sales and the financial difficulties of the automakers, which intensified in the fourth quarter of fiscal 2009. As a percentage of net sales, electronics represented 74.5% of sales in fiscal 2009 as compared to 73.9% in the comparable fiscal year period.

Accessories sales for Fiscal 2009 were \$153,666, a decrease of 0.4% as compared to \$154,337 reported in Fiscal 2008. The small decline in accessories sales is primarily related to the overall economic environment. As a percentage of net sales, accessories represented 25.5% and 26.1% of net sales for the years ended February 28, 2009 and February 29, 2008, respectively.

Sales incentive expense decreased \$4,857 to \$19,794 in Fiscal 2009, despite the increase in sales as a result of a shift in concentration to customers who do not receive or have lower sales incentive support. Sales incentive reversals decreased \$25 to \$4,083 during the year. The decrease in reversals was primarily due to a \$306 decrease in reversals of unearned sales incentives as a result of large retail customers reaching minimum sales targets required to earn sales incentive funds. We believe the reversal of unearned and earned but unclaimed sales incentives upon the expiration of the claim period is a disciplined, rational, consistent and systematic method of reversing unearned and earned but 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

| | Fiscal 2009 | Fiscal 2008 |
|-------------------------|----------------|----------------|
| Gross profit | \$ 100,268 | \$ 111,328 |
| Gross margin percentage | 16.6% | 18.8% |

Gross margins for the fiscal year ended February 28, 2009 were 16.6% compared to 18.8% in the prior fiscal year. Gross profit and gross profit margins were positively impacted by price increases instituted in the second half of fiscal 2009 as well as higher gross margins in certain consumer electronics lines. However, these increases were negatively impacted by additional charges to cost of goods sold due to inventory mark downs of i) approximately \$2,900 associated with the exit of the portable navigation category in the second quarter of fiscal 2009 and ii) a charge in the fourth quarter of fiscal 2009 of approximately \$2,400 related to a mark down of a product category as a result of changes in the market, general economic conditions and the impact of customer bankruptcies. Additionally, \$1,500 was related to the support of product sales to a certain customer.

Excluding the impact of inventory mark downs as well as charges taken in conjunction with the bankruptcies, gross profit and gross profit margin would have been approximately \$107,068 and 17.8%, respectively.

Operating Expenses and Operating Income / (Loss)

| | Fiscal 2009 | Fiscal 2008 | \$ Change | % Change |
|--|----------------|----------------|-------------|-------------|
| Operating Expenses: | | | | |
| Selling | \$ 33,505 | \$ 35,703 | \$ (2,198) | (6.2) % |
| General and administrative | 70,870 | 61,220 | 9,650 | 15.8 |
| Goodwill and intangible asset impairment | 38,814 | - | 38,814 | 100 |
| Engineering and technical support | 10,522 | 9,983 | 539 | 5.4 |
| Total Operating Expenses | \$ 153,711 | \$ 106,906 | \$ 46,805 | 43.8% |
| Operating income (loss) | \$ (53,443) | \$ 4,422 | \$ (57,865) | (1,308.6) % |

Operating expenses increased \$46,805 or 43.8% in Fiscal 2009 as compared to Fiscal 2008. As a result of its impairment test for fiscal 2009, operating expenses were impacted by \$38,814 due to the resulting impairment charge. The remaining increase principally occurred in the general and administrative expenses as a result of increased professional fees, bad debts and depreciation and amortization and general overhead associated with the Thomson Audio/Video and Technuity Acquisitions. These increases were offset by decreases in executive compensation, sales salaries, commissions, travel and entertainment expenses and insurance.

Selling expenses decreased \$2,198 or 6.2% primarily due to a decrease in commissions resulting from a commission program restructuring, a reduction in trade show expenses due to decreased participation, benefits from the salary and overhead reduction program and the discontinuance of certain retail operations. These declines were partially offset by an increase in overhead from the recent acquisitions.

General and administrative expenses increased \$48,464 primarily due to the goodwill and other intangible asset impairment charge of \$38,814. The remaining increase of \$9,650 was mainly due to:

- An increase in professional fees of approximately \$4,600 as a result of legal settlements, patent and royalty suits, increased audit fees and the anticipated cost of a credit card breach (net of insurance) resulting from an intrusion affecting credit card information maintained by the Company.
- Bad debt increased approximately \$1,600 as a result of general economic conditions and the bankruptcy of an automotive customer.
- Depreciation and amortization increased \$1,500 as a result of our recent acquisitions and new IT systems which have come online this fiscal year.
- Salary expense increased approximately \$4,100 as a result of our recent acquisitions, severance payments due to our salary and overhead reduction program and a benefit in the prior year for an employee call option.

Partially offsetting the above increases were reductions in executive compensation, insurance expense and a reduction of transitional services required as a result of the integration of the prior year's acquisitions.

Engineering and technical support expenses increased approximately \$500 as a result of employees acquired in recent acquisitions, severance payout related to our salary and overhead reduction program, which were partially offset by actual reduction in headcount.

Other Income/(Expense)

| | Fiscal 2009 | Fiscal 2008 | \$ Change | % Change |
|-------------------------------------|----------------|----------------|------------|-----------|
| Interest and bank charges | \$ (1,817) | \$ (2,127) | \$ 310 | 14.6% |
| Equity in income of equity investee | 975 | 3,590 | (2,615) | (72.8) |
| Other, net | (1,669) | 4,709 | (6,378) | (135.4) |
| Total other income | \$ (2,511) | \$ 6,172 | \$ (8,683) | (140.7) % |

Interest and bank charges decreased due to the reduction of debt in our international subsidiaries.

Equity in income of equity investees decreased due to decreased equity income of Audiovox Specialized Applications, Inc. (ASA) as a result of decreased sales and gross margins related to the commercial, RV and marine industries due to the current economic conditions.

Other income decreased due to a decline in interest income as a result of a decline in our short-term investment holdings as a result of the prior year's acquisitions, seasonality of current working capital requirements, a decline in rates experienced on the Company's investments and the gains on the sale of a portion of our marketable equity securities during fiscal 2008.

Other expenses increased approximately \$1,901 primarily as a result of a charge resulting from the bankruptcy of a vendor and \$863 related to the discount experienced on the sale of tax credits in our Venezuelan subsidiary.

Income Tax Provision

The effective tax rate in Fiscal 2009 was a provision of 27.0% on a pre-tax loss from continuing operations of \$(55,954) as compared to a provision of 36.3% on a pre-tax income of \$10,595 from continuing operations in the prior year. The increase in the effective tax rate is due to impairment of non-deductible goodwill and the provision of a valuation allowance against the deferred tax assets as the Company does not believe that it will realize its deferred tax assets on a more-likely-than-not basis.

Income (loss) from Discontinued Operations

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

| | Fiscal 2009 | Fiscal 2008 |
|--|----------------|----------------|
| Net sales from discontinued operations | \$ - | \$ - |
| Income (loss) from discontinued operations before income taxes | | 3,248 |
| Income tax (provision) benefit | - | (1,529) |
| Net income (loss) from discontinued operations | - | 1,719 |
| Loss on sale of discontinued operations, net of tax | - | - |
| Loss from discontinued operations, net of tax | \$ - | \$ 1,719 |

The increase in the income from discontinued operations in Fiscal 2008 is due to a derivative legal settlement which resulted in pre-tax income of \$3,349, net of legal fees and other administrative costs of \$3,401 (see Note 15 to the Consolidated Financial Statements). The effective tax rate from discontinued operations for Fiscal 2008 was impacted by state and local taxes and the resolution of a domestic tax audit.

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 :

| | Fiscal 2009 | Fiscal 2008 |
|--|----------------|----------------|
| Operating (loss) income | \$ (53,443) | \$ 4,422 |
| Other income, net | (2,511) | 6,172 |
| (Loss) income from continuing operations before income taxes | (55,954) | 10,594 |
| Income tax benefit (expense) | (15,075) | (3,848) |
| Net (loss) income from continuing operations | (71,029) | 6,746 |
| Net income (loss) from discontinued operations, net of tax | - | 1,719 |
| Net (loss) income | \$ (71,029) | \$ 8,465 |
| Net (loss) income per common share: | | |
| Basic | \$ (3.11) | \$ 0.37 |

| | | | | |
|---------|----|--------|----|------|
| Diluted | \$ | (3.11) | \$ | 0.37 |
|---------|----|--------|----|------|

Net (loss) income was favorably impacted by sales incentive reversals of \$4,083 (\$0 after taxes) and \$4,108 (\$2,506 after taxes) in Fiscal 2009 and 2008, respectively, and pre-tax income of \$3,248 (\$1,719 after taxes) recorded in discontinued operations in Fiscal 2008. During fiscal 2009, the Company was impacted by several non-standard charges related to the economy, market conditions, customers and other events. The following is a pro forma presentation of our net income detailing the above mentioned charges.

Proforma information presented is considered a non-GAAP financial measure. The Company believes that this presentation of proforma results provides useful information by excluding specific items the Company believes are not indicative of core operating results.

Reconciliation of GAAP to Pro Forma Loss

| | Fiscal 2009 |
|--|----------------|
| GAAP net loss | \$ (71,000) |
| Adjustments: | |
| Goodwill and intangible asset impairment | 38,800 |
| Tax impairment | 15,100 |
| Non-standard professional fees related to intellectual property and trademarks and credit card intrusion | 2,300 |
| Expenses related to customer and vendor bankruptcies | 6,400 |
| Expenses related to severance and overhead reduction program | 1,000 |
| Discontinuance of portable navigation line | 2,900 |
| Pro forma net loss | \$ (4,500) |
| GAAP net loss per common share, diluted | \$ (3.11) |
| Pro forma net loss per common share, diluted | \$ (0.20) |
| Diluted weighted average number of shares (GAAP and pro forma) | 22,860,402 |

Year Ended February 29, 2008 Compared to the Year Ended February 28, 2007

Continuing Operations

The following table sets forth, for the periods indicated, certain Statement of Operations data for the years ended February 29, 2008 (“Fiscal 2008”) and February 28, 2007 (“Fiscal 2007”).

Net Sales

| | Fiscal 2008 | Fiscal 2007 | \$ Change | % Change |
|-----------------|----------------|----------------|------------|----------|
| Electronics | \$ 437,018 | \$ 432,943 | \$ 4,075 | 0.9% |
| Accessories | 154,337 | 23,747 | 130,590 | 549.9 |
| Total net sales | \$ 591,355 | \$ 456,690 | \$ 134,665 | 29.5% |

Electronics sales, which include both mobile and consumer electronics, represented approximately 73.9% of net sales in Fiscal 2008 compared to 94.8% in Fiscal 2007, increased by 0.9% or \$4,075 primarily due to an increase in mobile audio sales as a result of improved sales in the Company’s car audio and Satellite Radio product lines and increases in the electronics sales of the Company’s International operations in Germany and Venezuela. Offsetting these increases were lower consumer electronic sales as a result of lower than anticipated holiday sales and industry-wide shortages 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 and more vehicles and a decline in new car sales.

Accessories sales, which represented 26.1% of our net sales in Fiscal 2008 compared to 5.2% in Fiscal 2007, increased approximately 549.9% or \$130,590 due to the incremental sales generated from the recently acquired Thomson Accessory, Oehlbach and Technuity operations.

Sales incentive expense increased \$11,504 to \$24,005 in Fiscal 2008, as a result of a general increase in sales, specifically an increase in accessories net sales which offer more sales incentive programs, which was partially offset by a \$1,648 increase in reversals to \$4,108 during the year. The increase in reversals was primarily due to a \$873 increase in reversals of unearned sales incentives as a result of large retail customers not reaching minimum sales targets required to earn sales incentive funds. We believe the reversal of unearned and earned but unclaimed sales incentives upon the expiration of the claim period is a disciplined, rational, consistent and systematic method of reversing unearned and earned but 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

| | Fiscal 2008 | Fiscal 2007 |
|-------------------------|----------------|----------------|
| Gross profit | \$ 111,328 | \$ 79,319 |
| Gross margin percentage | 18.8% | 17.4% |

Gross margins increased by 140 basis points to 18.8% in Fiscal 2008 as compared to 17.4% in the prior year. Gross margins were favorably impacted by higher margins generated from the recently acquired companies, improved overall margins in our core business and 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 expenses favorably impacted gross margins by 0.7% during Fiscal 2008.

Operating Expenses and Operating Income / (Loss)

| | Fiscal 2008 | Fiscal 2007 | \$ Change | % Change |
|-----------------------------------|----------------|----------------|-----------|----------|
| Operating Expenses: | | | | |
| Selling | \$ 35,703 | \$ 28,220 | \$ 7,483 | 26.5% |
| General and administrative | 61,220 | 48,920 | 12,300 | 25.1 |
| Engineering and technical support | 9,983 | 7,256 | 2,727 | 37.6 |
| Total Operating Expenses | \$ 106,906 | \$ 84,396 | \$ 22,510 | 26.7% |
| Operating income (loss) | \$ 4,422 | \$ (5,077) | \$ 9,499 | 187.1% |

Operating expenses increased \$22,510 or 26.7% in Fiscal 2008 as compared to Fiscal 2007. As a percentage of net sales, operating expenses decreased to 18.1% in Fiscal 2008 from 18.5% in Fiscal 2007 as a result of 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 Accessory, Oehlbach, Incaar, Technuity and Thomson Audio/Video operations, which contributed total operating expenses of \$25,097 in Fiscal 2008 and \$1,180 in Fiscal 2007.

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 Accessory, Oehlbach, Incaar, Technuity and Thomson Audio/Video businesses.

| | Fiscal 2008 | Fiscal 2007 | \$ Change | % Change |
|---|----------------|----------------|------------|----------|
| Core operating expenses | \$ 81,809 | \$ 83,216 | \$ (1,407) | (1.69)% |
| Operating expenses from acquired businesses | 25,097 | 1,180 | 23,917 | 2,026.86 |
| Total operating expenses | \$ 106,906 | \$ 84,396 | \$ 22,510 | 26.67% |

Selling expenses increased \$7,483 or 26.5% primarily due to \$10,072 of selling expenses in Fiscal 2008 related to the recently acquired Thomson Accessory, Oehlbach, Incaar, Technuity and Thomson Audio/Video operations, an increase in the cost of travel and an increase in commission expense as a result of increases in commissionable sales and salesmen salaries and related benefits. 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 were \$25,631 in Fiscal 2008, a decrease of \$2,052 or 8% over the prior year.

General and administrative expenses increased \$12,300 or 25.1% over the prior year due to the following:

- \$12,149 of expenses in Fiscal 2008 for the recently acquired operations of Thomson Accessory, Oehlbach, Incaar, Technuity and Thomson Audio/Video operations,
- \$1,392 increase in salaries and related payroll taxes and benefits due to an increase in executive bonuses and profit sharing as a result of the company meeting certain earnings targets and general fiscal wage increases,
- \$454 increase in a non-cash stock based compensation and warrant expense due to the vesting of options to employees

- and outside consultants,
- \$559 increase in depreciation and amortization due to an increase in capital expenditures and amortizable intangibles as a result of acquisitions and investments in new systems,
 - \$501 increase in communication expenses,
 - \$344 increase in software maintenance fees, and
 - \$602 increase in legal settlements from claims by a licensor.

The above increases were partially offset by a \$1,099 decrease in professional fees due to a reduction in audit fees, legal and consulting costs and a \$289 reduction in general insurance expenses offset by a \$790 benefit related to a call/put option previously granted to certain employees. The benefit recorded for the year ended February 29, 2008 was due to a reduction in the call/put liability calculation as a result of the Oehlbach and Incaar acquisitions.

Engineering and technical support expenses increased \$2,727 or 37.6% due to \$2,253 of expenses in Fiscal 2008 related to the recently acquired Thomson Accessory, Oehlbach, Incaar, Technuity and Thomson Audio/Video operations and an increase in domestic direct labor and related payroll benefits as a result of increased product development efforts and general wage increases.

Other Income/(Expense)

| | Fiscal 2008 | Fiscal 2007 | \$ Change | % Change |
|--------------------------------------|----------------|----------------|------------|----------|
| Interest and bank charges | \$ (2,127) | \$ (1,955) | \$ (172) | 8.8% |
| Equity in income of equity investees | 3,590 | 2,937 | 653 | 22.2 |
| Other, net | 4,709 | 6,253 | (1,544) | (24.7) |
| Total other income | \$ 6,172 | \$ 7,235 | \$ (1,063) | (14.7)% |

Interest and bank charges increased due to the additional debt assumed in connection with the acquisition of Oehlbach, one time bank charges related to the Euro Term loan agreement, which was repaid in full during September 2007, 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 payments 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 our short-term investment holdings due to cash utilized for acquisitions as well as current working capital requirements. This decrease was partially offset by realized gains on the sale of a portion of our marketable equity securities.

Income Tax Benefit

The effective tax rate in Fiscal 2008 was a provision of 36.3% as compared to a benefit of 71.1% in the prior year. 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. The effective tax rate is greater than the Federal statutory rate due to the impact of state and local taxes and the resolution of certain domestic and foreign tax audits.

Income (loss) from Discontinued Operations

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

| | Fiscal 2008 | Fiscal 2007 |
|--|----------------|----------------|
| Net sales from discontinued operations | \$ - | \$ - |
| Income (loss) from discontinued operations before income taxes | 3,248 | (1,163) |
| Income tax (provision) benefit | (1,529) | 407 |
| Net income (loss) from discontinued operations | \$ 1,719 | \$ (756) |

The income (loss) from discontinued operations in Fiscal 2007 is primarily due to legal and related costs associated with contingencies pertaining to our discontinued Cellular business. The increase in the income from discontinued operations in Fiscal 2008 is due to a derivative legal settlement which resulted in pre-tax income of \$3,349, net of legal fees and other administrative costs of \$3,401 (see Note 16 to the Consolidated Financial Statements). The effective tax rate from discontinued operations for Fiscal 2008 was impacted by state and local taxes and the resolution of a domestic tax audit.

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 :

| | Fiscal 2008 | Fiscal 2007 |
|---|----------------|----------------|
| Operating income (loss) | \$ 4,422 | \$ (5,077) |
| Other income, net | 6,172 | 7,235 |
| Income from continuing operations before income taxes | 10,594 | 2,158 |
| Income tax (expense) benefit | (3,848) | 1,534 |
| Net income from continuing operations | 6,746 | 3,692 |
| Net income (loss) from discontinuing operations, net of tax | 1,719 | (756) |
| Net income | \$ 8,465 | \$ 2,936 |
| Net income per common share: | | |
| Basic | \$ 0.37 | \$ 0.13 |
| Diluted | \$ 0.37 | \$ 0.13 |

Net income was favorably impacted by sales incentive reversals of \$4,108 (\$2,506 after taxes) and \$2,460 (\$1,501 after taxes) in Fiscal 2008 and 2007, respectively, and pre-tax income of \$3,248 (\$1,719 after taxes) recorded in discontinued operations in Fiscal 2008.

Liquidity and Capital Resources

Cash Flows, Commitments and Obligations

As of February 28, 2009, we had working capital of \$241,080 which includes cash and short-term investments of \$69,504 compared with working capital of \$275,787 at February 29, 2008, which included cash and short-term investments of \$39,341. The increase in cash is primarily due to reduction in accounts receivable and inventory balances and an increase in accounts payable and accrued expenses. Though the Company reported a loss from continuing operations, the majority of this loss was due to non-cash charges. In fact, the Company had cash provided from operating activities of \$30,006 versus the use of \$64,691 for fiscal 2008. We plan to utilize our current cash position as well as collections from accounts receivable, the cash generated from our operations and the income on our investments to fund the current operations of the business. However, we may utilize all or a portion of current capital resources to pursue other business opportunities, including acquisitions. The following table summarizes our cash flow activity for all periods presented:

| Year Ended | Year Ended | Year Ended |
|---------------|---------------|---------------|
|---------------|---------------|---------------|

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| | February 28, 2009 | February 29, 2008 | February 28, 2007 |
|--|-------------------------|-------------------------|-------------------------|
| Cash provided by (used in): | | | |
| Operating activities | \$ 30,006 | \$ (64,691) | \$ 43,420 |
| Investing activities | (3,991) | 93,465 | (40,897) |
| Financing activities | 4,655 | (5,241) | (3,449) |
| Effect of exchange rate changes on cash | (507) | 335 | 119 |
| Net increase (decrease) in cash and cash equivalents | \$ 30,163 | \$ 23,868 | \$ (807) |

Operating activities provided cash of \$30,006 for Fiscal 2009 from: i) decreased inventory, accounts and vendor receivable balances due to improved inventory and accounts receivable turns; ii) increased accounts payable and accrued expenses due to the timing and payment of invoices and expenses; iii) partially offset by a net loss generated from continuing operations of \$71,029, net of non-cash charges for depreciation and amortization of \$7,294, deferred income tax expense of \$13,646 and a goodwill and intangible asset impairment charge of \$38,709.

Investing activities used cash of \$3,991 during Fiscal 2009, primarily due to capital expenditures partially offset by distributions from an equity investee.

Financing activities provided cash of \$4,655 during Fiscal 2009, primarily from the borrowings of bank obligations.

As of February 28, 2009, we have a domestic credit line to fund the temporary short-term working capital needs of the Company. This line expired on April 30, 2009 and allows aggregate borrowings of up to \$15,000 at an interest rate of Prime (or similar designations) plus 1% or LIBOR plus 5%. The line was subsequently renewed until June 30, 2009 with aggregate borrowings of \$10,000. In addition, Audiovox Germany has a 16,000 Euro accounts receivable factoring arrangement and a 6,000 Euro Asset-Based Lending (“ABL”) credit facility.

Certain contractual cash obligations and other commercial commitments will impact our short and long-term liquidity. At February 28, 2009, such obligations and commitments are as follows:

| Contractual Cash Obligations | Total | Payments Due by Period | | | |
|------------------------------------|-----------|------------------------|--------------|--------------|------------------|
| | | Less than 1 Year | 1-3 Years | 4-5 Years | After 5 Years |
| Capital lease obligation (1) | \$ 10,927 | \$ 521 | \$ 1,056 | \$ 1,147 | \$ 8,203 |
| Operating leases (2) | 32,433 | 4,757 | 6,948 | 4,901 | 15,827 |
| Total contractual cash obligations | \$ 43,360 | \$ 5,278 | \$ 8,004 | \$ 6,048 | \$ 24,030 |

| Other Commercial Commitments | Amount of Commitment Expiration per period | | | | |
|--|--|---------------------|--------------|--------------|------------------|
| | Total Amounts Committed | Less than 1 Year | 1-3 Years | 4-5 Years | After 5 years |
| Bank obligations (3) | \$ 1,467 | \$ 1,467 | \$ - | \$ - | \$ - |
| Stand-by letters of credit (4) | 2,380 | 2,380 | - | - | - |
| Commercial letters of credit (4) | - | - | - | - | - |
| Debt (5) | 7,160 | 1,264 | 4,000 | 1,896 | - |
| Contingent earn-out payments (6) | 4,531 | 890 | 3,212 | 429 | - |
| Unconditional purchase obligations (7) | 62,845 | 62,845 | - | - | - |
| Total commercial commitments | \$ 78,383 | \$ 68,846 | \$ 7,212 | \$ 2,325 | \$ - |

1. Represents total payments (interest and principal) due under a capital lease obligation which has a current (included in other current liabilities) and long term principal balance of \$76 and \$5,531, respectively at February 28, 2009.

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

3. Represents amounts outstanding under the Audiovox Germany factoring agreement at February 28, 2009.
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 term loan agreements in connection with the Oehlbach acquisition. This amount also includes amounts due under a call-put option with certain employees of Audiovox Germany.
6. Represents contingent payments in connection with the Thomson Accessory and Oehlbach acquisitions (see Note 3 of the Consolidated Financial Statements).
7. Open purchase obligations represent inventory commitments. These obligations are not recorded in the consolidated financial statements until commitments are fulfilled and such obligations are subject to change based on negotiations with manufacturers.

We regularly review our cash funding requirements and attempt to meet those requirements through a combination of cash on hand, cash provided by operations, available borrowings under bank lines of credit and possible future public or private debt and/or equity offerings. At times, we evaluate possible acquisitions of, or investments in, businesses that are complementary to ours, which transactions may require the use of cash. We believe that our cash, other liquid assets, operating cash flows, credit arrangements, 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.

Impact of Inflation and Currency Fluctuation

To the extent that we expand our operations into Europe, Canada, Latin America and the Pacific Rim, the effects of inflation and currency fluctuations could impact our financial condition and results of operations. While the prices we pay for products purchased from our suppliers are principally denominated in United States dollars, price negotiations depend in part on the foreign currency of foreign manufacturers, as well as market, trade and political factors.

Recently there has been an increase in the inflationary rate in Venezuela. The country's ability to translate bolivars to dollars and transfer funds from our Venezuelan subsidiary to Audiovox Corporation has been delayed due to lack of U.S. dollars. The Company currently has an intercompany receivable from Venezuela. Any decrease in the fixed rate of exchange could cause the Company to suffer foreign exchange losses.

Seasonality

We typically experience seasonality in our operations. We generally sell a substantial amount of our products during September, October and November due to increased promotional and advertising activities during the holiday season. Our business is also significantly impacted by the holiday season and electronic trade shows in December and January.

Related Party Transactions

During 1998, we entered into a 30-year capital lease for a building with our principal stockholder and chairman, which was the headquarters of the discontinued Cellular operation. Payments on the capital lease were based upon the construction costs of the building and the then-current interest rates. This capital lease was refinanced in December 2006 and the lease expires on November 30, 2026. The effective interest rate on the capital lease obligation is 8%. On November 1, 2004, we entered into an agreement to sublease the building to 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 February 28, 2014 are \$6,381.

Recent Accounting Pronouncements

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

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). All of the Company's recent acquisitions fall under the scope of Statement No. 141. The Company will evaluate the impact of Statement No. 141 and Statement No. 160 as they relate to any future acquisitions, as applicable.

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

In April 2009, the FASB issued FASB Staff Position 157-4, "Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased in Identifying Transactions That Are Not Orderly" ("FSP 157-4"). FSP 157-4 provides guidance in determining fair value when the volume and level of activity for the asset or liability have significantly decreased and on identifying transactions that are not orderly. This FSP shall be effective for interim and annual reporting periods ending after June 15, 2009, and shall be applied prospectively. Early adoption is permitted for periods ending after March 15, 2009. The adoption of FSP 157-4 is not expected to have a significant impact on the Company's financial position, results of operations or the determination of the fair value of its financial assets.

In April 2009, the FASB issued FASB Staff Position FAS 115-2 and FAS 124-2, "Recognition and Presentation of Other-Than-Temporary Impairment" ("FSP 115-2/124-2"). FSP 115-2/124-2 amends the requirements for the recognition and measurement of other-than-temporary impairments for debt securities by modifying the pre-existing "intent and ability" indicator. Under FSP 115-2/124-2, an other-than-temporary impairment is triggered when there is intent to sell the security, it is more likely than not that the security will be required to be sold before recovery, or the security is not expected to recover the entire amortized cost basis of the security. Additionally, FSP 115-2/124-2 changes the presentation of an other-than-temporary impairment in the income statement for those impairments involving credit losses. The credit loss component will be recognized in earnings and the remainder of the impairment will be recorded in other comprehensive income. FSP 115-2/124-2 is effective for the Company beginning in the first quarter of fiscal year 2010. Upon implementation at the beginning of the first quarter of 2010, FSP 115-2/124-2 is not expected to have a significant impact on the Company's financial position or results of operations.

On April 9, 2009, the FASB issued FASB Staff Position 107-1 and APB 28-1, "Interim Disclosures about Fair Value of Financial Instruments" ("FSP 107-1 and APB 28-1"). FSP 107-1 and APB 28-1 which will amend SFAS No. 107, "Disclosures about Fair Value of Financial Instruments" ("FAS 107"). FSP 107-1 and APB 28-1 will require an entity to provide disclosures about the fair value of financial instruments in interim financial information. FSP 107-1 and APB 28-1 would apply to all financial instruments within the scope of SFAS No. 107 and will require entities to disclose the method(s) and significant assumptions used to estimate the fair value of financial instruments, in both interim financial statements as well as annual financial statements. FSP 107-1 and APB 28-1 will be effective for interim and annual periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. An entity may early adopt FSP 107-1 and APB 28-1 only if it also elects to early adopt FSP 157-4 and FSP 115-2 and 124-2. Since FSP 107-1 and APB-28-1 will require disclosures about fair values in interim periods, the adoption of FSP FAS 107-1 and APB 28-1 is not expected to have a significant impact on the Company's financial position or results of operations.

Item 7A-Quantitative and Qualitative Disclosures About Market Risk

The market risk inherent in our market instruments and positions is the potential loss arising from adverse changes in marketable equity security prices, interest rates and foreign currency exchange rates.

Marketable Securities

Marketable securities at February 28, 2009, which are recorded at fair value of \$7,744, include an unrealized loss of \$4,647 and have exposure to price fluctuations. This risk is estimated as the potential loss in fair value resulting from a hypothetical 10% adverse change in prices quoted by stock exchanges and amounts to \$774 as of February 28, 2009. Actual results may differ.

Interest Rate Risk

Our earnings and cash flows are subject to fluctuations due to changes in interest rates on investment of available cash balances in money market funds and investment grade corporate and U.S. government securities. Under our current policies, we do not use interest rate derivative instruments to manage exposure to interest rate changes. In addition, our bank loans expose us to changes in short-term interest rates since interest rates on the underlying obligations are either variable or fixed.

Foreign Exchange Risk

We are subject to risk from changes in foreign exchange rates for our subsidiaries and marketable securities that use a foreign currency as their functional currency and are translated into U.S. dollars. These changes result in cumulative translation adjustments, which are included in accumulated other comprehensive income (loss). At February 28, 2009, we had translation exposure to various foreign currencies with the most significant being the Euro, Thailand Baht, Malaysian Ringgit, Hong Kong Dollar, Mexican Peso, Venezuelan Bolivar and Canadian Dollar. The potential loss resulting from a hypothetical 10% adverse change in quoted foreign currency exchange rates, as of February 28, 2009 amounts to \$2,058. Actual results may differ.

Item 8-Consolidated Financial Statements and Supplementary Data

The information required by this item begins on page F-1 of this Annual Report on Form 10-K and is incorporated herein by reference.

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

Not Applicable

Item 9A-Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Audiovox Corporation and subsidiaries (the “Company”) maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in the reports that the Company files or submits under the Securities and Exchange Act is recorded, processed, summarized, and reported within the time periods specified in accordance with the SEC’s rules and regulations, and that such information is accumulated and communicated to the Company’s management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required financial disclosures.

As of the end of the period covered by this report, the Company carried out an evaluation, under the supervision and with the participation of the Company’s management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of its disclosure controls and procedures pursuant to the Securities and Exchange Act Rule 13a-15. Based upon this evaluation as of February 28, 2009, the Chief Executive Officer and Chief Financial Officer concluded that the Company’s disclosure controls and procedures are effective and adequately designed.

Management's Report on Internal Control Over Financial Reporting

The Company’s management is responsible for establishing and maintaining adequate internal control over financial reporting; as such term is defined in the Securities and Exchange Act Rules 13a-15(f) and 15d-15(f). The Company’s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles and includes those policies and procedures that:

- Pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Company;
-

Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and

- Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management evaluated the effectiveness of the Company's internal control over financial reporting using the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control-Integrated Framework. Under the supervision and with the participation of the Company's management, including the Chief Executive Officer and Chief Financial Officer, the Company conducted an evaluation of the effectiveness of its internal control over financial reporting as of February 28, 2009. Based on that evaluation, management concluded that the Company's internal control over financial reporting was effective as of February 28, 2009 based on the COSO criteria.

The certifications of the Company's Chief Executive Officer and Chief Financial Officer included in Exhibits 31.1 and 31.2 to this Annual Report on Form 10-K includes, in paragraph 4 of such certifications, information concerning the Company's disclosure controls and procedures and internal control over financial reporting. Such certifications should be read in conjunction with the information contained in this Item 9A. Controls and Procedures, for a more complete understanding of the matters covered by such certifications.

The effectiveness of the Company's internal control over financial reporting as of February 28, 2009, has been audited by Grant Thornton LLP, an independent registered public accounting firm who also audited the Company's consolidated financial statements. Grant Thornton LLP's attestation report on the effectiveness of the Company's internal control over financial reporting is included below.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Stockholders
Audiovox Corporation

We have audited Audiovox Corporation (a Delaware corporation) and subsidiaries' (the "Company") internal control over financial reporting as of February 28, 2009, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Audiovox Corporation and subsidiaries maintained, in all material respects, effective internal control over financial reporting as of February 28, 2009, based on criteria established in Internal Control - Integrated Framework issued by COSO.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Audiovox Corporation and subsidiaries as of February 28, 2009 and February 29, 2008, and the related consolidated statements of operations, stockholders' equity and comprehensive income (loss), and cash flows for each of the three years in the period ended February 28, 2009, and our report dated

May 14, 2009 expressed an unqualified opinion thereon.

/s/ GRANT THORNTON LLP

Melville, New York

May 14, 2009

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Changes in Internal Controls Over Financial Reporting

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 most recently completed fiscal fourth quarter ended February 28, 2009 covered by this report, that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

Item 9B - Other Information

Not Applicable

PART III

The information required by Item 10 (Directors, Executive Officers and Corporate Governance), Item 11 (Executive Compensation), Item 12 (Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters), Item 13 (Certain Relationships and Related Transactions, and Director Independence) and Item 14 (Principal Accounting Fees and Services) of Form 10-K, will be included in our Proxy Statement for the Annual meeting of Stockholders, which will be filed on or before June 28, 2009, and such information is incorporated herein by reference.

PART IV

Item 15-Exhibits, Financial Statement Schedules

(1 and 2) Financial Statements and Financial Statement Schedules. See Index to Consolidated Financial Statements attached hereto.

(3) Exhibits. A list of exhibits is included on page 78.

AUDIOVOX CORPORATION
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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Stockholders
Audiovox Corporation

We have audited the accompanying consolidated balance sheets of Audiovox Corporation (a Delaware corporation) and subsidiaries (the “Company”) as of February 28, 2009 and February 29, 2008, and the related consolidated statements of operations, stockholders’ equity and comprehensive income (loss), and cash flows for each of the three years in the period ended February 28, 2009. Our audits of the basic financial statements included the financial statement schedule listed in the index appearing under Item 15. These financial statements and financial statement schedule are the responsibility of the Company’s management. Our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Audiovox Corporation and subsidiaries as of February 28, 2009 and February 29, 2008, and the results of their operations and their cash flows for each of the three years in the period ended February 28, 2009 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

As discussed in Note 1 of the notes to consolidated financial statements, on March 1, 2007 the Company adopted Financial Accounting Standards Board Interpretation No. 48, “Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109, Accounting for Income Taxes”.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company’s internal control over financial reporting as of February 28, 2009, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated May 14, 2009 expressed an unqualified opinion thereon.

/s/ GRANT THORNTON LLP

Melville, New York
May 14, 2009

Audiovox Corporation and Subsidiaries

Consolidated Balance Sheets
February 28, 2009 and February 29, 2008
(In thousands, except share data)

| | February 28, 2009 | February 29, 2008 |
|--|-------------------------|-------------------------|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 69,504 | \$ 39,341 |
| Accounts receivable, net | 104,896 | 112,688 |
| Inventory | 125,301 | 155,748 |
| Receivables from vendors | 12,195 | 29,358 |
| Prepaid expenses and other current assets | 17,973 | 13,780 |
| Deferred income taxes | 354 | 7,135 |
| Total current assets | 330,223 | 358,050 |
| Investment securities | 7,744 | 15,033 |
| Equity investments | 13,118 | 13,222 |
| Property, plant and equipment, net | 19,903 | 21,550 |
| Goodwill | - | 23,427 |
| Intangible assets | 88,524 | 101,008 |
| Deferred income taxes | 221 | - |
| Other assets | 1,563 | 746 |
| Total assets | \$ 461,296 | \$ 533,036 |
| Liabilities and Stockholders' Equity | | |
| Current liabilities: | | |
| Accounts payable | \$ 41,796 | \$ 24,433 |
| Accrued expenses and other current liabilities | 32,575 | 38,575 |
| Income taxes payable | 2,665 | 5,335 |
| Accrued sales incentives | 7,917 | 10,768 |
| Deferred income taxes | 1,459 | - |
| Bank obligations | 1,467 | 3,070 |
| Current portion of long-term debt | 1,264 | 82 |
| Total current liabilities | 89,143 | 82,263 |
| Long-term debt | 5,896 | 1,621 |
| Capital lease obligation | 5,531 | 5,607 |
| Deferred compensation | 2,559 | 4,406 |
| Other tax liabilities | 2,572 | 4,566 |
| Deferred tax liabilities | 4,657 | 6,057 |
| Other long term liabilities (see Note 3) | 10,436 | 5,003 |
| Total liabilities | 120,794 | 109,523 |
| Commitments and contingencies | | |

Stockholders' equity:

| | | |
|---|------------|------------|
| Series preferred stock, \$.01 par value; 1,500,000 shares authorized, no shares issued or outstanding | - | - |
| Common stock: | | |
| Class A, \$.01 par value; 60,000,000 shares authorized, 22,424,212 and 22,414,212 shares issued, 20,604,460 and 20,593,660 shares outstanding at February 28, 2009 and February 29 2008, respectively | 224 | 224 |
| Class B convertible, \$.01 par value; 10,000,000 shares authorized, 2,260,954 shares issued and outstanding | 22 | 22 |
| Paid-in capital | 274,464 | 274,282 |
| Retained earnings | 91,513 | 162,542 |
| Accumulated other comprehensive (loss) income | (7,325) | 4,847 |
| Treasury stock, at cost, 1,819,752 and 1,820,552 shares of Class A common stock at February 28, 2009 and February 29, 2008, respectively | (18,396) | (18,404) |
| Total stockholders' equity | 340,502 | 423,513 |
| Total liabilities and stockholders' equity | \$ 461,296 | \$ 533,036 |

See accompanying notes to consolidated financial statements.

Audiovox Corporation and Subsidiaries
Consolidated Statements of Operations
Years Ended February 28, 2009, February 29, 2008 and February 28, 2007
(In thousands, except share and per share data)

| | Year Ended February 28, 2009 | Year Ended February 29, 2008 | Year Ended February 28, 2007 |
|---|---------------------------------------|---------------------------------------|---------------------------------------|
| Net sales | \$ 603,099 | \$ 591,355 | \$ 456,690 |
| Cost of sales | 502,831 | 480,027 | 377,371 |
| Gross profit | 100,268 | 111,328 | 79,319 |
| Operating expenses: | | | |
| Selling | 33,505 | 35,703 | 28,220 |
| General and administrative | 70,870 | 61,220 | 48,920 |
| Goodwill and intangible asset impairment | 38,814 | - | - |
| Engineering and technical support | 10,522 | 9,983 | 7,256 |
| Total operating expenses | 153,711 | 106,906 | 84,396 |
| Operating (loss) income | (53,443) | 4,422 | (5,077) |
| Other income (expense): | | | |
| Interest and bank charges | (1,817) | (2,127) | (1,955) |
| Equity in income of equity investee | 975 | 3,590 | 2,937 |
| Other, net | (1,669) | 4,709 | 6,253 |
| Total other income (expenses), net | (2,511) | 6,172 | 7,235 |
| (Loss) income from continuing operations before income taxes | (55,954) | 10,594 | 2,158 |
| Income tax benefit (expense) | (15,075) | (3,848) | 1,534 |
| Net (loss) income from continuing operations | (71,029) | 6,746 | 3,692 |
| Net (loss) income from discontinued operations, net of tax (see Note 2) | - | 1,719 | (756) |
| Net (loss) income | \$ (71,029) | \$ 8,465 | \$ 2,936 |
| Net income (loss) per common share (basic): | | | |
| From continuing operations | \$ (3.11) | \$ 0.29 | \$ 0.16 |
| From discontinued operations | - | 0.08 | (0.03) |
| Net income (loss) per common share (basic) | \$ (3.11) | \$ 0.37 | \$ 0.13 |
| Net income (loss) per common share (diluted): | | | |
| From continuing operations | \$ (3.11) | \$ 0.29 | \$ 0.16 |
| From discontinued operations | - | 0.08 | (0.03) |
| Net income (loss) per common share (diluted) | \$ (3.11) | \$ 0.37 | \$ 0.13 |
| Weighted-average common shares outstanding (basic) | 22,860,402 | 22,853,482 | 22,366,413 |
| Weighted-average common shares outstanding (diluted) | 22,860,402 | 22,876,162 | 22,557,272 |

See accompanying notes to consolidated financial statements.

Audiovox Corporation and Subsidiaries
Consolidated Statements of Stockholders' Equity and Comprehensive Income (Loss)
Years Ended February 28, 2009, February 29, 2008 and February 28, 2007
(In thousands, except share data)

| | Preferred Stock | Class A and Class B Common Stock | Paid-in Capital | Retained Earnings | Accumulated other comprehensive income (loss) | Treasury stock | Total Stock- holders' equity |
|--|--------------------|--|--------------------|----------------------|---|-------------------|---------------------------------------|
| Balances at February 28, 2006 | 2,500 | \$ 237 | \$ 263,008 | \$ 148,427 | \$ (608) | \$ (12,832) | \$ 400,732 |
| Comprehensive income: | | | | | | | |
| Net income | - | - | - | 2,936 | - | - | 2,936 |
| Foreign currency translation adjustment, net of reclassification adjustment (see disclosure below) | - | - | - | - | 1,180 | - | 1,180 |
| Unrealized loss on marketable securities, net of tax effect of \$1,210, and reclassification adjustment (see disclosure below) | - | - | - | - | (1,892) | - | (1,892) |
| Other comprehensive loss | - | - | - | - | - | - | (712) |
| Comprehensive income | - | - | - | - | - | - | 2,224 |
| Exercise of stock options into 485,000 shares of common stock | - | 5 | 4,223 | - | - | - | 4,228 |
| Purchase of 305,100 shares of treasury stock | - | - | - | - | - | (4,155) | (4,155) |
| Tax benefit of stock options exercised | - | - | 896 | - | - | - | 896 |
| Stock based compensation expense | - | - | 432 | - | - | - | 432 |
| Repurchase of preferred stock | (2,500) | - | 2,495 | - | - | - | (5) |
| Issuance of 605 shares of treasury stock | - | - | 2 | - | - | 8 | 10 |
| Balances at February 28, 2007 | - | \$ 242 | \$ 271,056 | \$ 151,363 | \$ (1,320) | \$ (16,979) | \$ 404,362 |
| Comprehensive income: | | | | | | | |
| Net income | - | - | - | 8,465 | - | - | 8,465 |

| | | | | | | | |
|--|---|--------|------------|------------|----------|-------------|------------|
| Foreign currency translation adjustment, net of reclassification adjustment (see disclosure below) | - | - | - | - | 4,229 | - | 4,229 |
| Unrealized gain on marketable securities, net of tax effect of \$1,239 | - | - | - | - | 1,938 | - | 1,938 |
| Other comprehensive income | - | - | - | - | - | - | 6,167 |
| Comprehensive income | - | - | - | - | - | - | 14,632 |
| Exercise of stock options into 131,464 shares of common stock | - | 4 | 3,144 | - | - | - | 3,148 |
| Reversal of tax benefit from stock options exercised | - | - | (805) | - | - | - | (805) |
| Stock-based compensation expense | - | - | 886 | - | - | - | 886 |
| Cumulative effect of a change in accounting principles (FIN No. 48) | - | - | - | 2,714 | - | - | 2,714 |
| Purchase of 128,100 shares of treasury stock | - | - | - | - | - | (1,431) | (1,431) |
| Issuance of 585 shares of treasury stock | - | - | 1 | - | - | 6 | 7 |
| Balances at February 29, 2008 | - | \$ 246 | \$ 274,282 | \$ 162,542 | \$ 4,847 | \$ (18,404) | \$ 423,513 |

Audiovox Corporation and Subsidiaries
 Consolidated Statements of Stockholders' Equity and Comprehensive Income (Loss), continued
 Years Ended February 28, 2009, February 29, 2008 and February 28, 2007
 (In thousands, except share data)

| | Class A and Class B | Class A Preferred | Class B Common | Paid-in Capital | Retained Earnings | Accumulated other comprehensive income (loss) | Treasury stock | Total Stock- holders' equity |
|--|---------------------------|----------------------|-------------------|--------------------|----------------------|---|-------------------|---------------------------------------|
| Comprehensive income: | | | | | | | | |
| Net income | - | - | - | - | (71,029) | - | - | (71,029) |
| Foreign currency translation adjustment | - | - | - | - | - | (7,486) | - | (7,486) |
| Unrealized gain on marketable securities, net of tax effect of \$(2,301) | - | - | - | - | - | (4,686) | - | (4,686) |
| Other comprehensive income | - | - | - | - | - | - | - | (12,172) |
| Comprehensive income | - | - | - | - | - | - | - | - |
| Exercise of stock options into 20,000 shares of common stock | - | - | - | 47 | - | - | - | 47 |
| Tax benefit of stock options exercised | - | - | - | 20 | - | - | - | 20 |
| Reversal of tax benefit from stock options expired | - | - | - | (190) | - | - | - | (190) |
| Stock-based compensation expense | - | - | - | 309 | - | - | - | 309 |
| Issuance of 800 shares of treasury stock | - | - | - | (4) | - | - | 8 | 4 |
| Balances at February 28, 2009 | - | \$ 246 | \$ 274,464 | \$ 91,513 | \$ (7,325) | \$ (18,396) | \$ 340,502 | |

| | Year ended February 28, 2009 | Year ended February 29, 2008 |
|---|---------------------------------------|---------------------------------------|
| Disclosure of reclassification amount: | | |
| Unrealized foreign currency translation gain (loss) | \$ (7,486) | \$ 3,886 |
| Less: reclassification adjustments for loss included in net income (loss) | - | (343) |
| Net unrealized foreign currency translation gain (loss) | \$ (7,486) | \$ 4,229 |

Year ended Year ended

| | February 28, 2009 | February 29, 2008 |
|---|-------------------------|-------------------------|
| Disclosure of reclassification amount: | | |
| Unrealized gain (loss) on marketable securities | \$ (4,686) | \$ 3,814 |
| Less: reclassification adjustments for gain (loss) included in net income | - | 1,876 |
| Net unrealized gain (loss) on marketable securities, net of tax | \$ (4,686) | \$ 1,938 |

See accompanying notes to consolidated financial statements.

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Audiovox Corporation and Subsidiaries
 Consolidated Statements of Cash Flows
 Years Ended February 28, 2009, February 29, 2008 and February 28, 2007
 (Dollars in thousands)

| | Year Ended February 28, 2009 | Year Ended February 29, 2008 | Year Ended February 28, 2007 |
|--|---------------------------------------|---------------------------------------|---------------------------------------|
| Cash flows from operating activities: | | | |
| Net income (loss) | \$ (71,029) | \$ 8,465 | \$ 2,936 |
| Net (income) loss from discontinued operations | - | (1,719) | 756 |
| Net income (loss) from continuing operations | (71,029) | 6,746 | 3,692 |
| Adjustments to reconcile net income (loss) to net cash provided by (used in) continuing operating activities: | | | |
| Depreciation and amortization | 7,294 | 5,750 | 3,994 |
| Bad debt expense (recovery) | 1,937 | 297 | (23) |
| Goodwill and intangible asset impairment | 38,709 | - | - |
| Equity in income of equity investee | (975) | (3,590) | (2,937) |
| Deferred income tax expense (benefit), net | 13,646 | (1,198) | 606 |
| Loss on disposal of property, plant and equipment | 4 | 19 | 7 |
| Tax (benefit) expense on stock options exercised | (20) | 805 | (896) |
| Non-cash compensation adjustment | 651 | (790) | 353 |
| Non-cash stock based compensation expense | 309 | 886 | 432 |
| Realized (gain) loss on sale of investment | - | (1,533) | 178 |
| Changes in operating assets and liabilities (net of assets and liabilities acquired): | | | |
| Accounts receivable | 768 | (17,925) | 4,066 |
| Inventory | 21,951 | (19,210) | 23,589 |
| Receivables from vendors | 16,838 | (15,275) | (4,079) |
| Prepaid expenses and other | (9,214) | (3,560) | (1,147) |
| Investment securities-trading | 1,863 | 3,167 | (1,026) |
| Accounts payable, accrued expenses, accrued sales incentives and other current liabilities | 11,748 | (23,387) | 7,466 |
| Income taxes payable | (4,474) | 4,107 | 9,145 |
| Net cash provided by (used in) operating activities | 30,006 | (64,691) | 43,420 |
| Cash flows from investing activities: | | | |
| Purchases of property, plant and equipment | (4,606) | (7,326) | (2,711) |
| Proceeds from sale of property, plant and equipment | 112 | 94 | 50 |
| Proceeds from distribution from an equity investee | 1,080 | 1,720 | 3,419 |
| Proceeds from a liquidating distribution from an available-for-sale investment | - | 646 | - |
| Purchase of long-term investment | - | - | (1,000) |
| Purchase of short-term investments | - | (33,750) | (158,230) |
| Sale of short-term investments | - | 169,855 | 178,175 |
| Sale of long-term investment | - | 4,561 | 360 |
| Purchase of long-term investment | (548) | - | - |

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| | | | |
|--|-----------|-----------|-----------|
| Purchase of patents | (650) | (70) | (475) |
| Purchase of acquired businesses, less cash acquired | 621 | (42,265) | (60,485) |
| Net cash provided by (used in) investing activities | (3,991) | 93,465 | (40,897) |
| Cash flows from financing activities: | | | |
| Borrowings from bank obligations | 4,654 | - | - |
| Repayments on bank obligations | - | (1,758) | (2,853) |
| Principal payments on capital lease obligation | (73) | (69) | (89) |
| Proceeds from exercise of stock options and warrants | 46 | 3,148 | 4,228 |
| Repurchase of Class A common stock | - | (1,425) | (4,155) |
| Repurchase of preferred stock | - | - | (5) |
| Reissue of treasury stock | 8 | - | - |
| Principal payments on debt | - | (4,332) | (1,471) |
| Tax expense (benefit) on stock options exercised | 20 | (805) | 896 |
| Net cash provided by (used in) financing activities | 4,655 | (5,241) | (3,449) |
| Effect of exchange rate changes on cash | (507) | 335 | 119 |
| Net increase (decrease) in cash and cash equivalents | 30,163 | 23,868 | (807) |
| Cash and cash equivalents at beginning of year | 39,341 | 15,473 | 16,280 |
| Cash and cash equivalents at end of year | \$ 69,504 | \$ 39,341 | \$ 15,473 |

Supplemental Cash Flow Information:

Cash paid during the period for:

| | | | |
|----------------------------------|----------|----------|-------------|
| Interest, excluding bank charges | \$ 1,224 | \$ 1,795 | \$ 1,739 |
| Income taxes (net of refunds) | \$ 3,816 | \$ 2,316 | \$ (10,226) |

See accompanying notes to consolidated financial statements.

Audiovox Corporation and Subsidiaries
Notes to Consolidated Financial Statements
February 28, 2009
(Dollars in thousands, except share and per share data)

1) Description of Business and Summary of Significant Accounting Policies

a) Description of Business and Accounting Principles

Audiovox Corporation and subsidiaries (the "Company") is a leading international distributor and value added service provider in the mobile, consumer and accessory electronics industries. The Company designs and markets a diverse line of electronic products under the Audiovox® and other brand names throughout the world. The Company has one reportable segment, the Electronics Group, which is organized by product category. We conduct our business through seven wholly-owned subsidiaries: American Radio Corp., Audiovox Accessories Corp. ("AAC"), Audiovox Consumer Electronics, Inc., Audiovox Electronics Corporation ("AEC"), 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®, Incaar®, Jensen®, Mac Audio®, Magnat®, Movies2Go®, Oehlbach®, Phase Linear®, Prestige®, Pursuit®, RCA®, RCA Accessories®, Recoton®, Road Gear®, Spikemaster® and Terk®, as well as private labels through a large domestic and international distribution network. We also function as an OEM ("Original Equipment Manufacturer") supplier to several customers and presently have one reportable segment (the "Electronics Group"), which is organized by product category.

The Company completed the divestiture of Audiovox Malaysia on November 7, 2005 and our Cellular business on November 1, 2004. Unless specifically indicated otherwise, all amounts and percentages presented in the notes below are exclusive of discontinued operations.

In February 2006, the Company changed its fiscal year end from November 30th to February 28th. The Company's current fiscal year began March 1, 2008 and ended on February 28, 2009. This annual report on Form 10-K compares the financial position as of February 28, 2009 to February 29, 2008 and the results of operations for the years ended February 28, 2009, February 29, 2008 and February 28, 2007.

The financial statements and accompanying notes are prepared in accordance with accounting principles generally accepted in the United States of America.

b) Principles of Consolidation

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

Equity investments in which the Company exercises significant influence but does not control and is not the primary beneficiary, as defined in Financial Accounting Standards Board Interpretation No. 46, Consolidation of Variable Interest Entities ("FIN No. 46(R)"), are accounted for using the equity method. The Company's share of its equity method investees earnings or losses are included in other income in the accompanying Consolidated Statements of Operations. The Company eliminates its pro rata share of gross profit on sales to its equity method investees for inventory on hand at the investee at the end of the year. Investments in which the Company is not able to exercise significant influence over the investee are accounted for under the cost method.

c) Use of Estimates

The preparation of these financial statements require the Company to make estimates and assumptions that affect reported amounts of assets, liabilities, revenue and expenses. Such estimates include the allowance for doubtful accounts, inventory valuation, recoverability of deferred tax assets, reserve for uncertain tax positions, valuation of long-lived assets, accrued sales incentives, warranty reserves, stock-based compensation, impairment assessment of goodwill and trademarks, and disclosure of contingent assets and liabilities at the date of the consolidated financial statements. Actual results could differ from those estimates.

Audiovox Corporation and Subsidiaries
Notes to Consolidated Financial Statements
February 28, 2009
(Dollars in thousands, except share and per share data)

d) Cash and Cash Equivalents

Cash and cash equivalents consist of demand deposits with banks and highly liquid money market funds with original maturities of three months or less when purchased. Cash equivalents amounted to \$69,504 and \$35,400 at February 28, 2009 and February 29, 2008, respectively. Cash amounts held in foreign bank accounts amounted to \$8,922 and \$5,383 at February 28, 2009 and February 29, 2008, respectively. The majority of these amounts are in excess of government insurance. The Company places its cash and cash equivalents in institutions and funds of high credit quality. We perform periodic evaluations of these institutions and funds.

e) Investment Securities

The Company classifies its investment securities in one of two categories: trading or available-for-sale. Trading securities are bought and held principally for the purpose of selling them in the near term. All other securities not included in trading are classified as available-for-sale.

Trading and available-for-sale securities are recorded at fair value. Unrealized holding gains and losses on trading securities are included in earnings. Unrealized holding gains and losses, net of the related tax effect, on available-for-sale securities are excluded from earnings and are reported as a component of accumulated other comprehensive income (loss) until realized. Realized gains and losses from the sale of available-for-sale securities are determined on a specific identification basis. Dividend and interest income are recognized when earned.

The cost, gross unrealized gains (losses) and aggregate fair value of investment securities as of February 28, 2009 and February 29, 2008 are as follows:

| | February 28, 2009 | | |
|--|-------------------|--------------------------------------|----------------------------|
| | Cost | Unrealized Holding Gain/(Loss) | Aggregate Fair Value |
| Long-term Investment Securities* | \$ 4,550 | \$ (1,135) | \$ 3,415 |
| CellStar Common Stock* | - | 63 | 63 |
| Bliss-tel Stock and Warrants* (see Note 13) | 3,825 | (3,575) | 250 |
| Other Investment | 1,474 | - | 1,474 |
| Deferred Compensation Plan Assets - Trading Securities (see Note 10) | 2,542 | - | 2,542 |
| Investment securities | \$ 12,391 | \$ (4,647) | \$ 7,744 |
| | February 29, 2008 | | |
| | Cost | Unrealized Holding Gain | Aggregate Fair Value |
| Long-term Investment Securities* | \$ 4,550 | - | \$ 4,550 |

| | | | |
|--|-----------|----------|-----------|
| CellStar Common Stock* | 1 | 110 | 111 |
| Bliss-tel Stock and Warrants* (see Note 13) | 3,825 | 1,141 | 4,966 |
| Other Investment | 1,000 | - | 1,000 |
| Deferred Compensation Plan Assets - Trading Securities (see Note 10) | 4,406 | - | 4,406 |
| Long-term investments | \$ 13,782 | \$ 1,251 | \$ 15,033 |

* Represents investments that are classified as available-for-sale securities.

Other investment includes an investment in a non-controlled corporation accounted for by the cost method.

Long-term investment securities consist of taxable auction rate notes which have long-term maturity dates (October 2038) at February 28, 2009. In accordance with the Company's investment policy, all long and short-term investment securities are invested in "investment grade" rated securities and all investments have an Aaa or better rating at February 28, 2009. Trading securities consist of mutual funds, which are held in connection with the Company's deferred compensation plan.

Audiovox Corporation and Subsidiaries
Notes to Consolidated Financial Statements
February 28, 2009
(Dollars in thousands, except share and per share data)

Deferred tax assets (liabilities) of \$25 and \$(488) related to available-for-sale securities were recorded at February 28, 2009 and February 29, 2008, respectively, as a reduction to the unrealized holding gain (loss) included in accumulated other comprehensive income (loss).

A decline in the market value of any available-for-sale security below cost that is deemed other-than-temporary results in a reduction in carrying amount to fair value. The impairment is charged to earnings and a new cost basis for the security is established. The Company considers numerous factors, on a case-by-case basis, in evaluating whether the decline in market value of an available-for-sale security below cost is other-than-temporary. Such factors include, but are not limited to, (i) the length of time and the extent to which the market value has been less than cost; (ii) the financial condition and the near-term prospects of the issuer of the investment; and (iii) whether the Company's intent to retain the investment for the period of time is sufficient to allow for any anticipated recovery in market value.

f) Fair Value Measurements

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

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

Fair Value Hierarchy

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

- Level 1 – Quoted prices in active markets that are unadjusted and accessible at the measurement date for identical, unrestricted assets or liabilities.
- Level 2 – Quoted prices for identical assets and liabilities in markets that are not active, quoted prices for similar assets and liabilities in active markets or financial instruments for which significant inputs are observable, either

directly or indirectly.

- Level 3 – Prices or valuations that require inputs that are both significant to the fair value measurement and unobservable.

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

Measurement of Fair Value

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

Audiovox Corporation and Subsidiaries
Notes to Consolidated Financial Statements
February 28, 2009
(Dollars in thousands, except share and per share data)

Items Measured at Fair Value on a Recurring Basis

The following table presents the Company's assets and liabilities that are measured and recorded at fair value on a recurring basis at February 28, 2009 consistent with the fair value hierarchy provisions of SFAS No. 157:

| | Fair Value Measurements at Reporting Date Using | | |
|--|---|---|--|
| | Quoted Prices in Active Markets for Identical Assets and Liabilities (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| Cash and cash equivalents: | | | |
| Cash and money market funds | \$ 69,504 | \$ 69,504 | \$ - |
| Long-term investment securities: | | | |
| Deferred compensation assets and other | 2,855 | 2,855 | - |
| Auction rate security | 3,415 | - | 3,415 |
| Other long-term investments | 1,474 | - | 1,474 |
| Total long-term investment securities | 7,744 | 2,855 | 1,474 |
| Total assets measured at fair value | \$ 77,248 | \$ 72,359 | \$ 1,474 |

As of February 28, 2009, the Company's long-term investment securities consisted of marketable securities, an auction rate security and other long-term investments. As of February 28, 2009, the fair value of the Company's long-term investment securities as defined under SFAS No. 157 was approximately \$7,744. The Company's long-term investment securities are classified between trading and available-for-sale, and accordingly, unrealized gains and losses on long-term investment securities classified as available-for-sale are reflected as a component of accumulated other comprehensive income in stockholders' equity, net of tax. Unrealized holding gains and losses on trading securities are included in earnings.

As of February 28, 2009, the Company had \$4,550 (at par value) of an auction rate security included within its portfolio of long-term investment securities, which is collateralized by student loan portfolios, which are guaranteed by the United States government. Because there is no assurance that auctions for these securities will be successful in the near term, as of February 28, 2009, this auction rate security is classified as an available-for-sale long-term investment. As of February 28, 2009, the Company recorded approximately \$1,135 of unrealized losses on this auction rate note, which is included in other comprehensive loss in stockholders' equity, net of tax.

Due to recent events in the U.S. credit markets during fiscal 2009, the Company considered various valuation techniques for its auction rate security. These analyses consider, among other items, the collateral underlying the security, the creditworthiness of the issuer, the timing of the expected future cash flows, including the final maturity, and an assumption of when the next time the security is expected to have a successful auction. These securities were also compared, when possible, to other observable and relevant market data, which is limited at this time.

Accordingly, these securities changed from Level 1 to Level 3 within SFAS No. 157's hierarchy since the Company's initial adoption of SFAS No. 157 on March 1, 2008. The following table presents the Company's assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) as defined in SFAS No. 157 at February 28, 2009:

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| | Fair Value Measurements Using Significant Unobservable Inputs (Level 3) |
|--|---|
| Balance at February 29, 2008 | \$ - |
| Auction rate security transferred to Level 3 | 4,550 |
| Total unrealized loss included in accumulated other comprehensive income | (1,135) |
| Balance at February 28, 2009 | \$ 3,415 |

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

Fair value estimates are made at a specific point in time based on relevant market information and information about the financial instrument. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

g) Revenue Recognition

The Company recognizes revenue from product sales at the time of passage of title and risk of loss to the customer either at FOB shipping point or FOB destination, based upon terms established with the customer. The Company's selling price to its customers is a fixed amount that is not subject to refund or adjustment or contingent upon additional rebates. Any customer acceptance provisions, which are related to product testing, are satisfied prior to revenue recognition. There are no further obligations on the part of the Company subsequent to revenue recognition except for product returns from the Company's customers. The Company does accept product returns, if properly requested, authorized, and approved by the Company. The Company records an estimate of product returns by its customers and records the provision for the estimated amount of such future returns at point of sale, based on historical experience and any notification the Company receives of pending returns.

The Company includes all costs incurred for shipping and handling as cost of sales and all amounts billed to customers as revenue.

h) Accounts Receivable

The majority of the Company's accounts receivable are due from companies in the retail, mass merchant and OEM industries. Credit is extended based on an evaluation of a customer's financial condition. Accounts receivable are generally due within 30-60 days and are stated at amounts due from customers, net of an allowance for doubtful accounts. Accounts outstanding longer than the contracted payment terms are considered past due.

Accounts receivable is comprised of the following:

| | February 28, 2009 | February 29, 2008 |
|-------------------------------------|-------------------------|-------------------------|
| Trade accounts receivable and other | \$ 112,456 | \$ 119,349 |
| Less: | | |
| Allowance for doubtful accounts | 7,361 | 6,386 |
| Allowance for cash discounts | 199 | 275 |
| | \$ 104,896 | \$ 112,688 |

The Company performs ongoing credit evaluations of its customers and adjusts credit limits based upon payment history and the customer's current credit worthiness, as determined by a review of their current credit information. The Company continuously monitors collections and payments from its customers and maintains a provision for estimated credit losses based upon historical experience and any specific customer collection issues that have been identified. While such credit losses have historically been within management's expectations and the provisions established, the Company cannot guarantee it will continue to experience the same credit loss rates that have been experienced in the past. Since the Company's accounts receivable are concentrated in a relatively few number of customers, a significant change in the liquidity or financial position of any one of these customers could have a material adverse impact on the collectability of the Company's accounts receivable and future operating results.

Audiovox Corporation and Subsidiaries
Notes to Consolidated Financial Statements
February 28, 2009
(Dollars in thousands, except share and per share data)

i) Inventory

The Company values its inventory (finished goods) at the lower of the actual cost to purchase (primarily on a weighted moving-average basis) and/or the current estimated market value of the inventory less expected costs to sell the inventory. The Company regularly reviews inventory quantities on-hand and records a provision for excess and obsolete inventory based primarily from selling prices, indications from customers based upon current price negotiations and purchase orders. The Company's industry is characterized by rapid technological change and frequent new product introductions that could result in an increase in the amount of obsolete inventory quantities on-hand. The Company recorded inventory write-downs of \$13,818, \$4,925 and \$2,977 for the years ended February 28, 2009, February 29, 2008 and February 28, 2007, respectively.

The Company's estimates of excess and obsolete inventory may prove to be inaccurate, in which case the Company may have understated or overstated the provision required for excess and obsolete inventory. Although the Company makes every effort to ensure the accuracy of its forecasts of future product demand, any significant unanticipated changes in demand, price or technological developments could have a significant impact on the value of the Company's inventory and reported operating results.

j) Property, Plant and Equipment

Property, plant and equipment are stated at cost less accumulated depreciation. Property under a capital lease is stated at the present value of minimum lease payments. Major improvements are capitalized and minor replacements, maintenance and repairs are charged to expense as incurred. Upon retirement or disposal of assets, the cost and related accumulated depreciation are removed from the consolidated balance sheets.

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

| | February 28, 2009 | February 29, 2008 |
|--|-------------------------|-------------------------|
| Land | \$ 338 | \$ 338 |
| Buildings | 6,749 | 6,667 |
| Property under capital lease | 6,981 | 6,981 |
| Furniture, fixtures and displays | 3,496 | 3,049 |
| Machinery and equipment | 6,791 | 6,515 |
| Construction-in-progress | 57 | 26 |
| Computer hardware and software | 22,373 | 20,134 |
| Automobiles | 661 | 1,274 |
| Leasehold improvements | 5,997 | 5,898 |
| | 53,443 | 50,882 |
| Less accumulated depreciation and amortization | 33,540 | 29,332 |
| | \$ 19,903 | \$ 21,550 |

Depreciation is calculated on the straight-line method over the estimated useful lives of the assets as follows:

| | |
|----------------------------------|-------------|
| Buildings | 20-30 years |
| Furniture, fixtures and displays | 5-10 years |
| Machinery and equipment | 5-10 years |
| Computer hardware and software | 3-5 years |
| Automobiles | 3 years |

Leasehold improvements are amortized over the shorter of the lease term or estimated useful life of the asset. Assets acquired under capital leases are amortized over the term of the respective lease. Capitalized computer software costs obtained for internal use are amortized on a straight-line basis.

Audiovox Corporation and Subsidiaries
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Depreciation and amortization of property, plant and equipment amounted to \$5,653, \$4,609 and \$3,599 for the years ended February 28, 2009, February 29, 2008 and February 28, 2007, respectively. . Included in depreciation and amortization expense is amortization of computer software costs of \$1,127, \$812 and \$334 for the years ended February 28, 2009, February 29, 2008 and February 28, 2007, respectively. Also included in depreciation expense is \$251 of depreciation related to property under a capital lease for the years ended February 28, 2009 and February 29, 2008 and \$240 for the years ended February 28, 2007.

k) Goodwill and Other Intangible Assets

Goodwill and other intangible assets consist of the excess over the fair value of assets acquired (goodwill) and other intangible assets (patents, contracts, trademarks/tradenames and customer relationships). Values assigned to the respective assets are determined in accordance with Statement of Financial Accounting Standards No. 141 "Business Combinations" ("SFAS No. 141") and Statement of Financial Accounting Standards No. 142 "Goodwill and Other Intangible Assets" ("SFAS No. 142").

Goodwill, which includes equity investment goodwill, is calculated as the excess of the cost of purchased businesses over the value of their underlying net assets. Generally, the primary valuation method used to determine the Fair Value ("FV") of acquired businesses is the Discounted Future Cash Flow Method ("DCF"). A five-year period is analyzed using a risk adjusted discount rate.

The value of potential intangible assets separate from goodwill are evaluated and assigned to the respective categories. The largest categories from recent acquired businesses are Trademarks and Customer Relationships. The FV's of trademarks acquired are determined using the Relief from Royalty Method based on projected sales of the trademarked products. The FV's of customer relationships are determined using the Multi-Period Excess Earnings Method which includes a DCF analysis, adjusted for a required return on tangible and intangible assets. The guidance in SFAS 142, including management's business intent for its use; ongoing market demand for products relevant to the category and their ability to generate future cash flows; legal, regulatory or contractual provisions on its use or subsequent renewal, as applicable; and the cost to maintain or renew the rights to the assets; are considered in determining the useful life of all intangible assets. If the Company determines that there are no legal, regulatory, contractual, competitive, economic or other factors which limit the useful life of the asset, an indefinite life will be assigned and evaluated for impairment as indicated below. Goodwill and other intangible assets that have an indefinite useful life are not amortized. Intangible assets that have a definite useful life are amortized over their estimated useful life.

SFAS No. 142 requires that goodwill and intangible assets with indefinite useful lives be tested for impairment at least annually or more frequently if an event occurs or circumstances change that could more likely than not reduce the fair value of a reporting unit below its carrying amount. Equity method goodwill is evaluated for impairment under Accounting Principles Board No. 18, "The Equity Method of Accounting for Investments in Common Stock", as amended. SFAS No. 142 also requires that intangible assets with estimable useful lives be amortized over their respective estimated useful lives and reviewed for impairment in accordance with Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS No. 144").

In accordance with SFAS No. 142, the Company tested the FV of Audiovox, which has one reporting unit, during the fiscal fourth quarter. The primary valuation method used to test the FV was the Discounted Future Cash Flow Method

(“DCF”). A five-year period was analyzed using a risk adjusted discount rate. The resulting DCF FV was tested for reasonableness using the EBITDA multiple of other comparable company acquisition transactions, and publicly traded companies in the consumer electronics industry. For intangible assets not associated with goodwill, primarily trademarks, the Company compared the fair value of the intangible asset with its carrying amount. To compute the fair value, various considerations were evaluated including current sales associated with these brands, management’s expectations for future sales, performance of the business group and proximity to acquisition date fair values. At the present time, management intends to continue the development, marketing and selling of products associated with its intangible assets and there are no known restrictions on the continuation of their use.

Due to ongoing challenges in the worldwide economic climate, the discount rate applied to the forecasted cash flows was greater than that which was applied in the prior impairment analyses and guideline company metrics were set at the low end of the range as compared to the previous analyses which had set these more in line with the average for comparable companies. These changes in assumptions resulted in the impairment of the goodwill and intangible balances. Consequently, the Company recorded an impairment charge of \$38.8 million in the fourth quarter of Fiscal 2009, \$28.8 million related to goodwill and resulted in the entire balance being written off. The expected future cash flows related to intangible assets with definite lives exceeded their carrying values and as such, were not impaired. The cost of other intangible assets with definite lives are amortized on a straight-line basis over their respective lives. Management has determined that the current lives of these assets are appropriate. Intangible assets with indefinite lives were deemed to be impaired. As a result, an impairment of \$9,976 was recorded. All impairment charges have been reflected in pre-tax operating income on the Company’s financial statements.

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Goodwill

The change in the carrying amount of goodwill is as follows:

| | February 28, 2009 |
|--|-------------------------|
| Net beginning balance | \$ 23,427 |
| Technuity purchase price allocation (see Note 3) | 5,411 |
| Goodwill impairment charge | (28,838) |
| Net ending balance | \$ - |

Other Intangible Assets

| | February 28, 2009 | | | | Total Net Book Value |
|---|--|--|----------------------------|-----------------------------|----------------------------|
| | Gross Carrying Value Pre-impairment | Gross Carrying Value Impairment | Gross Carrying Value | Accumulated Amortization | |
| Trademarks/Tradenames/Licenses not subject to amortization | \$ 83,872 | \$ 9,957 | \$ 73,915 | \$ - | \$ 73,915 |
| Customer relationships subject to amortization (5-20 years) | 13,079 | - | 13,079 | 1,357 | 11,722 |
| Trademarks/Tradenames subject to amortization (3-12 years) | 1,180 | - | 1,180 | 269 | 911 |
| Patents subject to amortization (5-10 years) | 1,345 | - | 1,345 | 562 | 783 |
| License subject to amortization (5 years) | 1,400 | - | 1,400 | 373 | 1,027 |
| Contract subject to amortization (5 years) | 1,104 | - | 1,104 | 938 | 166 |
| Total | \$ 101,980 | \$ 9,957 | \$ 92,023 | \$ 3,499 | \$ 88,524 |

| | February 29, 2008 | | |
|---|----------------------------|-----------------------------|----------------------------|
| | Gross Carrying Value | Accumulated Amortization | Total Net Book Value |
| Trademarks/Tradenames not subject to amortization | \$ 86,368 | \$ - | \$ 86,368 |
| Customer relationships subject to amortization (5-15 years) | 14,685 | 741 | 13,944 |
| Patents subject to amortization (5-10 years) | 695 | 385 | 310 |
| Contract subject to amortization (5 years) | 1,104 | 718 | 386 |
| Total | \$ 102,852 | \$ 1,844 | \$ 101,008 |

During the year ended February 28, 2009, the Company purchased \$650 of patents subject to amortization with an estimated useful life of ninety-nine months. In addition, the Company recorded (\$9,269) and \$8,118 to indefinite life and amortizing intangibles, respectively in connection with the final purchase price allocation for its Technuity and Thomson Audio/Video acquisitions. An adjustment of (\$369) was recorded as a result of the Incaar acquisition whose contingent consideration period expired with relevant targets unachieved (see Note 3). The weighted-average amortization period for customer relationships as of February 28, 2009 is approximately 12.9 years.

Amortization expense for intangible assets amounted to \$1,626, \$1,141 and \$395 for the years ended February 28, 2009, February 29, 2008 and February 28, 2007, respectively. The estimated aggregate amortization expense for all amortizable intangibles for each of the succeeding years ending February 28, 2014 is as follows:

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| Fiscal Year | Amount |
|-------------|----------|
| 2010 | \$ 1,727 |
| 2011 | 1,486 |
| 2012 | 1,408 |
| 2013 | 1,278 |
| 2014 | 1,065 |
| | \$ 6,964 |

1) Sales Incentives

The Company offers sales incentives to its customers in the form of (1) co-operative advertising allowances; (2) market development funds; (3) volume incentive rebates and (4) other trade allowances. The Company accounts for sales incentives in accordance with Emerging Issues Task Force 01-9, "Accounting for Consideration Given by a Vendor to a Customer (Including a Reseller of Vendor's Products)" ("EITF 01-9"). Except for other trade allowances, all sales incentives require the customer to purchase the Company's products during a specified period of time. All sales incentives require customers to claim the sales incentive within a certain time period (referred to as the "claim period") and claims are settled either by the customer claiming a deduction against an outstanding account receivable or by the customer requesting a cash payout. All costs associated with sales incentives are classified as a reduction of net sales. The following is a summary of the various sales incentive programs:

Co-operative advertising allowances are offered to customers as reimbursement towards their costs for print or media advertising in which the Company's product is featured on its own or in conjunction with other companies' products. The amount offered is either a fixed amount or is based upon a fixed percentage of sales revenue or a fixed amount per unit sold to the customer during a specified time period.

Market development funds are offered to customers in connection with new product launches or entrance into new markets. The amount offered for new product launches is based upon a fixed amount, or percentage of sales revenue to the customer or a fixed amount per unit sold to the customer during a specified time period.

Volume incentive rebates offered to customers require that minimum quantities of product be purchased during a specified period of time. The amount offered is either based upon a fixed percentage of sales revenue to the customer or a fixed amount per unit sold to the customer. The Company makes an estimate of the ultimate amount of the rebate their customers will earn based upon past history with the customer and other facts and circumstances. The Company has the ability to estimate these volume incentive rebates, as there does not exist a relatively long period of time for a particular rebate to be claimed. Any changes in the estimated amount of volume incentive rebates are recognized immediately using a cumulative catch-up adjustment. The Company accrues the cost of co-operative advertising allowances, volume incentive rebates and market development funds at the later of when the customer purchases our products or when the sales incentive is offered to the customer.

Other trade allowances are additional sales incentives that the Company provides to customers subsequent to the related revenue being recognized. In accordance with EITF 01-9, the Company records the provision for these additional sales incentives at the later of when the sales incentive is offered or when the related revenue is recognized. Such additional sales incentives are based upon a fixed percentage of the selling price to the customer, a fixed amount

per unit, or a lump-sum amount.

The accrual balance for sales incentives at February 28, 2009 and February 29, 2008 was \$7,917 and \$10,768, respectively. Although the Company makes its best estimate of its sales incentive liability, many factors, including significant unanticipated changes in the purchasing volume of its customers and the lack of claims made by customers could have a significant impact on the sales incentives liability and reported operating results.

For the years ended February 28, 2009, February 29, 2008 and February 28, 2007, reversals of previously established sales incentive liabilities amounted to \$4,083, \$4,108 and \$2,460, respectively. These reversals include unearned and unclaimed sales incentives. Reversals of unearned sales incentives are volume incentive rebates where the customer did not purchase the required minimum quantities of product during the specified time. Volume incentive rebates are reversed into income in the period when the customer did not reach the required minimum purchases of product during the specified time. Unearned sales incentives for the years ended February 28, 2009, February 29, 2008 and February 28, 2007 amounted to \$1,664, \$1,970 and \$1,148, respectively. Unclaimed sales incentives are sales incentives earned by the customer but the customer has not claimed payment from the Company within the claim period (period after program has ended). Unclaimed sales incentives for the years ended February 28, 2009, February 29, 2008 and February 28, 2007 amounted to \$2,419, \$2,138 and \$1,312, respectively.

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The Company reverses earned but unclaimed sales incentives based upon the expiration of the claim period of each program. Unclaimed sales incentives that have no specified claim period are reversed in the quarter following one year from the end of the program. The Company believes 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.

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

| | Year Ended February 28, 2009 | Year Ended February 29, 2008 | Year Ended February 28, 2007 |
|------------------------------------|--|--|--|
| Opening balance | \$ 10,768 | \$ 7,410 | \$ 8,512 |
| Accruals | 23,877 | 29,084 | 14,961 |
| Payments | (22,645) | (21,618) | (13,603) |
| Reversals for unearned incentives | (1,664) | (1,970) | (1,148) |
| Reversals for unclaimed incentives | (2,419) | (2,138) | (1,312) |
| Ending balance | \$ 7,917 | \$ 10,768 | \$ 7,410 |

The majority of the reversals of previously established sales incentive liabilities pertain to sales recorded in prior periods.

m) Advertising

Excluding co-operative advertising, the Company expensed the cost of advertising, as incurred, of \$6,523, \$5,854 and \$6,194 for the years ended February 28, 2009, February 29, 2008 and February 28, 2007, respectively.

n) Product Warranties and Product Repair Costs

The Company generally warrants its products against certain manufacturing and other defects. The Company provides warranties for all of its products ranging from 90 days to the lifetime of the product. Warranty expenses are accrued at the time of sale based on the Company's estimated cost to repair expected product returns for warranty matters. This liability is based primarily on historical experiences of actual warranty claims as well as current information on repair costs. The warranty liability of \$7,779 and \$13,272 is recorded in accrued expenses in the accompanying consolidated balance sheets as of February 28, 2009 and February 29, 2008, respectively. In addition, the Company records a reserve for product repair costs which is based upon the quantities of defective inventory on hand and an estimate of the cost to repair such defective inventory. The reserve for product repair costs of \$6,631 and \$4,047 is recorded as a reduction to inventory in the accompanying consolidated balance sheets as of February 28, 2009 and February 29, 2008, respectively. Warranty claims and product repair costs expense for the years ended February 28, 2009, February 29, 2008 and February 28, 2007 were \$12,187, \$9,401 and \$8,047, respectively.

Changes in the Company's accrued product warranties and product repair costs are as follows:

| | Year Ended February 28, 2009 | Year Ended February 29, 2008 | Year Ended February 28, 2007 |
|---|--|--|--|
| Beginning balance | \$ 17,319 | \$ 9,586 | \$ 9,947 |
| Liabilities acquired during acquisitions (see Note 3) | - | 12,848 | 1,705 |
| Liabilities accrued for warranties issued | 12,187 | 9,401 | 8,047 |
| Warranty claims paid | (15,096) | (14,516) | (10,113) |
| Ending balance | \$ 14,410 | \$ 17,319 | \$ 9,586 |

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o) Foreign Currency

Assets and liabilities of those subsidiaries and former equity investees located outside the United States whose cash flows are primarily in local currencies have been translated at rates of exchange at the end of the period or historical exchange rates, as appropriate in accordance with Statement of Financial Accounting Standards No. 52, "Foreign Currency Translation" ("SFAS No. 52"). Revenues and expenses have been translated at the weighted-average rates of exchange in effect during the period. Gains and losses resulting from translation are recorded in the cumulative foreign currency translation account in accumulated other comprehensive income (loss). For the years ended February 28, 2009, February 29, 2008 and February 28, 2007, the Company recorded foreign currency transaction losses (gains) in the amount of \$60, \$(218) and \$(285), respectively.

Exchange gains and losses on inter-company balances of a long-term nature are also recorded in the cumulative foreign currency translation account in accumulated other comprehensive income (loss).

p) Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled (see Note 8). The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

Uncertain Tax Positions

The Financial Accounting Standards Board issued Interpretation No. 48, "Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109, Accounting for Income Taxes" ("FIN No. 48") which was effective for the Company on March 1, 2007. FIN No. 48 addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under FIN No. 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 No. 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods and disclosure requirements.

Tax interest and penalties

The Company classifies interest and penalties associated with income taxes as a component of income tax expense (benefit) on the consolidated statement of operations.

q) Income (Loss) Per Common Share

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

A reconciliation between the denominators of the basic and diluted income (loss) per common share are as follows:

| | Year Ended February 28, 2009 | Year Ended February 29, 2008 | Year Ended February 28, 2007 |
|---|--|--|--|
| Weighted-average number of common shares outstanding (basic) | 22,860,402 | 22,853,482 | 22,366,413 |
| Effect of dilutive securities: | | | |
| Stock options and stock warrants | - | 22,680 | 190,859 |
| Weighted-average number of common and potential common shares outstanding (diluted) | 22,860,402 | 22,876,162 | 22,557,272 |

Stock options and stock warrants totaling 1,544,225, 1,336,787 and 1,157,226 for the years ended February 28, 2009, February 29, 2008 and February 28, 2007, respectively, were not included in the net income (loss) per common share calculation because the exercise price of these options and warrants were greater than the average market price of common stock during the period or these options and warrants were anti-dilutive due to losses during the respective periods.

r) Other Income (Loss)

Other income (loss) is comprised of the following:

| | Year Ended February 28, 2009 | Year Ended February 29, 2008 | Year Ended February 28, 2007 |
|-------------------------|--|--|--|
| Bliss-tel (see Note 13) | \$ - | \$ 1,533 | \$ (178) |
| Interest Income | 1,260 | 3,078 | 6,218 |
| Rental income | 538 | 552 | 552 |
| Other | (3,467) | (454) | (339) |
| Total other, net | \$ (1,669) | \$ 4,709 | \$ 6,253 |

Other income (loss) includes a one-time charge of \$1,901 associated with a vendor bankruptcy for the year ended February 28, 2009.

s) Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be disposed of

Long-lived assets and certain identifiable intangibles are reviewed for impairment in accordance with SFAS No. 144 whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset. Recoverability of assets held for sale is measured by comparing the carrying amount of the assets to their estimated fair market value. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceed the fair value of the assets.

t) Accounting for Stock-Based Compensation

The Company has stock option plans under which employees and non-employee directors may be granted incentive stock options ("ISO's") and non-qualified stock options ("NQSO's") to purchase shares of Class A common stock. Under the stock option plans, the exercise price of the ISO's will not be less than the market value of the Company's Class A common stock or greater than 110% of the market value of the Company's Class A common stock on the date of grant. The exercise price of the NQSO's may not be less than 50% of the market value of the Company's Class A common stock on the date of grant. The options must be exercised no later than ten years after the date of grant. The vesting requirements are determined by the Board of Directors at the time of grant. Exercised options are issued from authorized Class A Common Stock. As of February 28, 2009, 1,392,678 shares were available for future grants under the terms of these plans.

Effective December 1, 2005, the Company adopted Statement of Financial Accounting Standards No. 123(R), "Share-Based Payment" ("SFAS No. 123(R)"). SFAS No. 123(R) replaces SFAS No. 123 and supersedes APB No. 25. SFAS 123(R) requires that all stock-based compensation be recognized as an expense in the financial statements and that such costs be measured at the fair value of the award at the date of grant and be recognized as an expense over the requisite service period. Compensation expense related to stock-based awards with vesting terms are amortized using the straight-line attribution method.

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

In addition, the Company issued 17,500 warrants during October of 2008 to purchase the Company's common stock at an exercise price of \$4.83 per share as consideration for future legal services. The warrants vest one-half on November 30, 2008 and one-half on February 28, 2009, expire two years from date of vesting (November 30, 2010 and February 28, 2011, respectively), have an exercise price equal to \$4.83, the sales price of the Company's stock on the day prior to the date of grant, have a contractual term between 2.1 and 2.4 years and a grant date fair value of \$1.44 per warrant determined based upon a Black-Sholes valuation model (refer to the table below for assumptions used to determine fair value). Accordingly, the Company recorded additional legal expense in the amount of approximately \$26 for the year ended February 28, 2009, representing the fair value of the warrants issued. These warrants are included in the outstanding options and warrant table below and considered exercisable at February 28, 2009.

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 29, 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 year ended February 29, 2008, representing the fair value of the warrants issued. These warrants are included in the outstanding options and warrant table below and considered exercisable at February 28, 2009.

The per share weighted-average fair value of stock options granted during the years ended February 28, 2009 and February 29, 2008 was \$1.44 and \$3.22, respectively on the date of grant.

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 year was as follows:

| Year Ended February 28, | Year Ended February 29, |
|----------------------------------|----------------------------------|
|----------------------------------|----------------------------------|

| | 2009 | 2008 |
|-------------------------|-------|-----------|
| Expected dividend yield | 0% | 0% |
| Expected volatility | 47.0% | 47.0% |
| Risk-free interest rate | 5.0% | 4.6% |
| Expected life (years) | 2.0 | 2.0 - 3.0 |

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.

The Company recognized stock-based compensation expense (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 for the years ended February 28, 2009 and February 29, 2008:

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| | Year Ended February 28, 2009 | Year Ended February 29, 2008 | Year Ended February 28, 2007 |
|---|---------------------------------------|---------------------------------------|---------------------------------------|
| Cost of sales | \$ 7 | \$ 16 | \$ 21 |
| Selling expense | 63 | 192 | 156 |
| General and administrative expenses | 234 | 662 | 245 |
| Engineering and technical support | 5 | 16 | 10 |
| Stock-based compensation expense before income tax benefits | \$ 309 | \$ 886 | \$ 432 |

Net income from continuing operations and net income was impacted by \$309 (after tax), \$506 (after tax) and \$264 (after tax) in stock based compensation expense or \$0.01, \$0.02 and \$0.01 per diluted share for the years ended February 28, 2009, February 29, 2008 and February 28, 2007, respectively. No tax benefit was recorded in fiscal 2009 due to the Company's loss position.

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

| | Number of Shares | Weighted- Average Exercise Price |
|--|---------------------|---|
| Outstanding at February 28, 2006 | \$ 2,197,152 | \$ 12.04 |
| Granted | 105,000 | 13.42 |
| Exercised | (485,000) | 8.72 |
| Forfeited/expired | (32,500) | 14.39 |
| Outstanding and exercisable 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 and exercisable at February 29, 2008 | 1,567,036 | 13.96 |
| Granted | 214,750 | 4.83 |
| Exercised | (10,000) | 4.63 |
| Forfeited/expired | (314,952) | 13.29 |
| Outstanding and exercisable at February 28, 2009 | \$ 1,456,834 | \$ 12.82 |

At February 28, 2009 and February 29, 2008, the Company had no unrecognized compensation cost as all stock options were fully vested.

Summarized information about stock options outstanding as of February 28, 2009 is as follows:

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| Exercise Price Range | Outstanding and Exercisable | | |
|----------------------|-----------------------------|---|--|
| | Number of Shares | Weighted-Average Exercise Price of Shares | Weighted-Average Life Remaining in Years |
| 4.63 - 8.00 | 214,750 | \$ 4.83 | 1.88 |
| 8.01 - 13.01 | 242,084 | \$ 10.90 | 2.00 |
| 13.01 - 15.00 | 1,000,000 | \$ 15.00 | 0.54 |

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The aggregate pre-tax intrinsic value (the difference between the company's average closing stock price for the last quarter of fiscal 2009 and the exercise price, multiplied by the number of in-the-money options) that would have been received by the option holders had all option holders exercised their options on February 28, 2009 was \$26. This amount changes based on the fair market value of the company's stock. The total intrinsic value of options exercised for the years ended February 28, 2009, February 29, 2008 and February 28, 2007 were \$52, \$3,149 and \$2,519, respectively.

u) Accumulated Other Comprehensive Income (Loss)

Accumulated other comprehensive income (loss) includes foreign currency translation (losses) gains of \$(7,486) and \$4,470, and unrealized gains (losses) on investment securities classified as available-for-sale of \$(4,686) and \$377 at February 28, 2009 and February 29, 2008, respectively.

During the year ended February 29, 2008, \$1,876 of unrealized gains (losses) on available-for-sale investment securities were transferred into earnings as a result of the disposition of the investment. The currency translation adjustments are not adjusted for income taxes as they relate to indefinite investments in non-U.S. subsidiaries and equity investments.

v) Other Current Assets

As of February 28, 2009, other current assets include \$6.5 million of accounts receivable covered by a put option by an investment bank.

w) New Accounting Pronouncements

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

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). All of the Company's recent acquisitions fall under the scope of Statement No. 141. The Company will evaluate the impact of Statement No. 141 and Statement No. 160 as they relate to any future acquisitions, as applicable.

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

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In April 2009, the FASB issued FASB Staff Position 157-4, "Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased in Identifying Transactions That Are Not Orderly" ("FSP 157-4"). FSP 157-4 provides guidance in determining fair value when the volume and level of activity for the asset or liability have significantly decreased and on identifying transactions that are not orderly. This FSP shall be effective for interim and annual reporting periods ending after June 15, 2009, and shall be applied prospectively. Early adoption is permitted for periods ending after March 15, 2009. The adoption of FSP 157-4 is not expected to have a significant impact on the Company's financial position, results of operations or the determination of the fair value of its financial assets.

In April 2009, the FASB issued FASB Staff Position FAS 115-2 and FAS 124-2, "Recognition and Presentation of Other-Than-Temporary Impairment" ("FSP 115-2/124-2"). FSP 115-2/124-2 amends the requirements for the recognition and measurement of other-than-temporary impairments for debt securities by modifying the pre-existing "intent and ability" indicator. Under FSP 115-2/124-2, an other-than-temporary impairment is triggered when there is intent to sell the security, it is more likely than not that the security will be required to be sold before recovery, or the security is not expected to recover the entire amortized cost basis of the security. Additionally, FSP 115-2/124-2 changes the presentation of an other-than-temporary impairment in the income statement for those impairments involving credit losses. The credit loss component will be recognized in earnings and the remainder of the impairment will be recorded in other comprehensive income. FSP 115-2/124-2 is effective for the Company beginning in the first quarter of fiscal year 2010. Upon implementation at the beginning of the first quarter of 2010, FSP 115-2/124-2 is not expected to have a significant impact on the Company's financial position or results of operations.

On April 9, 2009, the FASB issued FASB Staff Position 107-1 and APB 28-1, "Interim Disclosures about Fair Value of Financial Instruments" ("FSP 107-1 and APB 28-1"). FSP 107-1 and APB 28-1 which will amend SFAS No. 107, "Disclosures about Fair Value of Financial Instruments" ("FAS 107"). FSP 107-1 and APB 28-1 will require an entity to provide disclosures about the fair value of financial instruments in interim financial information. FSP 107-1 and APB 28-1 would apply to all financial instruments within the scope of SFAS No. 107 and will require entities to disclose the method(s) and significant assumptions used to estimate the fair value of financial instruments, in both interim financial statements as well as annual financial statements. FSP 107-1 and APB 28-1 will be effective for interim and annual periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. An entity may early adopt FSP 107-1 and APB 28-1 only if it also elects to early adopt FSP 157-4 and FSP 115-2 and 124-2. Since FSP 107-1 and APB-28-1 will require disclosures about fair values in interim periods, the adoption of FSP FAS 107-1 and APB 28-1 is not expected to have a significant impact on the Company's financial position or results of operations.

2) Discontinued Operations

The Company had net income (loss) from discontinued operations of \$1,719 and (\$756) for the years ended February 29, 2008 and February 28, 2007, respectively, which is primarily due to legal settlements and related legal and administrative costs associated with contingencies pertaining to the Company's discontinued Cellular (see Note 15) and Malaysia businesses.

Included in income from discontinued operations are tax provisions (benefits) of \$1,529 and \$(407) for the years ended February 29, 2008 and February 28, 2007, respectively.

3) Business Acquisitions

Thomson Accessories

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

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

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The following summarizes the final allocation of the total purchase price to the estimated 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 | 51,099 |
| Total assets acquired | \$ 85,075 |

Liabilities assumed:

| | |
|--|-----------|
| Accounts payable | \$ 17,489 |
| Accrued expenses and other liabilities | 2,870 |
| Total liabilities acquired | \$ 20,359 |
| Cash paid (includes cash paid plus estimated contingent fee) | \$ 64,716 |

The allocation of the purchase price to assets acquired and liabilities assumed was based upon a valuation study performed by management and is final. Trademarks and other intangible assets includes \$2,200 of amortizable customer relationships with an estimated life of 11 years.

Oehlbach

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

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

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 final allocation of the total purchase price to the estimated fair value of the assets acquired and liabilities assumed at the date of acquisition:

Assets acquired:

| | | |
|---|----|--------|
| Cash | \$ | 200 |
| Accounts receivable, net | | 2,215 |
| Inventory | | 1,939 |
| Prepaid expenses and other current assets | | 60 |
| Property, plant and equipment, net | | 327 |
| Trademark and other intangible assets | | 11,661 |
| Total assets acquired | \$ | 16,402 |

Liabilities assumed:

| | | |
|---|----|-------|
| Accounts payable | \$ | 601 |
| Accrued expenses and other liabilities | | 2,383 |
| Income taxes payable | | 891 |
| Long-term debt | | 807 |
| Deferred tax liability | | 3,586 |
| Total liabilities assumed | \$ | 8,268 |
| Total purchase price (includes cash paid plus contingent payment) | \$ | 8,134 |

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The allocation of the purchase price to assets acquired and liabilities assumed was based upon a valuation study performed by management and is final. Trademark and other intangible assets includes \$4,315 of amortizable customer relationships with an estimated life of 15 years.

Incaar

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

The contingent payment may be due by the Company if certain earnings targets are generated by Incaar for a period of approximately two years after the acquisition date (August 14, 2007). The earnings target calculation requires that if the accumulated Incaar pre-tax income, including or excluding certain items, exceeds 1,055 Euros over the cumulative two year period, the Company is liable to pay an additional \$400, as defined in the purchase agreement. The contingent payment was recorded in connection with the final purchase price allocation (increase to intangible assets and other long-term liabilities) as the estimated fair value of the net assets acquired exceeded the total purchase price. As the estimated fair value of the net assets acquired exceeded the total purchase price, after recording the maximum contingent payment, the Company reduced the estimated fair value of the non-financial assets acquired on a prorata basis to the adjusted purchase price of \$801.

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

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

Assets acquired:

| | | |
|--|----|-----|
| Trademark and other intangible assets | \$ | 801 |
| Total purchase price (includes cash paid plus estimated contingent fees) | \$ | 801 |

The allocation of the purchase price to the assets acquired was based upon a valuation study performed by management and is final. During 2009, the contingent payment period expired and the required earnings targets were not met. As such, the Company reversed the liability established and reduced the Trademark and other intangibles on a prorata, prospective basis. After the adjustment, Trademark and other intangible assets include \$346 of amortizable customer relationships with an estimated life of 5 years.

Technuity

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

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

In addition, a minimum working capital payment, as defined in the agreement, and a maximum contingent payment of \$1,000 may be due 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 February 28, 2009, no amount was accrued or paid for the contingency payment as the sales and gross margin targets were not met. The contingency period has now expired.

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

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

Assets acquired:

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

Liabilities assumed:

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

The allocation of the purchase price to the assets acquired was based upon a valuation study performed by management and is final. During 2009, the contingent payment period expired and the required earnings targets were not met. As such, the Company reversed the liability established and reduced the Trademark and other intangibles on a prorata, prospective basis. After the adjustment, Trademark and other intangible assets include \$346 of amortizable customer relationships with an estimated life of 5 years.

Thomson Audio/Video

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

| | |
|------------------------------|-----------|
| Purchase Price | \$ 18,953 |
| Net asset payment | 10,079 |
| Acquisition related costs | 926 |
| | 29,958 |
| Less: Multimedia license fee | (10,000) |

| | |
|------------------------------|-----------|
| Multimedia inventory payment | (4,387) |
| Total net purchase price | \$ 15,571 |

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

Contemporaneous with this transaction, the Company entered into a license agreement with Multimedia Device Ltd., a Chinese manufacturer, to market certain product categories acquired in the acquisition for an upfront fee of \$10,000, the purchase of certain inventory, which amounted to \$4,387, plus a 1% royalty payment on future net RCA sales beginning in 2008 and continuing in perpetuity. From 2010 through 2014, this royalty fee increases to 2% of future net sales.

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Accordingly, the upfront license fee of \$10,000 and the inventory payment will reduce the Company's cost of the transaction (refer to purchase price above).

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

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

Assets acquired:

| | |
|---|-----------|
| Inventory | \$ 14,383 |
| Computers | 49 |
| Perpetual license and other intangible assets (less multimedia license fee) | 19,887 |
| Total assets acquired | \$ 34,319 |

Liabilities assumed:

| | |
|----------------------------|-----------|
| Warranty accrual | \$ 12,848 |
| Other liabilities acquired | 5,900 |
| Total liabilities assumed | \$ 18,748 |
| Total purchase price | \$ 15,571 |

The allocation of the purchase price to assets and liabilities acquired was based upon an independent valuation study and is final.

The following unaudited pro-forma financial information for the years ended February 28, 2009, February 29, 2008 and February 28, 2007 represents the combined results of the Company's operations as if the Thomson Accessory, Oehlbach, Incaar, Technuity and Thomson A/V acquisitions had occurred at 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 periods.

| | Year Ended February 28, 2009 (as reported) | Year Ended February 29, 2008 (unaudited) | Year Ended February 28, 2007 (unaudited) |
|----------------------------|--|---|---|
| Net Sales | \$ 603,099 | \$ 948,031 | \$ 1,156,582 |
| Net loss | (71,029) | (1,972) | (26,681) |
| Net loss per share-diluted | \$ (3.11) | \$ (0.09) | \$ (1.18) |

4) Receivables from Vendors

The Company has recorded receivables from vendors in the amount of \$12,195 and \$29,358 as of February 28, 2009 and February 29, 2008, respectively. Receivables from vendors represent prepayments on product shipments and product reimbursements.

5) Equity Investment

The Company has a 50% non-controlling ownership interest in Audiovox Specialized Applications, Inc. ("ASA") which acts as a distributor to specialized markets for specialized vehicles, such as RV's, van conversions and marine vehicles, of televisions and other automotive sound, security and accessory products. ASA's fiscal year end is November 30, 2008, however, the proportionate results of ASA as of and until February 28, 2009 have been recorded in the consolidated financial statements.

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

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| | February 28, 2009 | February 29, 2008 |
|---------------------|-------------------------|-------------------------|
| | (unaudited) | |
| Current assets | \$ 25,268 | \$ 26,344 |
| Non-current assets | 4,745 | 4,710 |
| Current liabilities | 3,778 | 4,611 |
| Members' equity | 26,235 | 26,443 |

The equity balance carried on the Company's balance sheet amounts to \$13,118 and \$13,222 for the years ended February 28, 2009 and February 29, 2008, respectively.

| | Year Ended February 28, 2009 | Year Ended February 29, 2008 | Year Ended February 28, 2007 |
|------------------|--|--|--|
| | (unaudited) | | |
| Net sales | \$ 51,169 | \$ 71,726 | \$ 60,414 |
| Gross profit | 12,691 | 20,869 | 17,764 |
| Operating income | 1,338 | 6,158 | 4,980 |
| Net income | 1,951 | 7,178 | 5,875 |

The Company's share of income from ASA for the years ended February 28, 2009, February 29, 2008 and February 28, 2007 was \$975, \$3,590 and \$2,937, respectively. In addition, the Company received cash distributions from ASA totaling \$1,080, \$1,720 and \$3,419 during the years ended February 28, 2009, February 29, 2008 and February 28, 2007, respectively.

The following represents summary information of transactions between the Company and ASA:

| | Year Ended February 28, 2009 | Year Ended February 29, 2008 | Year Ended February 28, 2007 |
|-----------------|--|--|--|
| | (unaudited) | | |
| Net Sales | \$ 1,026 | \$ 1,517 | \$ 742 |
| Purchases | 76 | 139 | 212 |
| Royalty expense | 500 | 899 | 656 |

| | February 28, 2009 | February 29, 2008 |
|---------------------|-------------------------|-------------------------|
| Accounts Receivable | \$ 317 | \$ 310 |

6) Accrued Expenses and Other Current Liabilities

Accrued expenses and other current liabilities consist of the following:

| | February 28, 2009 | February 29, 2008 |
|--|-------------------------|-------------------------|
| Commissions | \$ 571 | \$ 1,032 |
| Employee compensation | 2,788 | 4,697 |
| Professional fees and accrued settlements | 3,187 | 1,888 |
| Future warranty | 7,779 | 13,272 |
| Freight and duty | 1,712 | 1,231 |
| Royalties, advertising and other | 16,538 | 16,455 |
| Total accrued expenses and other current liabilities | \$ 32,575 | \$ 38,575 |

7) Financing Arrangements

The Company has the following financing arrangements:

| | February 28, 2009 | February 29, 2008 |
|---|----------------------|----------------------|
| Bank Obligations | | |
| Domestic bank obligations | | |
| (a) | \$ - | \$ - |
| Venezuela bank obligations | | |
| (b) | - | - |
| Euro asset-based lending obligation (c) | 1,467 | 3,070 |
| Total bank obligations | \$ 1,467 | \$ 3,070 |
| Debt | | |
| Euro term loan agreement | | |
| (d) | \$ 5,735 | \$ - |
| Oehlbach (e) | 145 | 850 |
| Other (f) | 1,280 | 853 |
| Total debt | \$ 7,160 | \$ 1,703 |

a) Domestic Bank Obligations

At February 28, 2009, the Company has a secured credit line to fund the temporary short-term working capital needs of the domestic operations. This line expired on April 30, 2009 and allows aggregate borrowings of up to \$15,000 at an interest rate of Prime (or similar designations) plus 1% or LIBOR plus 5%. The line has subsequently been renewed until June 30, 2009 with aggregate borrowings of \$10,000. As of February 28, 2009 and February 29, 2008, no direct amounts are outstanding under this agreement. At February 28, 2009, the Company had \$2,380 in 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 had secured this facility with a \$1,200 standby letter of credit. As of February 29, 2008, no amounts were outstanding under this agreement. The Company has requested cancellation of the facility once the stand-by letter of credit has been closed.

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 Germany, which expires on October 1, 2010. Selected accounts receivable are purchased from the Company on a non-recourse basis at 85% of face value and payment of the remaining 15% upon receipt from the customer of the balance of the receivable purchased. The activity under this ABL is accounted for as a sale of accounts receivable in accordance with Statement of Financial Accounting Standards No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities" ("SFAS No. 140"), as such transfers met the criteria in SFAS No. 140. In respect of the ABL credit facility, selected finished goods are advanced at a 60% rate and non factored accounts receivables are advanced at a 50% rate. The rate of interest is the three month Euribor

plus 2.5%, and the Company pays 0.4% of its gross sales as a fee for the accounts receivable factoring arrangement. As of February 28, 2009, the amount of accounts receivable and finished goods available for factoring exceeded the amounts outstanding under this obligation.

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d) Euro Term Loan Agreement

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

e) Oehlbach

In connection with the Oehlbach acquisition (see Note 3), 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.

f) Other Debt

On August 29, 2003, the Company entered into a call/put option agreement with certain employees of Audiovox Germany, whereby these employees can acquire up to a maximum of 20% of the Company's stated share capital in Audiovox Germany at a call price equal to the same proportion of the actual price paid by the Company for Audiovox Germany. The put options cannot be exercised until the later of (i) November 30, 2008 or (ii) the full repayment (including interest) of an inter-company loan granted to Audiovox Germany in the amount of 5.3 million Euros. Notwithstanding the lapse of these time periods, the put options become immediately exercisable upon (i) the sale of Audiovox Germany or (ii) the termination of employment or death of the employee. The put price to be paid to the employee upon exercise will be the then net asset value per share of Audiovox Germany. Accordingly, the Company recognizes compensation expense based on 20% of the increase in Audiovox Germany's net assets, subject to certain adjustments as defined in the agreement, representing the incremental change of the put price over the call option price. Compensation (benefit) expense for these options amounted to \$642, \$(790) and \$353 for the years ended February 28, 2009, February 29, 2008 and February 28, 2007, respectively. The benefit recorded for the year ended February 29, 2008 was due to a reduction in the call/put liability calculation as a result of the Oehlbach and Incaar acquisitions.

The following is a maturity table for debt and bank obligations outstanding at February 28, 2009:

| | Total Amounts Committed | | 2010 | 2011 | 2012 | 2013 | 2014 | |
|------------------|-------------------------------|-------|------|-------|------|-------|------|-------|
| Bank Obligations | \$ | 1,467 | \$ | 1,467 | \$ | - | \$ | - |
| Debt | | 7,160 | | 1,264 | | 2,640 | | 1,359 |
| Total | \$ | 8,627 | \$ | 2,731 | \$ | 2,640 | \$ | 1,359 |
| | | | | | | | | 948 |
| | | | | | | | | 948 |

8) Income Taxes

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

| | Year Ended February 28, 2009 | Year Ended February 29, 2008 | Year Ended February 28, 2007 |
|---------------------|--|--|--|
| Domestic Operations | \$ (56,786) | \$ (1,262) | \$ (1,140) |
| Foreign Operations | 832 | 11,856 | 3,298 |
| | \$ (55,954) | \$ 10,594 | \$ 2,158 |

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The (benefit) provision for income taxes is comprised of the following:

| | Year Ended February 28, 2009 | Year Ended February 29, 2008 | Year Ended February 28, 2007 |
|------------------------------------|--|--|--|
| Current provision (benefit) | | | |
| Federal | \$ 522 | \$ 314 | \$ (2,751) |
| State | 443 | 450 | 285 |
| Foreign | 328 | 4,282 | 326 |
| Total current provision (benefit) | \$ 1,293 | \$ 5,046 | \$ (2,140) |
| Deferred (benefit) provision | | | |
| Federal | \$ 12,446 | \$ (1,303) | \$ 122 |
| State | 1,617 | 121 | (63) |
| Foreign | (281) | (16) | 547 |
| Total deferred (benefit) provision | \$ 13,782 | \$ (1,198) | \$ 606 |
| Total provision (benefit) | | | |
| Federal | \$ 12,968 | \$ (989) | \$ (2,629) |
| State | 2,060 | 571 | 222 |
| Foreign | 47 | 4,266 | 873 |
| Total provision (benefit) | \$ 15,075 | \$ 3,848 | \$ (1,534) |

The effective tax rate before income taxes varies from the current statutory U.S. federal income tax rate as follows:

| | Year Ended February 28, 2009 | Year Ended February 29, 2008 | Year Ended February 28, 2007 |
|--|---------------------------------------|---------------------------------------|---------------------------------------|
| Tax provision at Federal statutory rates | \$ (19,584) 35.0% | \$ 3,708 35.0% | \$ 755 35.0% |
| Tax exempt interest | - | (999) (9.4) | (2,146) (99.4) |
| State income taxes, net of Federal benefit | (1,268) 2.3 | 17 0.2 | 23 1.1 |
| Impairment of non-deductible goodwill | 4,682 (8.4) | - | - |
| Increase in valuation allowance | 29,808 (53.3) | 95 0.9 | 6 0.3 |
| Change in tax reserves | 780 (1.4) | 369 3.5 | 61 2.8 |
| | 541 (1.0) | 167 1.6 | - |

| | | | | | | |
|----------------------------------|-----------|----------|----------|-------|------------|---------|
| US effects of foreign operations | | | | | | |
| Benefit for prior year refunds | - | - | - | - | (378) | (17.5) |
| Permanent differences and other | 116 | (0.2) | 491 | 4.5 | 145 | 6.7 |
| Effective tax rate | \$ 15,075 | (27.0) % | \$ 3,848 | 36.3% | \$ (1,534) | (71.0)% |

The U.S. effects of foreign operations include differences in the statutory tax rate of the foreign countries as compared to the statutory tax rate in the U.S., foreign operating losses for which no tax benefit has been provided and the effects of the settlement of the German tax audit during fiscal 2008

Other is a combination of various factors, including changes in the taxable income or loss between various tax entities with differing effective tax rates, changes in the allocation and apportionment factors between taxable jurisdictions with differing tax rates of each tax entity, changes in tax rates and other legislation in the various jurisdictions and other items.

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Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting and tax purposes. Significant components of the Company's deferred tax assets and liabilities are as follows:

| | February 28, 2009 | February 29, 2008 |
|--|-------------------------|-------------------------|
| Deferred tax assets: | | |
| Accounts receivable | \$ 1,286 | \$ 282 |
| Inventory | 1,581 | 1,664 |
| Property, plant and equipment | 1,284 | 895 |
| Intangible assets | 3,639 | - |
| Accruals and reserves | 6,799 | 7,798 |
| Unrealized gains and losses | 3,766 | - |
| Net operating losses | 13,936 | 6,020 |
| Tax credits | 3,313 | 3,307 |
| Deferred tax assets before valuation allowance | 35,604 | 19,966 |
| Less: valuation allowance | (35,010) | (2,684) |
| Total deferred tax assets | 594 | 17,282 |
| Deferred tax liabilities: | | |
| Intangible assets | (4,723) | (12,727) |
| Prepaid expenses | (1,411) | (1,362) |
| Unrealized gain on investment securities | - | (2,115) |
| Total deferred tax liabilities | (6,134) | (16,204) |
| Net deferred tax asset | \$ (5,540) | \$ 1,078 |

In assessing the realizability of deferred tax assets, Management considers whether it is more-likely-than-not that some portion or all of the deferred tax assets will be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income in those periods in which temporary differences become deductible and /or net operating loss carryforwards can be utilized. We consider the level of historical taxable income, scheduled reversal of temporary differences, tax planning strategies and projected future taxable income in determining whether a valuation allowance is warranted. Based on these considerations, the Company believes it will not realize its entire deferred tax asset on a more likely than not basis. As a result, the Company provided a valuation allowance against substantially all of its deferred tax assets during the fourth quarter of fiscal 2009.

In accordance with SFAS 142, the Company does not amortize indefinite-lived intangibles for book purposes but does amortize intangibles with tax basis for tax purposes. The deferred tax liability at February 28, 2009 relates to the tax effect of differences between the book and tax bases of intangible assets not expected to reverse during the Company's net operating loss carry forward period.

As of February 28, 2009, the Company had approximately \$36,512 of U.S. federal net operating loss carryforwards, which are available to offset future taxable income. These carryforwards expire in the tax years between 2027 and 2029, if not utilized. In addition, the Company has approximately \$3,307 of foreign tax credits that expire in 2012 through 2016 if not utilized. In addition, the Company has various state net operating loss carryforwards that expire in varying amounts through fiscal year 2029.

The Company has not provided for U.S. federal and foreign withholding taxes on its foreign subsidiaries undistributed earnings in Germany and Venezuela as of February 28, 2009, because such earnings are intended to be indefinitely reinvested overseas. The amount of unrecognized deferred tax liabilities for temporary differences related to investments in undistributed earnings is not practicable to determine at this time.

The Company adopted the provisions of FIN No. 48 on March 1, 2007. Upon adoption of FIN No. 48, the Company reduced its uncertain tax positions by \$2,714 which was accounted for as an increase to the Company's opening retained earnings balance as of March 1, 2007. A reconciliation of the beginning and ending amount of unrecognized tax benefits, excluding interest and penalties, is as follows:

| | |
|---|----------|
| Balance at March 1, 2007 | \$ 3,491 |
| Additions based on tax positions taken in the current and prior years | 507 |
| Settlements | (108) |
| Lapse in statute of limitations | (25) |
| Balance at February 29, 2008 | \$ 3,865 |
| Additions based on tax positions taken in the current and prior years | 2,014 |
| Settlements | - |
| Lapse in statute of limitations | (125) |
| Balance at February 28, 2009 | \$ 5,754 |

Of the amounts reflected above at February 28, 2009, \$4,016 of unrecognized tax benefits if recognized would reduce our annual effective tax rate. As of February 28, 2009, Company had approximately \$1,826 of accrued interest and penalties. The Company records both accrued interest and penalties related to income tax matters in the provision for income taxes in the accompanying consolidated statement of operations. Included in the reconciliation of unrecognized tax benefits additions based on tax positions taken in prior years are excess tax benefits for stock based compensation deductions which have not yet reduced the Company's current taxes payable as prescribed by FASB 123(R). In addition, the Company believes that it is reasonably possible that its uncertain tax positions (excluding interest and penalties) will decrease by approximately \$2,323 as a result of lapses in the statute of limitations for various jurisdictions and is included as part of income taxes payable.

The Company files its tax returns in the U.S. and certain state and foreign income tax jurisdictions with varying statutes of limitations. The earliest years' tax returns filed by the Company that are still subject to examination by the tax authorities in the major jurisdictions are as follows:

| Jurisdiction | Tax Year |
|--------------|----------|
| U.S. | 2005 |
| Germany | 2006 |
| Canada | 2005 |
| Indiana | 2003 |

9) Capital Structure

The Company's capital structure is as follows:

| Security | Par Value | Shares Authorized | | Shares Outstanding | | Voting Rights per Share | Liquidation Rights |
|------------------------|-----------|-------------------|-------------------|--------------------|-------------------|-------------------------|----------------------|
| | | February 28, 2009 | February 29, 2008 | February 28, 2009 | February 29, 2008 | | |
| Preferred Stock | \$ 50.00 | 50,000 | 50,000 | - | - | - | \$50 per share |
| Series Preferred Stock | \$ 0.01 | 1,500,000 | 1,500,000 | - | - | - | |
| Class A Common Stock | \$ 0.01 | 60,000,000 | 60,000,000 | 20,604,460 | 20,593,660 | One | Ratably with Class B |
| Class B Common Stock | \$ 0.01 | 10,000,000 | 10,000,000 | 2,260,954 | 2,260,954 | Ten | Ratably with Class A |

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

As of February 28, 2009, 1,742,448 shares of the Company's Class A common stock are authorized to be repurchased in the open market. As of February 29, 2008 and February 28, 2007, 1,820,552 and 1,693,047 shares were repurchased for an aggregate amount of \$18,404 and \$16,979, respectively.

Undistributed earnings from equity investments included in retained earnings amounted to \$7,792 and \$7,896 at February 28, 2009 and February 29, 2008, respectively.

10) Other Stock and Retirement Plans

a) Restricted Stock Plan

The Company has restricted stock plans under which key employees and directors may be awarded restricted stock. Awards under the restricted stock plan may be performance-accelerated shares or performance-restricted shares. No performance accelerated shares or performance-restricted shares were granted or outstanding during the years ended February 28, 2009, February 29, 2008 and February 28, 2007.

As of February 28, 2009, 1,392,678 shares of the Company's Class A common stock are reserved for issuance under the Company's Restricted and Stock Option Plan.

b) Employee Stock Purchase Plan

In April 2000, the stockholders approved the 2000 Employee Stock Purchase Plan of up to 1,000,000 shares. The stock purchase plan provides eligible employees an opportunity to purchase shares of the Company's Class A common stock through payroll deductions at a minimum of 2% and a maximum of 15% of base salary compensation. Amounts withheld are used to purchase Class A common stock on the open market. The cost to the employee for the shares is equal to 85% of the fair market value of the shares on or about the quarterly purchase date (December 31, March 31, June 30 or September 30). The Company bears the cost of the remaining 15% of the fair market value of the shares as well as any broker fees. Effective March 1, 2008, the Employee Stock Purchase Plan was terminated.

The Company's employee stock purchase plan is a non-compensatory plan, and the related expense is recorded in general and administrative expenses in the consolidated statements of operations.

c) Profit Sharing Plans/ 401(k) Plan

The Company has established two non-contributory employee profit sharing plans for the benefit of its eligible employees in the United States and Canada. The plans are administered by trustees appointed by the Company. No contributions were made during the years ended February 28, 2009, February 29, 2008 and February 28, 2007. Contributions required by law to be made for eligible employees in Canada were not material for all periods

presented.

The Company also has a 401(k) plan for eligible employees. The Company matches a portion of the participant's contributions after three months of service under a predetermined formula based on the participant's contribution level. As of February 1, 2008, the Company has temporarily suspended all matching contributions to contain operating expenses until economic conditions improve. The Company's contributions were \$848, \$749 and \$486 for the years ended February 28, 2009, February 29, 2008 and February 28, 2007, respectively. Shares of the Company's Common Stock are not an investment option in the Savings Plan and the Company does not use such shares to match participants' contributions.

d) Cash Bonus Profit Sharing Plan

During fiscal 2009, the Board of Directors authorized a Cash Bonus Profit Sharing Plan that allows the Company to make profit sharing contributions for the benefit of eligible employees, for any fiscal year based on a pre-determined formula on the Company's pre-tax profits. The size of the contribution is dependent upon the performance of the Company. A participant's share of the contribution is determined pursuant to the participant's eligible wages for the fiscal year as a percentage of total eligible wages for all participants. The Company did not make a cash bonus profit sharing contribution for the year ended February 28, 2009 due to the Company's pre-tax loss for the year. During the year ended February 29, 2008, the Company made a cash bonus profit sharing contribution in the amount of \$480 as a result of the Company achieving pre-tax profits in excess of the Cash Bonus Profit Sharing Plan limits.

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e) Deferred Compensation Plan

Effective December 1, 1999, the Company adopted a Deferred Compensation Plan (the Plan) for a select group of management. The Plan is intended to provide certain executives with supplemental retirement benefits as well as to permit the deferral of more of their compensation than they are permitted to defer under the Profit Sharing and 401(k) Plan. The Plan provides for a matching contribution equal to 25% of the employee deferrals up to \$20. As of February 1, 2008, the Company has temporarily suspended all matching contributions to contain operating expenses until economic conditions improve. The Plan is not intended to be a qualified plan under the provisions of the Internal Revenue Code. All compensation deferred under the Plan is held by the Company in an investment trust which is considered an asset of the Company. The Company has the option of amending or terminating the Plan at any time.

The investments, which amounted to \$2,559 and \$4,406 at February 28, 2009 and February 29, 2008, respectively, have been classified as long-term marketable securities and are included in investment securities on the accompanying consolidated balance sheets and a corresponding deferred compensation liability is reflected as a long-term liability. Unrealized gains and losses on the marketable securities and corresponding deferred compensation liability net to zero in the accompanying consolidated statements of operations.

11) Lease Obligations

During 1998, the Company entered into a 30-year capital lease for a building with its principal stockholder and current 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 effective interest rate on the capital lease obligation is 8%. This lease was refinanced in December 2006, which resulted in a \$161 reduction to the capital lease obligation and corresponding asset, and expires on November 30, 2026. On November 1, 2004, in connection with the sale of the Cellular business, the Company entered into an agreement to sub-lease the building to UTStarcom ("UTSI") for monthly payments of \$46 through October 31, 2009.

At February 28, 2009, the Company was obligated under non-cancelable capital and operating leases for equipment and warehouse facilities for minimum annual rental payments as follows:

| | Capital Lease | Operating Leases |
|------------------------------------|------------------|---------------------|
| 2010 | \$ 521 | \$ 4,757 |
| 2011 | 521 | 3,649 |
| 2012 | 535 | 3,299 |
| 2013 | 574 | 2,609 |
| 2014 | 574 | 2,292 |
| Thereafter | 8,203 | 15,827 |
| Total minimum lease payments | 10,928 | \$ 32,433 |
| Less: minimum sublease income | 368 | |
| Net | 10,560 | |
| Less: amount representing interest | 4,953 | |

| | |
|---|----------|
| Present value of net minimum lease payments | 5,607 |
| Less: current installments included in accrued expenses and other current liabilities | 76 |
| Long-term capital obligation | \$ 5,531 |

Rental expense for the above-mentioned operating lease agreements and other leases on a month-to-month basis approximated \$2,412, \$3,138 and \$2,319 for the years ended February 28, 2009, February 29, 2008 and February 28, 2007, respectively.

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The Company leases certain facilities and equipment from its principal stockholder and several officers. At February 28, 2009, minimum annual rental payments on these related party leases, in addition to the capital lease payments, which are included in the above table, are as follows:

| | | |
|------------|----|-------|
| 2010 | \$ | 693 |
| 2011 | | 714 |
| 2012 | | 735 |
| 2013 | | 758 |
| 2014 | | 781 |
| Thereafter | | 4,110 |
| Total | \$ | 7,791 |

12) Financial Instruments

a) Off-Balance Sheet Risk

Commercial letters of credit are issued by the Company during the ordinary course of business through major domestic banks as requested by certain suppliers. The Company also issues standby letters of credit principally to secure certain bank obligations and insurance policies. The Company had no open commercial letters of credit at February 28, 2009 and \$3,803 open at February 29, 2008. Standby letters of credit amounted to \$2,380 and \$2,399 at February 28, 2009 and February 29, 2008, respectively. The terms of these letters of credit are all less than one year. No material loss is anticipated due to nonperformance by the counter parties to these agreements. The fair value of the standby letters of credit is estimated to be the same as the contract values based on the short-term nature of the fee arrangements with the issuing banks.

At February 28, 2009, the Company had unconditional purchase obligations for inventory commitments of \$62,845. These obligations are not recorded in the consolidated financial statements until commitments are fulfilled and such obligations are subject to change based on negotiations with manufacturers.

b) Concentrations of Credit Risk

Financial instruments, which potentially subject the Company to concentrations of credit risk, consist principally of trade receivables. The Company's customers are located principally in the United States, Canada and Germany and consist of, among others, distributors, mass merchandisers, warehouse clubs and independent retailers. The Company generally grants credit based upon analyses of customers' financial condition and previously established buying and payment patterns. For certain customers, the Company establishes collateral rights in accounts receivable and inventory and obtains personal guarantees from certain customers based upon management's credit evaluation.

At February 28, 2009, two customers accounted for approximately 39.6% of accounts receivable, while at February 29, 2008, these two customers accounted for 28% of accounts receivable. During the year ended February 28, 2009, one customer accounted for 22% of sales, while at February 29, 2008 and February 28, 2007, no single customer accounted for more than 10% of net sales.

A portion of the Company's customer base may be susceptible to downturns in the retail economy, particularly in the consumer electronics industry. Additionally, customers specializing in certain automotive sound, security and accessory products may be impacted by fluctuations in automotive sales.

13) Bliss-tel Investment

On December 13, 2004, one of the Company's former equity investments, Bliss-tel Public Company Limited ("Bliss-tel"), issued 2,300,000,000 shares on the SET (Security Exchange of Thailand) for an offering price of 6.20 baht per share. Prior to the issuance of these shares, the Company was a 20% shareholder in Bliss-tel and, subsequent to the offering, the Company owned 300,000,000 shares (or approximately 13%) of Bliss-tel's outstanding stock. In addition, on July 21, 2005, the Company received 90,000,000 warrants ("the warrants") which may be exercised beginning on September 29, 2006, and expire on July 17, 2012. Each warrant is exercisable into one share of Bliss-tel common stock at an exercise price of 8 baht per share.

During the year ended February 29, 2008, the Company sold 131,594,000 shares of Bliss-tel stock resulting in a gain of \$1,533, which is included in other income (loss) on the accompanying consolidated statements of operations. As of February 28, 2009 the Company owns 145,000,000 shares and 90,000,000 warrants in Bliss-tel with an aggregate fair value of \$250.

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In February 2008, Bliss-tel stock split 10:1. Accordingly, all share data has been retroactively restated for the stock split at February 28, 2009 and February 29, 2008.

14) Financial and Product Information About Foreign and Domestic Operations

Segment

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

Locations

Net sales and long-lived assets by location were as follows:

| | Net Sales | | |
|-------------------------|--|--|--|
| | Year Ended February 28, 2009 | Year Ended February 29, 2008 | Year Ended February 28, 2007 |
| North America | \$ 507,798 | \$ 501,952 | \$ 391,154 |
| Latin America | 30,165 | 13,666 | 8,517 |
| Germany | 52,252 | 61,746 | 46,291 |
| Other foreign countries | 12,884 | 13,991 | 10,728 |
| Total net sales | \$ 603,099 | \$ 591,355 | \$ 456,690 |

The basis of attributing net sales from external customers to individual countries is based on where the sale originates from.

| | Long-Lived Assets | |
|---------------|----------------------------------|----------------------------------|
| | As of February 28, 2009 | As of February 29, 2008 |
| North America | \$ 116,219 | \$ 159,436 |
| Latin America | 1,417 | 496 |
| Asia | 417 | 414 |

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| | | | |
|-------------------------|----|---------|------------|
| Germany | | 13,019 | 14,640 |
| Total long-lived assets | \$ | 131,072 | \$ 174,986 |

Net sales by product categories for the years ended February 28, 2009, February 29, 2008 and February 28, 2007 were as follows:

| | Year Ended February 28, 2009 | Year Ended February 29, 2008 | Year Ended February 28, 2007 |
|-----------------|--|--|--|
| Electronics | \$ 449,433 | \$ 437,018 | \$ 432,943 |
| Accessories | 153,666 | 154,337 | 23,747 |
| Total net sales | \$ 603,099 | \$ 591,355 | \$ 456,690 |

15) Contingencies

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

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

During the fourth quarter of Fiscal 2009, the Company became aware that certain personal consumer credit card information had been accessed by an intrusion by an unauthorized source. The Company has notified the various state and federal authorities in which the consumers reside and is offering a plan of credit monitoring and protection for the affected individuals. The Company is partially covered by insurance but anticipates amounts will be necessary to cover the cost of this issue. The Company has recorded certain costs associated with this issue as of February 28, 2009, based on information available at the time ..

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

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

Derivative Settlement

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

This matter was settled in May 2007 and received final Chancery court approval in June 2007. As a result of the settlement, the Company received \$6,750 in gross proceeds. The gross proceeds were offset by \$2,378 in plaintiff legal fees and \$1,023 in accrued legal and administrative costs for defending all remaining ACC legal claims. The items discussed above resulted in a pre-tax benefit of \$3,349 recorded in discontinued operations for the year ended February 29, 2008.

Simultaneous with the acquisition of Code Systems, Inc. (Code) in March 2002, the Company entered into a purchase and supply agreement with a third party. In exchange for entering into this agreement, the Company issued 50 warrants in its subsidiary, Code, which vest immediately. Furthermore, the agreement calls for the issuance of additional warrants based upon the future operating performance of Code. Based upon the contingent nature of the warrants, no recognition was given to the Code warrants as the related contingency was not considered probable and such warrants had not vested at February 28, 2009 or February 29, 2008.

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16) Unaudited Quarterly Financial Data

Selected unaudited, quarterly financial data of the Company for the years ended February 28, 2009 and February 29, 2008 appear below:

| | Quarters Ended | | | |
|--|----------------|------------------|------------------|--------------|
| | Feb. 28, 2009 | Nov. 30, 2008 | Aug. 31, 2008 | May 31, 2008 |
| 2009 | | | | |
| Net sales | \$ 115,666 | \$ 195,642 | \$ 147,208 | \$ 144,583 |
| Gross profit | 13,735 | 38,958 | 25,060 | 22,515 |
| Net (loss) income from continuing operations | (70,021) | 6,525 | (2,311) | (5,223) |
| Net (loss) income per common share (basic) | \$ (3.06) | \$ 0.29 | \$ (0.10) | \$ (0.23) |
| Net (loss) income per common share (diluted) | \$ (3.06) | \$ 0.29 | \$ (0.10) | \$ (0.23) |

| | Quarters Ended | | | |
|--|----------------|------------------|------------------|--------------|
| | Feb. 29, 2008 | Nov. 30, 2007 | Aug. 31, 2007 | May 31, 2007 |
| 2008 | | | | |
| Net sales | \$ 131,269 | \$ 183,563 | \$ 148,269 | \$ 128,254 |
| Gross profit | 24,674 | 34,991 | 28,474 | 23,189 |
| Net (loss) income from continuing operations | (1,785) | 4,680 | 3,730 | 121 |
| Net (loss) income from discontinued operations | (392) | - | - | 2,111 |
| Net (loss) income | \$ (2,177) | \$ 4,680 | \$ 3,730 | \$ 2,232 |
| Net (loss) income per common share (basic): | | | | |
| From continuing operations | \$ (0.08) | \$ 0.20 | \$ 0.16 | \$ 0.01 |
| From discontinued operations | (0.02) | - | - | 0.09 |
| Net (loss) income per common share (basic) | \$ (0.10) | \$ 0.20 | \$ 0.16 | \$ 0.10 |
| Net (loss) income per common share (diluted): | | | | |
| From continuing operations | \$ (0.08) | \$ 0.20 | \$ 0.16 | \$ 0.01 |
| From discontinued operations | (0.02) | - | - | 0.09 |

| | | | | | | | | |
|--|----|--------|----|------|----|------|----|------|
| Net (loss) income per common share (diluted) | \$ | (0.10) | \$ | 0.20 | \$ | 0.16 | \$ | 0.10 |
|--|----|--------|----|------|----|------|----|------|

Earnings per share are computed separately for each quarter. Therefore, the sum of such quarterly per share amounts may differ from the total for the years.

AUDIOVOX CORPORATION AND SUBSIDIARIES
Valuation and Qualifying Accounts
Year ended February 28, 2009, February 29, 2008 and February 28, 2007
(In thousands)

| Column A | Column B | Column C Gross | Column D | Column E | |
|---|------------------------------------|---|--|-------------------|------------------------------|
| Description | Balance at Beginning of Year | Amount Charged to Costs and Expenses | Reversals of Previously Established Accruals | Deductions (a) | Balance at End of Year |
| Year ended February 28, 2007 | | | | | |
| Allowance for doubtful accounts | \$ 6,136 | \$ (23) | \$ - | \$ 1,051 | \$ 5,062 |
| Cash discount allowances | 325 | 1,483 | - | 1,543 | 265 |
| Accrued sales incentives | 8,512 | 14,961 | (2,460) | 13,603 | 7,410 |
| Reserve for warranties and product repair costs (b) | 9,947 | 9,752 | - | 10,113 | 9,586 |
| | \$ 24,920 | \$ 26,173 | \$ (2,460) | \$ 26,310 | \$ 22,323 |
| Year ended February 29, 2008 | | | | | |
| Allowance for doubtful accounts | \$ 5,062 | \$ (297) | \$ - | \$ (1,621) | \$ 6,386 |
| Cash discount allowances | 265 | 3,377 | - | 3,367 | 275 |
| Accrued sales incentives | 7,410 | 29,084 | (4,108) | 21,618 | 10,768 |
| Reserve for warranties and product repair costs (b) | 9,586 | 22,249 | - | 14,516 | 17,319 |
| | \$ 22,323 | \$ 54,413 | \$ (4,108) | \$ 37,880 | \$ 34,748 |
| Year ended February 28, 2009 | | | | | |
| Allowance for doubtful accounts | \$ 6,386 | \$ (1,905) | \$ - | \$ (2,880) | \$ 7,361 |
| Cash discount allowances | 275 | 3,649 | - | 3,725 | 199 |
| Accrued sales incentives | 10,768 | 23,877 | (4,083) | 22,645 | 7,917 |
| Reserve for warranties and product repair costs (b) | 17,319 | 12,187 | - | 15,096 | 14,410 |
| | \$ 34,748 | \$ 37,808 | \$ (4,083) | \$ 38,586 | \$ 29,887 |

(a) For the allowance for doubtful accounts, cash discount allowances and accrued sales incentives, deductions represent currency effects, chargebacks and payments made or credits issued to customers. For the reserve for warranties and product repair costs, deductions represent currency effects and payments for labor and parts made to service centers and vendors for the repair of units returned under warranty.

(b) Column C includes \$1,255, \$1,705, \$325, \$646 and \$12,848 of liabilities acquired during the Thomson Accessory, Oehlbach, Technuity and Thomson Audio/Video acquisitions, respectively (see Note 3 of the Consolidated Financial Statements).

| Exhibit Number | Description |
|-------------------|--|
| 3.1 | Amended and Restated Certificate of Incorporation of the Company as filed with the Delaware Secretary of State on April 17, 2000 (incorporated by reference to the Company's Annual Report on Form 10-K for the year ended November 30, 2000). |
| 3.2 | By-laws of the Company (incorporated by reference to the Company's Registration Statement on Form S-1; No. 33-10726, filed May 4, 1987). |
| 3.2a | Amendment to the Bylaws of the Company (incorporated by reference to the Company's Form 8-K filed via EDGAR on July 3, 2007). |
| 10.1 | Purchase Agreement made and entered into as of December 20, 2006 by and between Thomson and Audiovox Corporation (incorporated by reference to the Company's Annual Report on Form 10-K for the year ended February 28, 2007). |
| 10.2 | Audiovox Corporation 2006 Stock Compensation Plan (incorporated by reference to the Company's Form S-8 filed via EDGAR on October 13, 2006) |
| 10.3 | Employment Agreement made effective as of the 1st day of March, 2007 by and between the Company and Patrick M. Lavelle (incorporated by reference to the Company's Form 8-K filed via EDGAR on June 15, 2007) |
| 10.4 | Form of Transition Services Agreement (incorporated by reference to the Company's Form 8-K filed via EDGAR August 10, 2004). |
| 10.5 | Form of Trademark License Agreement (incorporated by reference to the Company's Form 8-K filed via EDGAR August 10, 2004). |
| 10.6 | Distribution Agreement between Audiovox Electronics Corporation and Sirius XM Radio Inc. dated as of January 8, 2009 (incorporated by reference to the Company's Form 8-K filed via EDGAR on January 15, 2009). |
| 21 | Subsidiaries of the Registrant (filed herewith). |
| 23 | Consent of Grant Thornton LLP (filed herewith). |
| 31.1 | Certification of Principal 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 Principal 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 Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith). |

32.2 Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith).

99.1 Consolidated Financial Report of Audiovox Specialized Applications LLC (ASA) as of November 30, 2008 and 2007 and for the Years Ended November 30, 2008, 2007 and 2006 (filed herewith).

99.2 Consent of McGladrey & Pullen, LLP (filed herewith).

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

SIGNATURES

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

AUDIOVOX CORPORATION

May 14, 2009

By: /s/ Patrick M. Lavelle

Patrick M. Lavelle,

President and Chief Executive Officer

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

| Signature | Title | Date |
|--|---|--------------|
| /s/ Patrick M. Lavelle Patrick M. Lavelle | President; Chief Executive Officer (Principal Executive Officer) and Director | May 14, 2009 |
| /s/ Charles M. Stoehr Charles M. Stoehr | Senior Vice President, Chief Financial Officer (Principal Financial and Accounting Officer) and Director | May 14, 2009 |
| /s/ John J. Shalam John J. Shalam | Chairman of the Board of Directors | May 14, 2009 |
| /s/ Philip Christopher Philip Christopher | Director | May 14, 2009 |
| /s/ Paul C. Kreuch, Jr. Paul C. Kreuch, Jr. | Director | May 14, 2009 |
| /s/ Dennis McManus Dennis McManus | Director | May 14, 2009 |
| /s/ Peter A. Lesser Peter A. Lesser | Director | May 14, 2009 |

