AUDIOVOX CORP
Form 10-Q
January 09, 2007

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

FORM 10-Q

(MARK ONE)

|X| QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended November 30, 2006

or

|_| TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

COMMISSION FILE NUMBER: 0-28839

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

DELAWARE	13-1964841
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
180 MARCUS BLVD., HAUPPAUGE, NEW YORK	11788
(Address of principal executive offices)	(Zip Code)

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

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

Yes X No ___

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

Large accelerated filer ___ Accelerated filer X Non-accelerated filer ___

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

Yes ___ No X

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

Class	As of January 4, 2007
Class A Common Stock	20,142,300 Shares
Class B Common Stock	2,260,954 Shares

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AUDIOVOX CORPORATION

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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

AUDIOVOX CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(IN THOUSANDS, EXCEPT SHARE DATA)
(UNAUDITED)

	FEBRUARY 28, 2006	NOVEMBER 3 2006
ASSETS		
Current assets:		
Cash and cash equivalents	$ 16,280	$ 13,878
Restricted cash	1,488	--
Short-term investments	160,799	135,787
Accounts receivable, net	88,671	135,276
Inventory	96,150	88,483
Receivables from vendors	9,830	9,578
Prepaid expenses and other current assets	6,023	10,188
Deferred income taxes	8,218	8,217
Total current assets	387,459	401,407
Investment securities	14,709	12,200
Equity investments	11,834	11,668
Property, plant and equipment, net	18,799	18,251
Excess cost over fair value of assets acquired	16,067	17,514
Intangible assets	11,002	11,184
Deferred income taxes	3,989	5,617
Other assets	2,153	650
Total assets	$466,012	$478,491

SEE ACCOMPANYING NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

AUDIOVOX CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS (CONTINUED)
(IN THOUSANDS, EXCEPT SHARE DATA)
(UNAUDITED)

	FEBRUARY 28, 2006
LIABILITIES AND STOCKHOLDERS' EQUITY	
Current liabilities:	
Accounts payable	$ 13,776
Accrued expenses and other current liabilities	17,907
Accrued sales incentives	8,512
Income taxes payable	--
Bank obligations	5,329
Current portion of long-term debt	1,371
Total current liabilities	46,895
Long-term debt	5,924
Capital lease obligation	5,892
Deferred compensation	6,569
Total liabilities	65,280
Commitments and contingencies	
Stockholders' equity:	
Preferred stock, $50 par value; 50,000 shares authorized, issued and outstanding at February 28, 2006 with liquidation preference of $2,500. No shares issued or outstanding at November 30, 2006	2,500
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, 21,520,346 and 21,662,346 shares issued, 20,131,794 and 19,968,694 shares outstanding at February 28, 2006 and November 30, 2006, respectively	215
Class B convertible, $.01 par value; 10,000,000 shares authorized, 2,260,954 shares issued and outstanding	22
Paid-in capital	263,008
Retained earnings	148,427
Accumulated other comprehensive loss	(608)
Treasury stock, at cost, 1,388,552 and 1,693,652 shares of Class A common stock at February 28, 2006 and November 30, 2006, respectively	(12,832)
Total stockholders' equity	400,732
Total liabilities and stockholders' equity	$ 466,012

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SEE ACCOMPANYING NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

AUDIOVOX CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE THREE AND NINE MONTHS ENDED NOVEMBER 30, 2005 AND 2006
(IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)
(UNAUDITED)

	THREE MONTHS ENDED NOVEMBER 30, 2005	THREE MONTHS ENDED NOVEMBER 30, 2006
Net sales	$ 156,290	$ 151,833
Cost of sales	146,586	126,462
Gross profit	9,704	25,371
Operating expenses:		
Selling	8,235	8,114
General and administrative	13,500	13,649
Engineering and technical support	1,438	1,888
Total operating expenses	23,173	23,651
Operating (loss) income	(13,469)	1,720
Other income (expense):		
Interest and bank charges	(555)	(429
Equity in income of equity investees	397	659
Other, net	(85)	1,118
Total other (loss) income, net	(243)	1,348
(Loss) income from continuing operations before taxes	(13,712)	3,068
Income tax benefit	5,406	780
Net (loss) income from continuing operations	(8,306)	3,848
Net (loss) income from discontinued operations, net of tax	(1,990)	6

Net (loss) income	$ (10,296)	$ 3,854
Net (loss) income per common share (basic):		
From continuing operations	$ (0.37)	$ 0.17
From discontinued operations	(0.09)	--
Net (loss) income per common share (basic)	$ (0.46)	$ 0.17
Net (loss) income per common share (diluted):		
From continuing operations	$ (0.37)	$ 0.17
From discontinued operations	(0.09)	--
Net (loss) income per common share (diluted)	$ (0.46)	$ 0.17
Weighted-average common shares outstanding (basic)	22,649,819	22,234,399
Weighted-average common shares outstanding (diluted)	22,649,819	22,445,164

SEE ACCOMPANYING NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

AUDIOVOX CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE NINE MONTHS ENDED NOVEMBER 30, 2005 AND 2006
(IN THOUSANDS)
(UNAUDITED)

	(r
Cash flows from operating activities:	
Net (loss) income	$
Net loss from discontinued operations	
Net (loss) income from continuing operations	
Adjustments to reconcile net (loss) income to net cash used in continuing operating activities:	
Depreciation and amortization	
Bad debt expense (recovery)	
Equity in income of equity investees	
Other than temporary impairment charge in investment	
Deferred income tax expense	
Non-cash compensation adjustment	
Stock based compensation expense	
Unrealized gain on trading security	

Loss on disposal of property, plant and equipment ....
Tax benefit on stock options exercised ....
Changes in operating assets and liabilities (net of assets and liabilities acquired):
Accounts receivable ....
Inventory ....
Receivables from vendors ....
Prepaid expenses and other ....
Investment securities-trading ....
Accounts payable, accrued expenses, accrued sales incentives and other current liabilities ....
Income taxes payable ....
Changes in assets and liabilities of discontinued operations ....
–

Net cash used in operating activities ....

Cash flows from investing activities:
Purchases of property, plant and equipment ....
Proceeds from sale of property, plant and equipment ....
Proceeds from distribution from an equity investee ....
Purchase of short-term investments ....
Proceeds from sale of short-term investments ....
Purchase of patents ....
Purchase of long term investment ....
Proceeds from sale of Cellular business ....
Escrow payment for purchase of minority interest ....
Adjustment related to purchase of acquired business ....
Cash provided by discontinued operations ....
–

Net cash provided by investing activities ....

AUDIOVOX CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)
FOR THE NINE MONTHS ENDED NOVEMBER 30, 2005 AND 2006
(IN THOUSANDS)
(UNAUDITED)

	200
Cash flows from financing activities:	
Borrowings from bank obligations	1,
Repayments on bank obligations	(1,
Principal payments on capital lease obligation	
Proceeds from exercise of stock options and warrants	7,
Principal payments on debt	(1,

Repurchase of Class A common stock	(2,
Repurchase of preferred stock	
Tax benefit on stock options exercised	
Cash used in discontinued operations	
Net cash provided by (used in) financing activities	3,
Effect of exchange rate changes on cash	(
Net decrease in cash and cash equivalents	(4,
Cash and cash equivalents at beginning of period	18,
Cash and cash equivalents at end of period	$ 14,

SEE ACCOMPANYING NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

AUDIOVOX CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
NOVEMBER 30, 2006
(DOLLARS IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)
(UNAUDITED)

(1) Basis of Presentation

The accompanying unaudited interim consolidated financial statements of Audiovox Corporation and subsidiaries ("Audiovox" or the "Company") have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission and in accordance with accounting principles generally accepted in the United States of America and include all adjustments (consisting of normal recurring adjustments), which, in the opinion of management, are necessary to present fairly the consolidated financial position, results of operations and cash flows for all periods presented. The results of operations are not necessarily indicative of the results to be expected for the full fiscal year. These consolidated financial statements do not include all disclosures associated with consolidated financial statements prepared in accordance with accounting principles generally accepted in the United States of America. Accordingly, these statements should be read in conjunction with the Company's audited consolidated financial statements and notes thereto contained in the Company's Form 10-K for the fiscal year ended November 30, 2005.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts of assets, liabilities, revenues and expenses reported in those financial statements as well as the disclosure of contingent assets and liabilities at the date of the consolidated financial statements. These judgments can be subjective and complex, and consequently, actual results could differ from those estimates and assumptions. Significant estimates made by the Company include the allowance for doubtful accounts, inventory valuation, recoverability of deferred tax assets, valuation of long-lived assets, accrued sales incentives and warranty reserves. A summary of the Company's significant accounting policies is identified in Note 1 of the Consolidated Financial Statements in the Company's Form 10-K for the year ended November 30, 2005. There have been no changes to the Company's significant accounting policies subsequent to November 30, 2005, except as discussed in Note 2 below.

The Company has one reportable segment, the Electronics Group, which is organized by product category. The Electronics Group consists of five wholly-owned subsidiaries: Audiovox Electronics Corporation, American Radio Corp., Code Systems, Inc., Audiovox German Holdings GmbH and Audiovox Venezuela, C.A. The Company markets its products under the Audiovox(R) and other brand names. 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, 2006 and ends on February 28, 2007. This quarterly report on Form 10-Q supplements the transition report on Form 10-Q for the three month transition period ended February 28, 2006 and compares the financial position as of November 30, 2006 to February 28, 2006 and the results of operations for the three and nine months ended November 30, 2006 of the fiscal year ending February 28, 2007 with the results of operations for the three and nine months ended November 30, 2005 from the fiscal year ended November 30, 2005.

For the nine months ended November 30, 2005, the Company revised the operating, investing and financing activities of cash flows attributed to discontinued operations, to conform to the appropriate presentation, whereas in the prior periods it was reported on a combined basis as a single line within operating activities.

(2) Accounting for Stock-Based Compensation

The Company has various stock based compensation plans, which are more fully described in Note 11 of the Company's Form 10-K for the fiscal year ended November 30, 2005.

Prior to December 1, 2005, the Company accounted for stock-based employee compensation under the intrinsic value method as outlined in the provisions of Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB No. 25"), and related interpretations while disclosing pro-forma net income (loss) and pro-forma net income (loss) per share as if the fair value method had been applied in accordance with Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation ("SFAS No. 123")." Under the intrinsic value method, no compensation expense was recognized if the exercise price of the Company's employee stock options equaled or exceeded the market price of the underlying stock on the date of grant. The Company issued all stock option grants with exercise prices equal to, or greater than, the market value of the underlying common stock on the date of grant. No compensation expense relating to the grant of such options was recognized in the consolidated statements of operations through November 30, 2005.

Effective December 1, 2005, the Company adopted SFAS No. 123(R), "Share-Based Payment" ("SFAS 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. This statement was adopted using the modified prospective method, which requires the Company to recognize compensation expense on a prospective basis for all unvested stock options outstanding. Therefore, prior period financial statements have not been restated. Under this method, in addition to reflecting compensation expense for new share-based payment awards, expense is also recognized to reflect the remaining vesting period of awards that had been included in pro-forma disclosures in prior periods. Since all options outstanding as of December 1, 2005 were fully vested and exercisable, there was no compensation expense recognized for options granted prior to the adoption of SFAS 123(R) in the consolidated statement of operations for the three and nine months ended November 30, 2006. Prior to adopting SFAS 123(R), the Company presented all tax benefits related to stock-based compensation as an operating cash inflow, which was $1,353 for the nine months ended November 30, 2005. SFAS 123(R) requires tax benefits related to stock based compensation be presented as an operating activity outflow and finance activity inflow on a prospective basis, which was $22 for the nine months ended November 30, 2006.

The following table illustrates the effect on net loss and net loss per common share as if the Company had measured the compensation cost for the Company's stock option programs under the fair value method during the three and nine months ended November 30, 2005.

	THREE MONTHS ENDED NOVEMBER 30, 2005
Net loss	
As reported	$(10,296)
Stock based compensation expense	(490)
Pro-forma	$(10,786)
Net loss per common share (basic and diluted)	
As reported	$ (0.46)
Pro-forma	$ (0.48)

The per share fair value of stock options granted during the three months ended November 30, 2005 was $2.51 on the date of grant. This fair value was determined using the Black-Sholes option-pricing model with the following assumptions:

AUDIOVOX CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED
NOVEMBER 30, 2006

Expected dividend yeild	0%
Expected weighted average volatility yield	19.4%
Risk-free interest rate	4.70%
Expected life (years)	2.6

On November 10, 2005, the FASB issued Staff Position No. 123(R)-3, "Transition Election Related to Accounting for the Tax Effects of Share-Based Payment Awards", which provides an alternative (and simplified) method to calculate the pool of excess income tax benefits upon the adoption of SFAS No. 123(R). Among other things, Staff Position No. 123(R)-3 provides guidance on how to present excess tax benefits in the statement of cash flows when the alternative pool calculation is used. This new guidance became effective upon its issuance; however, companies can generally make a one-time election to adopt the transition method in Staff Position No. 123(R)-3 up to one year from the later of (i) initial adoption of SFAS No. 123(R) or (ii) November 10, 2005. If a company elects to adopt the alternative method after it has already issued financial statements pursuant to the provisions of SFAS No. 123(R), such adoption would be considered a change in accounting principle. The Company continues to evaluate Staff Position No. 123(R)-3 and, accordingly, has not yet determined whether the alternative method will be utilized.

(a) Stock-Based Compensation Expense

The Company recognized stock-based compensation for awards issued under the Company's Stock Option Plans in the following line items in the Consolidated Statement of Operations:

	THREE MONTHS ENDED NOVEMBER 30, 2006	NINE MONTHS EN NOVEMBER 30, 2
Cost of sales	$ 21	$ 21
Selling expenses	156	156
General and administrative expenses	207	245
Engineering and technical support	10	10
Stock-based compensation expense before income tax benefit...	$394	$432

The Company uses the Black-Scholes option pricing model to estimate the fair value of stock based compensation awards with the following assumptions for the three months ended November 30, 2006:

	THREE MONTHS ENDED NOVEMBER 30, 2006
Dividend yield	0%

Weighted-average expected volatility	49.90%
Risk-free interest rate	4.67%
Expected life of options (in years)	2.00

Options granted during the three and nine months ended November 30, 2006 vested immediately, had exercise prices equal to the fair market value of the stock on the date of grant and a contractual term of two years. The per share fair value of stock options granted during the three months ended November 30, 2006 was $4.15.

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

years the Company estimates the options will be outstanding prior to exercise based on employment termination behavior.

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

	NUMBER OF SHARES	WEIGHTED AVERAGE EXERCISE PRICE
Outstanding and exercisable at February 28, 2006	2,197,152	$ 12.04
Granted	105,000	13.42
Exercised	(142,000)	10.16
Forfeited/expired	(17,500)	14.34
Outstanding and exercisable at November 30, 2006	2,142,652	$ 12.21

At November 30, 2006, the Company had no unrecognized compensation cost as all stock options were fully vested.

(3) Discontinued Operations

On February 25, 2005, the Company entered into a plan to discontinue ownership of Audiovox Malaysia ("AVM") due to increased competition from non local OEM's and deteriorating credit quality of local customers. The Company completed the sale of AVM on November 7, 2005. The net loss from discontinued operations for the three and nine months ended November 30, 2006 is primarily due to legal and related costs associated with contingencies pertaining to the Company's discontinued Cellular business offset by associated income tax benefits (see Note 17).

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

	THREE MONTHS ENDED NOVEMBER 30,		NIN N
	2005	2006	2005
Net sales from discontinued operations	$ 624	--	$ 2,690
Loss from discontinued operations before income taxes	$ (63)	$ (148)	$ (493
Recovery of income taxes	152	154	321
	89	6	(172
Loss on sale of business, net of tax	(2,079)	--	(2,079
Net (loss) income from discontinued operations	$(1,990)	$ 6	$(2,251

(4) Net Income (Loss) Per Common Share

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

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

	THREE MONTHS ENDED NOVEMBER 30,	
	2005	2006
Weighted-average common shares outstanding (basic)	22,649,819	22,234,399
Effect of dilutive securities:		
Stock options and warrants	--	210,765
Weighted-average common shares and potential common shares outstanding (diluted)	22,649,819	22,445,164

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Stock options and warrants totaling 1,004,890 and 1,013,000 for the three months ended November 30, 2005 and 2006, respectively, and 815,897 and 1,209,635 for the nine months ended November 30, 2005 and 2006, respectively, were not included in the net income (loss) per diluted share calculation because these options and warrants were anti-dilutive or the exercise price of these options and warrants was greater than the average market price of the Company's common stock during these periods.

(5) Accumulated Other Comprehensive Loss

Accumulated other comprehensive loss of $608 and $2,187 at February 28, 2006 and November 30, 2006, respectively, includes the net accumulated unrealized gain (loss) on the Company's available-for-sale investment securities of $331 and $(2,328) at February 28, 2006 and November 30, 2006, respectively, and foreign currency translation (loss) gain of $(939) and $141 at February 28, 2006 and November 30, 2006, respectively.

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

	THREE MONTHS ENDED NOVEMBER 30,	
	2005	200
Net income (loss)	$(10,296)	$ 3,8
Other comprehensive (loss) income:		
Foreign currency translation adjustments (see disclosure below)	1,012	2
Unrealized holding gain (loss) on available-for-sale investment securities arising during the period, net of tax	173	(2
Other comprehensive income (loss), net of tax	1,185	(
Total comprehensive (loss) income	$ (9,111)	$ 3,7

AUDIOVOX CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED
NOVEMBER 30, 2006

	THREE MONTHS ENDED NOVEMBER 30, 2005
Disclosure of reclassification amount:	

Unrealized foreign currency translation loss	$ (353)
Less: reclassification adjustments for realized foreign currency translation loss included in net income (loss) from discontinued operations	(1,365)
Net unrealized foreign currency translation gain	$ 1,012

The changes in the net unrealized holding gain (loss) on available-for-sale investment securities arising during the periods presented above are net of tax provisions (benefits) of $106 and $(162) for the three months ended November 30, 2005 and 2006, respectively and $(108) and $(1,630) for the nine months ended November 30, 2005 and 2006, respectively.

(6) Inventory Writedown

The Company recorded a $9,972 inventory write-down during the three months ended November 30, 2005, which was primarily related to an $8,775 charge due to the discontinuance of certain products within select product lines. This write-down was the result of the Company completing its review of: a) holiday season inventory and sales projections, b) products which were at the end of their product life cycle and c) market information obtained from industry competitors and customers regarding pricing and product demand at a Consumer Electronics trade show.

(7) Non-Cash Transactions/Changes in Stockholders' Equity

Non-Cash Transactions

During the nine months ended November 30, 2005 and 2006, the Company recorded a non-cash compensation adjustment of $123 and $231 respectively, related to the rights under call/put options previously granted to certain employees.

During the nine months ended November 30, 2006, the Company released its restricted cash balance for the purchase of Audiovox Venezuela's minority interest (see Note 17).

During the three months ended November 30, 2005, the Company recorded an-other-than temporary impairment charge of $1,758 for its investment in CellStar common stock and such charge has been included in other income (expense) on the accompanying consolidated statement of operations.

Changes in Stockholders Equity

During the nine months ended November 30, 2006, the Company purchased 305,100 shares of treasury stock for $4,155.

During the nine months ended November 30, 2006, 142,000 shares of Class A common stock were issued in connection with the exercise of stock options and warrants resulting in proceeds of $1,444.

In August 2006, the Company repurchased all 50,000 outstanding shares of preferred stock (the "shares") from the original shareholder for $5 and retired the shares upon repurchase. The $2,495 difference between the repurchase price and book value of the shares is included in paid in capital in the accompanying consolidated balance sheet at November 30, 2006.

AUDIOVOX CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, CONTINUED
NOVEMBER 30, 2006

(8) Business Acquisition

On January 4, 2005, the Company entered into an asset purchase agreement to purchase certain assets of Terk Technologies Corp. ("Terk") for a total purchase price of $15,274, as adjusted. The purchase price was subject to a working capital adjustment based on the working capital of Terk at the time of closing, plus contingent debentures with a maximum value of $9,280 based on the achievement of future revenue targets. No amount has been recorded with respect to the debentures and any amount paid under the debentures would be recorded as additional goodwill. The results of operations of this acquisition have been included in the consolidated financial statements from the date of acquisition. The purpose of this acquisition is to increase the Company's market share for satellite radio products as well as accessories for antennas and HDTV products.

(9) Goodwill and Other Intangible Assets

The change in goodwill for the period is as follows:

Balance at February 28, 2006	$16,067
Purchase of Venezuela minority interest (see Note 17)	1,447
Balance at November 30, 2006	$17,514

At February 28, 2006, intangible assets consisted of the following:

	GROSS CARRYING VALUE	ACCUMULATED AMORTIZATION
Patents subject to amortization	$ 150	$ 18
Trademarks/Tradenames not subject to amortization	10,042	--
Contract subject to amortization	1,104	276
Total	$11,296	$ 294

At November 30, 2006, intangible assets consisted of the following:

GROSS
CARRYING ACCUMULATED

	VALUE	AMORTIZATION
Patents subject to amortization	$ 625	$ 145
Trademarks/Tradenames not subject to amortization	10,042	--
Contract subject to amortization	1,104	442
Total	$11,771	$ 587

During the nine months ended November 30, 2006, the Company purchased $475 of patents subject to amortization with estimated useful lives ranging from twenty-four to forty-five months.

The Company recorded amortization expense of $244 and $103 for the three months ended November 30, 2005 and 2006, respectively and $232 and $225 for the nine months ended November 30, 2005 and 2006, respectively. The estimated aggregate amortization expense for the cumulative five years ending November 30, 2011 amounts to $1,096.

(10) Equity Investments

As of February 28, 2006 and November 30, 2006, the Company had a 50% non-controlling ownership interest in Audiovox Specialized Applications, Inc. ("ASA") which acts as a distributor of televisions and other automotive sound, security and accessory products for specialized vehicles, such as RV's and van conversions.

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

	FEBRUARY 28, 2006	NOVEMBER 30, 2006
Current assets	$24,007	$24,309
Non-current assets	4,339	4,501
Current liabilities	4,678	5,474
Members' equity	23,668	23,336

	NINE MONTHS ENDED NOVEMBER 30,	
	2005	2006
Net sales	$38,927	$45,072

Gross profit	8,616	13,480
Operating income	4,019	4,058
Net income	$ 4,034	$ 4,846

The Company's share of income from ASA for the nine months ended November 30, 2005 and 2006, was $2,017 and $2,423 respectively. In addition, the Company received distributions from ASA totaling $2,589 during the nine months ended November 30, 2006, which was recorded as a reduction to equity investments in the accompanying consolidated balance sheet.

(11) Bliss-tel Investment

On December 13, 2004, Bliss-tel Public Company Limited ("Bliss-tel") issued 230,000,000 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 owns 30,000,000 shares (or approximately 13%) of Bliss-tel's outstanding stock. In addition, on July 21, 2005, the Company received 9,000,000 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. Beginning in the quarter ended February 28, 2005, the Company accounted for the Bliss-tel investment as a trading security in accordance with FASB Statement No. 115 "Accounting for Certain Investments in Debt and Equity Securities" whereby the unrealized holding gains and losses of Bliss-tel stock were included in earnings. As a result of this transaction, the Company recorded a net gain of $2,455 for the nine months ended November 30, 2005, which is included in other income on the accompanying consolidated statements of operations.

The Company re-characterized the Bliss-tel investment to an available-for-sale security on September 1, 2005, as a result of a change in the Company's strategy regarding selling the Bliss-tel stock as the Company was unable to find a buyer in the short term. Accordingly, beginning on September 1, 2005, the unrealized holding gains and losses on the Bliss-tel investment are included as a component of accumulated other comprehensive loss in the accompanying consolidated balance sheets.

(12) Income Taxes

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

The effective tax rate from continuing operations for the three and nine months ended November 30, 2006 was a tax benefit of 25.4% and 22.7%

respectively, compared to 39.4% and 63.1% in the comparable prior periods. The Company's effective tax rate for the three and nine months ended November 30, 2006 is less than the statutory rate as a result of tax exempt interest income earned on short term investments. The effective tax rate for the nine months ended November 30, 2005 was favorably impacted by $3,307 in tax accrual reductions due to the completion of certain tax examinations for the years 1994 through 2000.

(13) Accrued Sales Incentives

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

	THREE MONTHS ENDED NOVEMBER 30,		
	2005	2006	
Opening balance	$ 7,919	$ 7,405	$
Accruals	6,418	5,614	
Payments and credits	(3,843)	(2,559)	
Reversals for unearned sales incentive	(270)	(451)	
Reversals for unclaimed sales incentives	(398)	(77)	
Ending balance	$ 9,826	$ 9,932	$

* Includes $1,255 of accrued sales incentives acquired from Terk.

(14) Product Warranties and Product Repair Costs

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

	THREE MONTHS ENDED NOVEMBER 30,	
	2005	2006
Opening balance	$ 11,314	$ 8,5
Liabilities accrued for warranties issued during the period	2,099	2,8
Warranty claims paid during the period	(3,084)	(2,2
Ending balance	$ 10,329	$ 9,1

(15) Financing Arrangements

The Company has the following financing arrangements:

AUDIOVOX CORPORATION AND SUBSIDIARIES
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NOVEMBER 30, 2006

	FEBRUARY 28, 2006	NOVEMBER 30, 2006
Bank Obligations		
Domestic bank obligation (a)	$ --	$ --
Venezuela bank obligations (b)	956	372
Euro Asset-Based lending obligation (c)	4,373	3,974
Total bank obligations	$5,329	$4,346
Debt		
Euro term loan agreement (d)	$6,282	$5,835
Other (e)	1,013	1,366
Total debt	$7,295	$7,201

(a) Domestic Bank Obligations

At November 30, 2006, the Company has an unsecured credit line to fund the temporary short-term working capital needs of the domestic operations. This line expires on August 31, 2007 and allows aggregate borrowings of up to $25,000 at an interest rate of Prime (or similar designations) plus 1%. As of February 28, 2006 and November 30, 2006, no direct amounts are outstanding under this agreement. At November 30, 2006, the Company had $9,197 in commercial and standby letters of credit outstanding, which reduces the amount available under the unsecured credit line.

(b) Venezuela Bank Obligations

In October 2005, Audiovox Venezuela entered into a credit facility borrowing arrangement which allows for principal borrowings up to $1,000 plus accrued interest. The facility requires minimum monthly interest payments at an annual interest rate of 13% until the expiration of the facility on February 20, 2007. Audiovox Corporation has secured this facility with a $1,000 standby letter of credit.

(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 25, 2007 and is renewable on an annual basis. Selected accounts receivable are purchased from the Company on a non-recourse basis at 85% of face value and payment of the remaining 15% upon receipt from the customer of the balance of the receivable purchased. In respect of the ABL credit facility, selected finished goods are advanced at a 60% rate and non factored accounts receivables are advanced at a 50% rate. The rate of interest is the three month Euribor plus 2.5%, and the Company pays 0.4% of its gross sales as a fee for the accounts receivable factoring arrangement. As of November 30, 2006, the amount of accounts receivable and finished goods available for factoring exceeded the amounts outstanding under this obligation.

(d) Euro Term Loan Agreement

On September 2, 2003, Audiovox Germany borrowed 12 million Euros under a new term loan agreement. This agreement was for a 5-year term loan with a financial institution consisting of two tranches. Tranche A is for 9 million Euros and Tranche B is for 3 million Euros. Tranche B

has been fully repaid. Payments under Tranche A are due in monthly installments and interest accrues at 2.75% over the Euribor rate. Any amount repaid may not be reborrowed. The term loan becomes immediately due and payable if a change of control occurs without permission of the financial institution. In April 2005, the maturity of the term loan was prolonged to August 30, 2010 with a pre-payment option.

Audiovox Corporation guarantees 3 million Euros of this term loan. The term loan is secured by the pledge of the stock of Audiovox Germany on all brands and trademarks of Audiovox Germany. The term loan requires the maintenance of certain yearly financial covenants that are calculated according to German Accounting Standards. Should any of the financial covenants not be met, the financial institution may charge a higher interest rate on any outstanding borrowings and/or call the loan. The short and long term amounts outstanding under this agreement were $1,371 and $4,911, respectively, at February 28, 2006 and $1,522 and $4,313 respectively, at November 30, 2006.

(e) Other Debt

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

(16) Other Income (Loss)

Other income (loss) is comprised of the following:

	THREE MONTHS ENDED NOVEMBER 30,		
	2005	2006	2

CellStar Impairment (see Note 7)	$(1,758)	$ --	$(
Bliss-tel (see Note 11)	--	--	
Interest income	873	1,397	
Rental income	163	138	
Miscellaneous	637	(417)	
	-------	-------	--
Total Other, net	$ (85)	$ 1,118	$
	=======	=======	==

(17) Commitments and 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 tp;

/s/ Catherine L. Newell

Signature

Vice President and Secretary

Title