AUDIOVOX CORP
Form 10-K
May 14, 2010

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, 2010

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 o No x

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 o No x

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 o

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.

x

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 o   Accelerated filer x   Non-accelerated filer o   Smaller reporting company o

Indicate by check mark whether the Registrant is a shell company (as defined in rule 12b-2 of the Act).
Yes o   No x

The aggregate market value of the common stock held by non-affiliates of the Registrant was $180,455,344 (based upon closing price on the Nasdaq Stock Market on August 31, 2009).

The number of shares outstanding of each of the registrant's classes of common stock, as of May 14, 2010 was:

Class	Outstanding
Class A common stock $.01 par value	20,622,905
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, 2010.

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PART I

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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, 2009 and ended February 28, 2010.

PART I

Item 1-Business

Audiovox Corporation (“Audiovox", “We", "Our", "Us" or “Company") is a leading international distributor in the accessory, mobile and consumer electronics industries. With our most recent acquisition of Invision Automotive Systems, Inc. we have added manufacturing capabilities to our business model. We conduct our business through eleven wholly-owned subsidiaries: American Radio Corp., Audiovox Electronics Corporation (“AEC”), Audiovox Accessories Corp. (“AAC”), Audiovox Consumer Electronics, Inc. (“ACE”), Audiovox German Holdings GmbH (“Audiovox Germany”), Audiovox Venezuela, C.A., Audiovox Canada Limited, Entretenimiento Digital Mexico, S. de C.V. (“Audiovox Mexico”), Code Systems, Inc, Schwaiger GmbH (“Schwaiger”) and Invision Automotive Systems, Inc. (“Invision”). We market our products under the Audiovox® brand name, other brand names and licensed brands, such as Acoustic Research®, Advent®, Ambico®, Car Link®, Chapman®, Code-Alarm®, Discwasher®, Energizer®, Heco®, IncaarTM, Invision®, Jensen®, Mac AudioTM, Magnat®, Movies2Go®, Oehlbach®, Phase Linear®, Prestige®, Pursuit®, RCA®, RCA Accessories®, Recoton®, Road Gear®, Schwaiger®, 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.

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 February 2010, the Company’s new subsidiary, Invision Automotive Systems, Inc. completed the acquisition of the assets of Invision Industries, Inc., a leading manufacturer of rear seat entertainment systems to OEM’s, ports and car dealers for a total cash purchase price of $10,307, with all acquisition costs of $219 expensed as incurred in accordance with ASC 805. The purpose of this acquisition was to increase our R&D capabilities, add a manufacturing facility to our business structure and augment our OE group.

In October 2009, Audiovox German Holdings GmbH completed the acquisition of certain assets of Schwaiger GmbH, a German market leader in the consumer electronics, SAT and receiver technologies for a total net asset payment of $4,348, with acquisition costs of $209 expensed as incurred. The purpose of this acquisition was to expand our European operations and increase our presence in the European accessory market.

Prior to Fiscal 2010, the Company expanded its market presence by acquiring and fully integrating the following businesses:

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. 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 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.

In August 2007, Audiovox Germany acquired certain assets of Incaar Limited, a U.K. business that specializes in rear seat electronics systems.

In March 2007, Audiovox Germany acquired the stock of Oehlbach, a European market leader in the accessories business.

In January 2007, we acquired certain assets and liabilities of Thomson's Americas consumer electronics accessory business which included the rights to the RCA Accessories brand for consumer electronics accessories.

Refer to Note 2 "Business Acquisitions" of the Notes to Consolidated Financial Statements for additional information regarding the Fiscal 2010 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. This divestiture has been presented as discontinued operations. Refer to Note 3 "Discontinued Operations" of the Notes to Consolidated Financial Statements for additional information regarding the aforementioned divestiture.

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" portfolio of brands is one of our greatest strengths and offers us significant opportunity for increased market penetration. To further benefit from the Audiovox portfolio of brands, we continue to invest and introduce new products using our brand names, in addition to seeking opportunities to license our products.

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 the majority 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. This industry offers the ability to specialize in niche product markets. 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, with an increased focus on niche product offerings.

Products

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

Accessories products include:

§ High-Definition Television (“HDTV”) antennas,
§ Wireless Fidelity (“WiFi”) antennas,
§ High-Definition Multimedia Interface (“HDMI”) accessories,
§ home electronic accessories such as cabling,
§ other connectivity products,

- power cords,
- performance enhancing electronics,
- TV universal remotes,
- flat panel TV mounting systems,
- iPod specialized products,
- wireless headphones,
- rechargeable battery backups (UPS) for camcorders, cordless phones and portable video (DVD) batteries and accessories,
- power supply systems,
- electronic equipment cleaning products, and
- set-top boxes.

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, gross profit and net assets are as follows:

	Fiscal 2010	Fiscal 2009	Fiscal 2008
Electronics	$375,021	$449,433	$437,018
Accessories	175,674	153,666	154,337
Total net sales	$550,695	$603,099	$591,355
Gross profit	$106,751	$100,268	$111,328
Gross margin percentage	19.4 %	16.6 %	18.8 %
Total assets	$488,978	$461,296	$533,036

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 the use of Audiovox brands on 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 termination of the agreement.

License and royalty income is recorded upon sale to the end-user and amounted to $4,453, $4,430 and $2,190 for the years ended February 28, 2010, February 28, 2009 and February 29, 2008, 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, Chrysler, General Motors Corporation, Toyota, Kia, Mazda, BMW, Subaru and Porsche. These arrangements require a close partnership with the customer as we develop products to meet specific requirements. OEM products accounted for approximately 9% of net sales for the years ended February 28, 2010, February 28, 2009 and February 29, 2008.

Our five largest customers represented 36% of net sales during the years ended February 28, 2010 and February 28, 2009, and 25% for the year ended February 29, 2008, respectively. During the year ended February 28, 2010, two customers accounted for approximately 28% of net sales and in February 28, 2009, one customer accounted for approximately 22% of the Company's net sales. However during the year ended February 29, 2008, 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,
- in-store display design,
- installation training and technical support,
- product repair services and warranty,
- nationwide installation network,
- warehousing, and
- specialized manufacturing.

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.

Utilizing our company-owned and third party facilities in the United States, Europe and Asia, 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, Central America, Puerto Rico, Europe and Venezuela. Our customer service group along with our Company websites, provide product information, answer questions and serve as technical hotlines 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 China, Hong Kong, Indonesia, Malaysia, South Korea, Taiwan and Singapore, as well as the United States, Canada and Mexico. In selecting our manufacturers, we consider quality, price, service, reputation and financial stability. In order to provide coordination and supervision of supplier performance such as price negotiations, delivery and quality control, we maintain buying and inspection offices in 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 Chrysler. Our Mobile Electronic products also compete in the automotive aftermarket against major companies such as Sony, Panasonic, Kenwood, Directed Electronics, Autopage, Rosen, Myron and Davis, Coby, Phillips, Insignia, and Pioneer. Our Accessories and Consumer Electronics product lines compete against major companies such as Sony, Phillips, Coby, Emerson Radio, Jasco and Belkin.

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, 2010, we employed approximately 970 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.

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. Some of these OEM manufacturers have entered plans to reorganize their operations as a result of general economic conditions. If they 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%, 36% and 25% of our sales were to five customers in fiscal 2010, 2009 and 2008, respectively. The loss of one or more of these customers could have a material adverse 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. 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 All 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 all 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,
- our suppliers have sufficient financial resources to fulfill their obligations, and
- our suppliers will be able to obtain raw materials and labor necessary for production.

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, South Korea, 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.

Goodwill and other intangible assets recorded on our balance sheet as of February 28, 2010 was $104,615. 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. During Fiscal 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 suppliers' 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, or
- 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, 2010, the Company leased a total of 26 operating facilities or offices located in 12 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, Florida, Georgia, New York, Ohio, Nevada, Mississippi, Virginia, Illinois, 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.

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, 2010.

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, 2010	High	Low
First Quarter	$6.45	$2.13
Second Quarter	7.98	5.55
Third Quarter	7.91	6.08
Fourth Quarter	7.49	6.29
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

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 827 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, 2010, the cumulative total of acquired shares pursuant to the program was 1,818,967, with a cumulative value of $18,386 reducing the remaining authorized share repurchase balance to 1,744,033. During the year ended February 28, 2010, 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 28, 2005 and ending on February 28, 2010 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, 2010 (6)	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)
Consolidated Statement of Operations Data						
Net sales (1)	$550,695	$603,099	$591,355	$456,690	$103,050	$539,716
Operating income (loss) (1)	3,760	(53,443)	4,422	(5,077)	(3,159)	(27,690)
Net income (loss) from continuing operations (1)	22,483	(71,029)	6,746	3,692	367	(6,687)
Net income (loss) from discontinued operations (2)	-	-	1,719	(756)	(184)	(2,904)
Net income (loss)	$22,483	$(71,029)	$8,465	$2,936	$183	$(9,591)
Net income (loss) per common share from continuing operations:						
Basic	$0.98	$(3.11)	$0.29	$0.16	$0.02	$(0.30)
Diluted	$0.98	$(3.11)	$0.29	$0.16	$0.02	$(0.30)
Net income (loss) per common share:						
Basic	$0.98	$(3.11)	$0.37	$0.13	$0.01	$(0.43)
Diluted	$0.98	$(3.11)	$0.37	$0.13	$0.01	$(0.43)

	As of February 28,		As of February 29,	As of February 28,		As of November 30,
	2010	2009	2008	2007	2006	2005
Consolidated Balance Sheet Data						
Total assets	$488,977	$461,296	$533,036	$499,120	$466,012	$485,864
Working capital	239,787	241,080	275,787	305,960	340,564	340,488
Long-term obligations	32,176	31,651	27,260	22,026	18,385	18,425
Stockholders' equity	364,262	340,502	423,513	404,362	400,732	401,157

(1) Amounts exclude the financial results of discontinued operations (see Note 3 of the Notes to Consolidated Financial Statements).

(2) 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.

(6) 2010 amounts reflect the acquisition of Schwaiger and Invision (see Note 2 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, 2010 compared to the years ended February 28, 2009 and February 29, 2008. 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 ASC 280 “Segment Reporting” (“ASC 280”). 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 2011 and 2012.

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 eleven wholly-owned subsidiaries. Audiovox has a broad portfolio of brand names used to market our products 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.

Over the last several years, we have focused on our intention to acquire synergistic businesses with the addition of seven new subsidiaries. These subsidiaries helped us to expand our core business and broaden our presence in the accessory and OEM markets. Our most recent acquisition of Invision has provided the opportunity to enter the manufacturing arena. Our intention is to continue to pursue business opportunities which will allow us to further expand our business model while leveraging overhead and exploring specialized niche markets in the electronics industry.

Although we believe our product groups have expanding market opportunities, there are 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 2.

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.

Net Sales Growth

Net sales over a five-year period have declined 2.3% from $563,653 for the year ended November 30, 2004 to $550,695 for the year ended February 28, 2010. During this period, our sales were impacted by the following items:

- The discontinuance of various high volume/low margin product lines such as navigation, GMRS radios and flat-panel TV's,
- volatility in core mobile, consumer and accessories sales due to increased competition, lower selling prices and the decline in the national and global economy.

Partially offset by:

- the introduction of new products and lines such as portable DVD players, satellite radio, digital antennas and mobile multi-media devices,
- acquisition of Invision's mobile entertainment business,
- acquisition of Schwaiger's accessory business,

- 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.

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 requires 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 ASC 605-50 “Customer Payments and Incentives” (“ASC 605-50”). 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 ASC 605-50, 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, 2010 and February 28, 2009 was $10,606 and $7,917, 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, 2010, February 28, 2009 and February 29, 2008, reversals of previously established sales incentive liabilities amounted to $2,559, $4,083 and $4,108, 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, 2010, February 28, 2009 and February 29, 2008 amounted to $1,369, $1,664 and $1,970, 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, 2010, February 28, 2009 and February 29, 2008 amounted to $1,190, $2,419 and $2,138 , 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, 2010 February 28, 2009 was $5,742 and $7,361, 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, 2010, February 28, 2009 and February 29, 2008, we recorded inventory write-downs of $2,972, $13,818 and $4,925, 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 $104,615 at February 28, 2010 and $88,524 at February 28, 2009. Goodwill and other intangible assets are determined in accordance with ASC 805 "Business Combinations" ("ASC 805") and ASC 350 "Intangibles – Goodwill and Other" ("ASC 350"), see Goodwill and Other Intangible Assets (Note 1(k)).

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 2010, management determined that its intangible assets were not impaired. The goodwill balance was fully attributable to the preliminary allocation of the purchase price of Invision and as such not deemed to be repaired. For Fiscal 2009, the Company recorded impairment charges of $28,838 and $9,976 for goodwill and other intangible assets, respectively.

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 $7,853 and $7,779 at February 28, 2010 and February 28, 2009, 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 ASC 718, (formerly FAS 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 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-Sholes 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 $1,138 that was recorded for the year ended February 28, 2010 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 the guidance issued under Statement ASC 740, "Income Taxes" with consideration for uncertain tax positions. 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. During Fiscal 2010, the Company recorded an income tax benefit through a reduction of its valuation allowance of $10.1 million in connection with its ability to carryback certain net operating losses as a result of new legislation enacted during Fiscal 2010. Any further decline in the valuation allowance could have a favorable impact on our income tax provision and net income in the period in which such determination is made.

Since March 1, 2007, the Company accounted for uncertain tax positions in accordance with the authoritative guidance issued under ASC 740, which addresses the determination of whether tax benefits claimed or expected to be claimed on tax returns should be recorded in the financial statements. 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. The Company provides loss contingencies for federal, 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. The Company classifies interest and penalties associated with income taxes as a component of income tax expense (benefit) on the consolidated statement of operations.

Results of Operations

Included in Item 8 of this annual report on Form 10-K are the consolidated balance sheets at February 28, 2010 and February 28, 2009 and the consolidated statements of operations, consolidated statements of stockholders' equity and consolidated statements of cash flows for the years ended February 28, 2010, February 28, 2009 and February 29, 2008. In order to provide the reader meaningful comparison, the following analysis provides comparison of the audited year ended February 28, 2010 with the audited years ended February 28, 2009, and February 29, 2008. We analyze and explain the differences between periods in the specific line items of the consolidated statements of operations.

Year Ended February 28, 2010 Compared to the Years Ended February 28, 2009 and 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, 2010 ("Fiscal 2010"), February 28, 2009 ("Fiscal 2009") and February 29, 2008 ("Fiscal 2008").

Net Sales

	Fiscal 2010	Fiscal 2009	Fiscal 2008
Electronics	$375,021	$449,433	$437,018
Accessories	175,674	153,666	154,337
Total net sales	$550,695	$603,099	$591,355

Fiscal 2010

Electronics sales, which include both mobile and consumer electronics declined $74,412 in Fiscal 2010. The Company had anticipated the decline based on economic conditions and adjusted its inventory positions accordingly. In Fiscal 2009, the Company announced its decision to exit various high volume/low profit product categories including flat-panel TV's, portable navigation, GMRS and certain digital picture frames. In Fiscal 2010, only residual inventories were sold. The Company chose not to participate in a number of seasonal promotions in both the digital and portable DVD categories due to insufficient margins. We partially offset these declines through increased satellite sales as a result of a new agreement with Sirius/XM and the introduction of our Flo-TV product line.

Accessories sales increased $22,008 due to the Schwaiger acquisition and the introduction of new products and new customers. These increases were partially offset by lower digital antennae sales caused by high load-ins in Fiscal 2009.

Fiscal 2009

Electronics sales increased in Fiscal 2009 as compared to Fiscal 2008 primarily as a result of 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.

Accessories sales for Fiscal 2009 were down primarily due to the overall economic environment.

Sales incentive expenses were $27,070, $19,794 and $24,651 for Fiscal 2010, 2009 and 2008, respectively, which included reversals for unclaimed and unearned sales incentives of $2,559, $4,083 and $4,108, respectively. 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 2010		Fiscal 2009		Fiscal 2008	
Gross profit	$106,751		$100,268		$111,328	
Gross margin percentage	19.4	%	16.6	%	18.8	%

Fiscal 2010

Gross margins for Fiscal 2010 increased 280 basis points due to the introduction of new products, the Company's Schwaiger acquisition, improvement in inventory provisions related to obsolescence, and the absence of inventory write-downs associated with the exit of our portable navigation category during Fiscal 2009. As a result of our cost-containment efforts, we have lowered our inventory handling costs.

Fiscal 2009

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.

Operating Expenses and Operating Income / (Loss)

	Fiscal 2010	Fiscal 2009	Fiscal 2008
Operating Expenses:			
Selling	$30,147	$33,505	$35,703
General and administrative	63,063	70,870	61,220
Goodwill and intangible asset impairment	-	38,814	-
Engineering and technical support	9,781	10,522	9,983
Total Operating Expenses	$102,991	$153,711	$106,906
Operating income (loss)	$3,760	$(53,443)	$4,422

Fiscal 2010

Operating expenses decreased $50,720 in Fiscal 2010 as compared to Fiscal 2009. The decrease in total operating expenses for the comparable periods was primarily due to the absence of the goodwill and intangible asset charge of $38,814 in Fiscal 2009. Further decreases were realized through the overhead reduction program and cost containment efforts the Company instituted in the second half of Fiscal 2009, which included a one time charge of approximately $1 million related to these efforts. These programs addressed cost containment in all areas of the Company. Overall employee headcount was reduced by approximately 18% prior to the Schwaiger and Invision acquisitions. Additional savings were realized in the majority of the Company's expense categories including advertising, occupancy, employee benefits, professional fees and travel and entertainment. Bad debt expense decreased for the comparable periods as a result of lower provisions recorded due to reversals associated with improved customer positions. Expenses for Fiscal 2010 were impacted by approximately $5,640 by the incremental costs associated with the issuance of stock options and warrants and the acquisition of the Schwaiger and Invision operations during the second half of the year. In the fourth quarter, the Company returned the 10% temporary salary reduction to all employees below the level of vice president. Executive management elected not to participate. The Company continues to review and analyze its overhead in relationship to its revenue. If necessary, further revisions to our overhead structure will be implemented.

Fiscal 2009

Operating expenses increased $46,805 in Fiscal 2009 as compared to Fiscal 2008 primarily due to the goodwill and intangible asset impairment charge of $38,814; an increase in professional fees of $4,600 associated with legal settlements, patent and royalty suits, increased audit fees and the anticipated cost of a credit card breach; incremental salary expenses of approximately $4,100 as a result of acquisitions and severance payments and a benefit in the prior year for an employee call option; bad debt expenses as a result of general economic conditions and the bankruptcy of an automotive customer; and incremental depreciation and amortization of $1,500 due to acquisitions and new IT systems. Partially offsetting these increases were reductions in executive compensation, insurance and the absence of transitional services associated with the prior year's acquisitions which were fully integrated.

Other Income/(Expense)

	Fiscal 2010	Fiscal 2009	Fiscal 2008
Interest and bank charges	$(1,556)	$(1,817)	$(2,127)
Equity in income of equity investees	1,657	975	3,590
Other, net	7,294	(1,669)	4,709
Total other income	$7,395	$(2,511)	$6,172

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Fiscal 2010

Other income increased $9,906 primarily as a result of a $5,400 gain from the Company's Schwaiger acquisition, and the absence of charges associated with a vendor bankruptcy in the prior year, and a gain recorded on a foreign exchange contract, partially offset by an other-than-temporary impairment on an equity investment of the Company.

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

Equity in income of equity investees increased due to increased equity income of Audiovox Specialized Applications, Inc. (ASA) as a result of cost containment efforts and improved sales.

Fiscal 2009

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 $6,400 primarily as a result of a charge resulting from the bankruptcy of a vendor and the discount experienced on the sale of tax credits in our Venezuelan subsidiary.

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.

Income Tax Provision

The effective tax rate in Fiscal 2010 was an income tax benefit of (101.5)% on a pre-tax income from continuing operations of $11,155 as compared to a provision of 27.0% on a pre-tax loss of ($55,954) from continuing operations in the prior year. The decrease in the effective tax rate is due to the Company's ability to record an income tax benefit through a reduction of its valuation allowance of $10.1 million in connection with the carryback of certain net operating losses as a result of new legislation enacted in Fiscal 2010 and the recognition of $4.6 million of uncertain tax positions as the result of the expiration of various statute of limitations.

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.

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 (loss) and basic and diluted net income (loss) per common share :

	Fiscal 2010	Fiscal 2009	Fiscal 2008
Operating income (loss)	$3,760	$(53,443)	$4,422
Other income (loss), net	7,395	(2,511)	6,172
Income (loss) from continuing operations before income taxes	11,155	(55,954)	10,594
Income tax benefit (expense)	11,328	(15,075)	(3,848)
Net income (loss) from continuing operations	22,483	(71,029)	6,746
Net income from discontinued operations, net of tax	-	-	1,719
Net income (loss)	$22,483	$(71,029)	$8,465
Net income (loss) per common share:			
Basic	$0.98	$(3.11)	$0.37
Diluted	$0.98	$(3.11)	$0.37

In Fiscal 2010, net income was favorably impacted by the bargain purchase gain of $5,400 related to the Company's acquisition of Schwaiger and the net tax benefits of approximately $11,200 as a result of an income tax refund of approximately $10,000 and reversal of uncertain tax positions. During Fiscal 2009, the Company was impacted by several non-standard charges related to the economy, market conditions, customers and other events as outlined in the Annual Report for Fiscal 2009. Net income (loss) was also favorably impacted by sales incentive reversals of $2,559 ($0 after taxes), $4,083 ($0 after taxes) and $4,108 ($2,506 after taxes) in Fiscal 2010, 2009 and 2008, respectively.

During Fiscal 2008, the Company recorded pre-tax income of $3,248 ($1,719 after taxes) recorded in discontinued operations related to the settlement of a lawsuit.

Liquidity and Capital Resources

Cash Flows, Commitments and Obligations

As of February 28, 2010, we had working capital of $239,787 which includes cash and cash equivalents of $69,511 compared with working capital of $241,080 at February 28, 2009, which included cash and cash equivalents of $69,504. During the fiscal year, the Company acquired two businesses with cash payments of approximately $14,657. This was offset by a tax refund receive during the year related to the Worker Homeownership and Business Assistance Act of 2009 and the net reduction from accounts receivable and inventory movements. 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 February 28, 2010	Year Ended February 28, 2009	Year Ended February 29, 2008
Cash provided by (used in):			
Operating activities	$28,222	$30,006	$(64,691)
Investing activities	(25,009)	(3,991)	93,465
Financing activities	(1,222)	4,655	(5,241)
Effect of exchange rate changes on cash	(1,984)	(507)	335
Net increase (decrease) in cash and cash equivalents	$7	$30,163	$23,868

Operating activities provided cash of $28,222 for Fiscal 2010 from: i) net income generated from continuing operations of $22,483, net of non-cash charges for a gain on a bargain purchase of $5,447, depreciation and amortization of $7,694, and deferred income tax expense of $1,594; ii) decreased inventory due to improved inventory turns; and iii) increased accounts payable and accrued expenses due to the timing and payment of invoices and expenses.

Investing activities used cash of $25,009 during Fiscal 2010, primarily due to the purchase of Schwaiger and Invision, capital expenditures, and a bond investment partially offset by distributions from an equity investee.

Financing activities used cash of $1,222 during Fiscal 2010, primarily from the repayment of bank obligations.

As of February 28, 2010, we had a domestic credit line to fund the temporary short-term working capital needs of the Company. This line expired on March 31, 2010 and allowed aggregate borrowings of up to $10,000 at an interest rate of Prime (or similar designations) plus 1% or LIBOR plus 5%. The line was not renewed and replaced by a $15,000 three-year facility at an interest rate of LIBOR plus 3.5%. In addition, Audiovox Germany has accounts receivable factoring arrangements totaling 23,000 Euro, a 5,000 Euro Asset-Based Lending ("ABL") credit facility and a 2,000 credit line.

Certain contractual cash obligations and other commercial commitments will impact our short and long-term liquidity. At February 28, 2010, 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)	$10,407	$521	$1,109	$1,147	$7,630
Operating leases (2)	22,990	4,903	6,452	4,295	7,340
Total contractual cash obligations	$33,397	$5,424	$7,561	$5,442	$14,970

Other Commercial Commitments	Total Amounts Committed	Amount of Commitment Expiration per period Less than 1 Year	1-3 Years	4-5 Years	After 5 years
Bank obligations (3)	$1,703	$1,703	$-	$-	$-
Stand-by letters of credit (4)	1,294	1,294	-	-	-
Commercial letters of credit (4)	319	319	-	-	-
Debt (5)	12,996	6,383	6,613	-	-
Contingent earn-out payments (6)	9,760	3,296	4,171	2,201	92
Unconditional purchase obligations (7)	76,580	76,580	-	-	-
Total commercial commitments	$102,652	$89,575	$10,784	$2,201	$92

(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 $82 and $5,449, respectively at February 28, 2010.

(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, 2010 and a short-term loan related to the purchase of Invision.

(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 and Invision acquisitions. 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 2 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. The Company also has exposure related to transactions in which the currency collected from customers is different from the currency utilized to purchase the product sold in its foreign operations. In the fourth quarter of Fiscal 2010, our German subsidiary entered into certain forward contracts to hedge the currency exposure for its U.S. dollar denominated assets, liabilities and future commitments. The Company minimized the risk of nonperformance on the forward contract by transacting with a major financial institution in the European market. The gains or losses associated with these foreign exchange contracts are evaluated and recorded, as applicable, on the measurement date as the contracts are not specifically connected to any assets, liabilities or future commitments. As of February 28, 2010, the notional amount of foreign exchange contracts was $14,000. A transaction gain of $753 was recorded during the fourth quarter of Fiscal 2010.

On Friday, January 8, 2010, the Venezuelan government announced its intention to devalue its currency (Bolivar fuerte) and move to a two tier exchange structure, 2.60 for essential goods and 4.30 for non-essential goods and services. Although products sold by our Venezuelan operation are expected to be classified as non-essential, the Company has certain US dollar denominated assets and liabilities for which the 2.60 rate has been applied. During the fourth quarter of Fiscal 2010, the Company recorded approximately a $3 loss through other comprehensive income associated with the devaluation.

Effective January 1, 2010, according to the guidelines in ASC 830, Venezuela has been designated as a hyper-inflationary economy. A hyper-inflationary economy designation occurs when a country has experienced cumulative inflation of approximately 100 percent or more over a 3 year period. The hyper-inflationary designation requires the local subsidiary in Venezuela to record all transactions as if they were denominated in U.S. dollars. The Company will transition to hyper-inflationary accounting on March 1, 2010.

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, 2015 are $6,569.

Recent Accounting Pronouncements

We are required to adopt certain new accounting pronouncements. See Note 1(w) to our consolidated financial statements of this Annual Report on Form 10-K.

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, 2010, which are recorded at fair value of $5,679, include an unrealized loss of $3,541 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 $668 as of February 28, 2010. Actual results may differ. As of February 28, 2010, the Company recorded a $1,000 impairment charge on its equity holding in Bliss-tel (see Note 1(f)).

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, 2010, 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, 2010 amounts to $2,856. Actual results may differ.

Item 8-Consolidated Financial Statements and Supplementary Data

The information required by this item begins on page 33 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, 2010 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, 2010 excluding the controls associated with its most recent acquisitions at Schwaiger and Invision. Based on that evaluation, management concluded that the Company's internal control over financial reporting was effective as of February 28, 2010 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, 2010, 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, 2010, 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. Our audit of, and opinion on, the Company's internal control over financial reporting does not include internal control over financial reporting of Schwaiger GmbH ("Schwaiger") and Invision Automobile Systems, Inc. ("Invision"), wholly owned subsidiaries, whose financial statements in the aggregate reflect total assets and revenues constituting 9 and 3 percent, respectively, of the related consolidated financial statement amounts as of and for the year ended February 28, 2010. As indicated in Management's Report, Schwaiger and Invision were acquired during the year ended February 28, 2010 and therefore, management's assertion on the effectiveness of the Company's internal control over financial reporting excluded internal control over financial reporting of Schwaiger and Invision.

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, 2010, 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, 2010 and 2009, 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, 2010, and our report dated May 14, 2010 expressed an unqualified opinion thereon.

/s/ GRANT THORNTON LLP

Melville, New York
May 14, 2010

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, 2010 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, 2010, 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 subsequent to Schedule II on page S-1.

AUDIOVOX CORPORATION
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

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, 2010 and 2009, 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, 2010. 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, 2010 and 2009, and the results of their operations and their cash flows for each of the three years in the period ended February 28, 2010 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(w) to the consolidated financial statements, effective March 1, 2009, the Company changed its method of accounting for business combinations.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Audiovox Corporation and subsidiaries' internal control over financial reporting as of February 28, 2010, 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, 2010 expressed an unqualified opinion thereon.

/s/ GRANT THORNTON LLP

Melville, New York
May 14, 2010

Audiovox Corporation and Subsidiaries
Consolidated Balance Sheets
February 28, 2010 and 2009
(In thousands, except share data)

	February 28, 2010	February 28, 2009
Assets		
Current assets:		
Cash and cash equivalents	$ 69,511	$ 69,504
Accounts receivable, net	131,266	104,896
Inventory	102,717	125,301
Receivables from vendors	11,170	12,195
Prepaid expenses and other current assets	16,311	17,973
Income tax receivable	1,304	-
Deferred income taxes	47	354
Total current assets	332,326	330,223
Investment securities	15,892	7,744
Equity investments	11,272	13,118
Property, plant and equipment, net	22,145	19,903
Goodwill	7,389	-
Intangible assets	97,226	88,524
Deferred income taxes	515	221
Other assets	2,213	1,563
Total assets	$ 488,978	$ 461,296
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 36,126	$ 41,796
Accrued expenses and other current liabilities	35,790	32,575
Income taxes payable	-	2,665
Accrued sales incentives	10,606	7,917
Deferred income taxes	1,931	1,459
Bank obligations	1,703	1,467
Current portion of long-term debt	6,383	1,264
Total current liabilities	92,539	89,143
Long-term debt	6,613	5,896
Capital lease obligation	5,490	5,531
Deferred compensation	3,158	2,559
Other tax liabilities	1,219	2,572
Deferred tax liabilities	8,502	4,657
Other long term liabilities (see Note 2)	7,194	10,436
Total liabilities	124,715	120,794

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, 22,441,712 and 22,424,212 shares issued, 20,622,905 and 20,604,460 shares outstanding at February 28, 2010 and February 28 2009, respectively		225		224
Class B convertible, $.01 par value; 10,000,000 shares authorized, 2,260,954 shares issued and outstanding		22		22
Paid-in capital		275,684		274,464
Retained earnings		113,996		91,513
Accumulated other comprehensive (loss) income		(7,278)		(7,325)
Treasury stock, at cost, 1,818,807 and 1,819,752 shares of Class A common stock at February 28, 2010 and February 28, 2009, respectively		(18,386)		(18,396)
Total stockholders' equity		364,263		340,502
Total liabilities and stockholders' equity	$	488,978	$	461,296

See accompanying notes to consolidated financial statements.

Audiovox Corporation and Subsidiaries
Consolidated Statements of Operations
Years Ended February 28, 2010 February 28, 2009 and February 29, 2008
(In thousands, except share and per share data)

	Year Ended February 28, 2010	Year Ended February 28, 2009	Year Ended February 29, 2008
Net sales	$550,695	$603,099	$591,355
Cost of sales	443,944	502,831	480,027
Gross profit	106,751	100,268	111,328
Operating expenses:			
Selling	30,147	33,505	35,703
General and administrative	63,063	70,870	61,220
Goodwill and intangible asset impairment	-	38,814	-
Engineering and technical support	9,781	10,522	9,983
Total operating expenses	102,991	153,711	106,906
Operating income (loss)	3,760	(53,443)	4,422
Other income (expense):			
Interest and bank charges	(1,556)	(1,817)	(2,127)
Equity in income of equity investee	1,657	975	3,590
Gain on bargain purchase	5,418	-	-
Other, net	1,876	(1,669)	4,709
Total other income (expenses), net	7,395	(2,511)	6,172
Income (loss) from continuing operations before income taxes	11,155	(55,954)	10,594
Income tax benefit (expense)	11,328	(15,075)	(3,848)
Net income (loss) from continuing operations	22,483	(71,029)	6,746
Net income from discontinued operations, net of tax	-	-	1,719
Net income (loss)	$22,483	$(71,029)	$8,465
Net income (loss) per common share (basic):			
From continuing operations	$0.98	$(3.11)	$0.29
From discontinued operations	-	-	0.08
Net income (loss) per common share (basic)	$0.98	$(3.11)	$0.37
Net income (loss) per common share (diluted):			
From continuing operations	$0.98	$(3.11)	$0.29
From discontinued operations	-	-	0.08
Net income (loss) per common share (diluted)	$0.98	$(3.11)	$0.37
Weighted-average common shares outstanding (basic)	22,875,651	22,860,402	22,853,482
Weighted-average common shares outstanding (diluted)	22,919,665	22,860,402	22,876,112

See accompanying notes to consolidated financial statements.

Audiovox Corporation and Subsidiaries
Consolidated Statements of Stockholders' Equity and Comprehensive Income (Loss)
Years Ended February 28, 2010, February 28, 2009 and February 29, 2008
(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, 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	-	-	-	-	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 (ASC 740)	-	-	-	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
Comprehensive loss:	-	-	-	-	-	-	
Net loss				(71,029)			(71,029)

Foreign currency translation adjustment	-	-	-	-	(7,486)	-	(7,486)
Unrealized loss on marketable securities, net of tax effect	-	-	-		(4,686)	-	(4,686)
Other comprehensive loss	-	-	-	-	-	-	(12,172)
Comprehensive loss	-	-	-	-		-	(83,201)
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

Audiovox Corporation and Subsidiaries
Consolidated Statements of Stockholders' Equity and Comprehensive Income (Loss), continued
Years Ended February 28, 2010 February 28, 2009 and February 29, 2008
(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
Comprehensive income:							
Net income	-	-	-	22,483	-	-	22,483
Foreign currency translation adjustment	-	-		-	(685)		(685)
Reclassification adjustment for other-than-temporary impairment loss on available-for-sale security included in net income	-	-	-		1,000	-	1,000
Unrealized (loss) on marketable securities, net of tax effect	-	-	-	-	(268)	-	(268)
Other comprehensive income	-	-	-	-	-	-	(953)
Comprehensive income	-	-	-	-		-	21,530
Exercise of stock options into 20,000 shares of common stock		1	84	-	-	-	85
Stock-based compensation expense	-	-	1,138	-	-		1,138
Issuance of 800 shares of treasury stock	-		(2)		-	10	8
Balances at February 28, 2010	$ -	$ 247	$ 275,684	$ 113,996	$ (7,278)	$ (18,386)	$ 364,263

See accompanying notes to consolidated financial statements.

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Audiovox Corporation and Subsidiaries

Consolidated Statements of Cash Flows
Years Ended February 28, 2010 February 28, 2009 and February 29, 2008
(Dollars in thousands)

	Year Ended February 28, 2010	Year Ended February 28, 2009	Year Ended February 29, 2008
Cash flows from operating activities:			
Net income (loss)	$22,483	$(71,029)	$8,465
Net income from discontinued operations	-	-	(1,719)
Net income (loss) from continuing operations	22,483	(71,029)	6,746
Adjustments to reconcile net income (loss) to net cash provided by (used in) continuing operating activities:			
Depreciation and amortization	7,694	7,294	5,750
Bad debt expense	221	1,937	297
Goodwill and intangible asset impairment	-	38,709	-
Equity in income of equity investee	(1,657)	(975)	(3,590)
Distribution of income from equity investees	2,199	-	-
Deferred income tax expense (benefit), net	1,594	13,646	(1,198)
Loss on disposal of property, plant and equipment	32	4	19
Tax (benefit) expense on stock options exercised	-	(20)	805
Non-cash compensation adjustment	1,696	651	(790)
Non-cash stock based compensation expense	1,138	309	886
Realized gain on sale of investment	-	-	(1,533)
Gain on bargain purchase	(5,447)	-	-
Impairment loss on marketable securities	1,000	-	-
Changes in operating assets and liabilities (net of assets and liabilities acquired):			
Accounts receivable	(22,451)	768	(17,925)
Inventory	32,849	21,951	(19,210)
Receivables from vendors	1,176	16,838	(15,275)
Prepaid expenses and other	(1,890)	(9,214)	(3,560)
Investment securities-trading	(615)	1,863	3,167
Accounts payable, accrued expenses, accrued sales incentives and other current liabilities	(6,251)	11,748	(23,387)
Income taxes payable	(5,549)	(4,474)	4,107
Net cash provided by (used in) operating activities	28,222	30,006	(64,691)
Cash flows from investing activities:			
Purchases of property, plant and equipment	(5,017)	(4,606)	(7,326)
Proceeds from sale of property, plant and equipment	-	112	94
Proceeds from distribution from an equity investee	1,304	1,080	1,720
Proceeds from a liquidating distribution from an available-for-sale investment	-	-	646
Purchase of notes payable	511	-	-

Purchase of short-term investments	-	-	(33,750)
Sale of short-term investments	-	-	169,855
Sale of long-term investment	-	-	4,561
Purchase of long-term investment	(7,498)	(548)	-
Purchase of patents	348	(650)	(70)
Purchase of acquired businesses, less cash acquired	(14,657)	621	(42,265)
Net cash (used in) provided by investing activities	(25,009)	(3,991)	93,465
Cash flows from financing activities:			
Borrowings from bank obligations	114	4,654	-
Repayments on bank obligations	(1,452)	-	(1,758)
Principal payments on capital lease obligation	22	(73)	(69)
Proceeds from exercise of stock options and warrants	84	46	3,148
Repurchase of Class A common stock	-	-	(1,425)
Reissue of treasury stock	10	8	-
Principal payments on debt	-	-	(4,332)
Tax expense (benefit) on stock options exercised	-	20	(805)
Net cash (used in) provided by financing activities	(1,222)	4,655	(5,241)
Effect of exchange rate changes on cash	(1,984)	(507)	335
Net increase in cash and cash equivalents	7	30,163	23,868
Cash and cash equivalents at beginning of year	69,504	39,341	15,473
Cash and cash equivalents at end of year	$69,511	$69,504	$39,341
Supplemental Cash Flow Information:			
Cash paid during the period for:			
Interest, excluding bank charges	$1,310	$1,224	$1,795
Income taxes (net of refunds)	$(7,838)	$3,816	$(2,316)

See accompanying notes to consolidated financial statements.

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Audiovox Corporation and Subsidiaries
Notes to Consolidated Financial Statements
February 28, 2010
(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 ("Audiovox", "We", "Our", "Us" or "Company") is a leading international distributor in the accessory, mobile and consumer electronics industries. With our most recent acquisition of Invision Automotive Systems, Inc. we have added manufacturing capabilities to our business model. We conduct our business through eleven wholly-owned subsidiaries: American Radio Corp., Audiovox Electronics Corporation ("AEC"), Audiovox Accessories Corp. ("AAC"), Audiovox Consumer Electronics, Inc. ("ACE"), Audiovox German Holdings GmbH ("Audiovox Germany"), Audiovox Venezuela, C.A., Audiovox Canada Limited, Entretenimiento Digital Mexico, S. de C.V. ("Audiovox Mexico"), Code Systems, Inc, Schwaiger GmbH ("Schwaiger") and Invision Automotive Systems, Inc. ("Invision"). We market our products under the Audiovox® brand name, other brand names and licensed brands, such as Acoustic Research®, Advent®, Ambico®, Car Link®, Chapman®, Code-Alarm®, Discwasher®, Energizer®, Heco®, IncaarTM, Invision®, Jensen®, Mac AudioTM, Magnat®, Movies2Go®, Oehlbach®, Phase Linear®, Prestige®, Pursuit®, RCA®, RCA Accessories®, Recoton®, Road Gear®, Schwaiger®, 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. Unless specifically indicated otherwise, all amounts and percentages presented in the notes below are exclusive of discontinued operations.

The Company's current fiscal year began March 1, 2009 and ended on February 28, 2010. This annual report on Form 10-K compares the financial position as of February 28, 2010 to February 28, 2009 and the results of operations for the years ended February 28, 2010, February 28, 2009 and February 29, 2008.

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 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 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 investment securities, 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.

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 and cash equivalents amounted to $69,511 and $69,504 at February 28, 2010 and February 28, 2009, respectively. Cash amounts held in foreign bank accounts amounted to $7,089 and $8,922 at February 28, 2010 and February 28, 2009, 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.

Audiovox Corporation and Subsidiaries
Notes to Consolidated Financial Statements, continued
February 28, 2010
(Dollars in thousands, except share and per share data)

e) Fair Value Measurements

The Company adopted authoritative guidance on "Fair Value Measurements", as of March 1, 2008, which, among other things, requires enhanced disclosures about investments that are measured and reported at fair value. This guidance establishes a hierarchal disclosure framework that prioritizes and ranks the level of market price observability used in measuring investments at fair value. Market price observability is impacted by a number of factors, including the type of investment and the characteristics specific to the investment. Investments with readily available active quoted prices or for which fair value can be measured from actively quoted prices generally will have a higher degree of market price observability and a lesser degree of judgment used in measuring fair value.

Investments measured and reported at fair value are classified and disclosed in one of the following categories:

Level 1 - Quoted market prices in active markets for identical assets or liabilities.
Level 2- Inputs other than Level 1 inputs that are either directly or indirectly observable.
Level 3- Unobservable inputs developed using the Company's estimates and assumptions, which reflect those that market participants would use.

The following table presents assets measured at fair value on a recurring basis at February 28, 2010:

		Fair Value Measurements at Reporting Date Using		
		Level 1	Level 2	Level 3
Cash and cash equivalents:				
Cash and money market funds	$69,511	$69,511	$-	$-
Short-term investments				
Foreign currency contract (a)	$752	$752	$-	$-
Long-term investment securities:				
Marketable securities				
Trading securities	$3,158	$3,158	$-	$-
Available-for-sale securities	3,821	94	-	3,727
Held-to-maturity	7,110	7,110	-	-
Total marketable securities	14,089	10,362	-	3,727
Other investment at cost (b)	1,803	-	-	-
Total long-term investment securities	$15,892	$10,362	$-	$3,727

The following table presents assets measured at fair value on a recurring basis at February 28, 2009:

		Fair Value Measurements at Reporting Date Using		
		Level 1	Level 2	Level 3
Cash and cash equivalents:				
Cash and money market funds	$69,504	$69,504	$-	$-
Long-term investment securities:				
Marketable Securities				

Trading securities	$2,543	$2,543	$-	$-
Available-for-sale securities	3,727	312	-	3,415
Total marketable securities	6,270	2,855	-	3,415
Other long-term investments	1,474	-	-	-
Total long-term investment securities	$7,744	$2,855	$-	$3,415

(a) The foreign currency contract is recorded in prepaid expenses and other current assets on the Company's balance sheet.

(b) There were no events or changes in circumstances that occurred to indicate a significant adverse effect on the cost of this investment.

Audiovox Corporation and Subsidiaries
Notes to Consolidated Financial Statements, continued
February 28, 2010
(Dollars in thousands, except share and per share data)

The carrying amount of the Company's accounts receivable, short-term debt, accounts payable, accrued expenses, bank obligations and long-term debt approximates fair value 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.

f) Investment Securities

In accordance with the Company's investment policy, all long and short-term investment securities are invested in "investment grade" rated securities. As of February 28, 2010, the Company had the following investments:

February 28, 2010	February 28, 2009
Unrealized	Unrealized