INFOSONICS CORP
Form 10-K/A
September 15, 2006

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Amendment No. 1

FORM 10-K/A

(Mark one)

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

For the fiscal year ended December 31, 2005

or

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

For the transition period from to

Commission File No. 001-32217

InfoSonics Corporation

(Exact name of registrant as specified in its charter)

Maryland (State or other jurisdiction of incorporation)	**33-0599368** (IRS Employer Identification No.)

5880 Pacific Center Blvd
San Diego, CA 92121

(Address of principal executive offices including zip code)

858-373-1600

(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**
$0.001 par value common stock	American Stock Exchange

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. o Yes x No

Indicated by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. o Yes x No

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. x Yes o No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) 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. o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer.

Large Accelerated Filer o   Accelerated Filer o   Non-Accelerated Filer x

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold of such common equity, as of the last business day of the registrant s most recently completed second fiscal quarter was $6,015,880. This calculation is based upon the closing price of $2.99 of the stock on June 30, 2005 as reported by the American Stock Exchange. Without asserting that any director or executive officer of the registrant, or the beneficial owner of more than five percent of the registrant s common stock, is an affiliate, the shares of which they are the beneficial owners have been deemed to be owned by affiliates solely for this calculation.

Indicate the number of shares outstanding of each of the registrant s classes of common stock, as of the latest practicable date: 6,764,904 shares of our common stock were issued and outstanding as of March 17, 2006.

DOCUMENTS INCORPORATED BY REFERENCE

List hereunder the following documents if incorporated by reference and the Part of the Form 10-K (e.g., Part I, Part II, etc.) into which the document is incorporated: (1) Any annual report to security holders; (2) Any proxy or information statement; and (3) Any prospectus filed pursuant to Rule 424(b) or (c) under the Securities Act of 1933. The listed documents should be clearly described for identification purposes.

InfoSonics Corporation
Form 10-K for the Year Ended December 31, 2005

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Explanatory Note

InfoSonics Corporation (the Company), in accordance with Rule 12b-15 of the Securities Exchange Act of 1934, hereby amends its Annual Report on Form 10-K for the fiscal year ended December 31, 2005 (the 2005 Form 10-K) to revise Parts II and IV (i.e., items 8 and 15) by including a revised Report of Independent Registered Public Accounting Firm (the Report) that references the Public Company Accounting Oversight Board rather than GAAS. Other than for the revised Report, the financial statements and accompanying notes included herewith are unchanged from those previously filed with the Securities and Exchange Commission as part of our 2005 Form 10-K filed on March 31, 2006. Therefore, such financial statements do not reflect the Company s two-for-one stock split in the nature of a stock dividend that was paid on June 19, 2006.

No other changes have been made to the Company s 2005 Form 10-K other than revisions to include updated certifications filed as Exhibits 31.1, 31.2, 32.1, and 32.2 and the signature page.

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Part II

Item 8. Financial Statements and Supplementary Data.

The information required by this item is included below in Item 15 Exhibits, Financial Statements and Financial Statement Schedules.

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PART IV

Item 15. Exhibits, Financial Statement Schedules.

(a)(1) and (a)(2) Financial Statements and Financial Statement Schedules

See Item 8. Financial Statements and Supplementary Data beginning on page F-1.

(a)(3) *Exhibits*.

EXHIBIT INDEX

Number	**Description**
3.1	Articles Of Incorporation(1)
3.2	Bylaws(1)
4.1	Specimen Common Stock Certificate(1)
4.2	1998 Stock Option Plan(3)
4.3	2003 Stock Option Plan, as amended(9)
4.4	Form of Stock Option Agreement 2003 Stock Option Plan Non Employee Director (4)
4.5	Form of Stock Option Agreement 2003 Stock Option Plan Incentive Stock Option (4)
10.1	Stock Purchase Agreement dated as of January 26, 2004 among InfoSonics, InfoSonics Mexico, Inc., Joseph Ram and Abraham Rosler concerning InfoSonics de Mexico.(1)
10.2	Securities Purchase Agreement by and among InfoSonics and the investors listed thereon dated January 30, 2005 (5)
10.3	Form of Common Stock Purchase Warrant (5)
10.4	Credit Agreement dated October 6, 2005 between InfoSonics and Wells Fargo HSBC Trade Bank, National Association (6)
10.5	First Amendment to Credit Agreement dated November 22, 2005 between InfoSonics and Wells Fargo HSBC Trade Bank, National Association (7)
10.6	Agreement for Purchase and Sale of Assets dated October 20, 2004 between The Mobile Solution Corporation and Axcess Mobile, LLC (InfoSonics subsidiary) (8)
10.7	Employment Agreement dated as of January 1, 2004 between InfoSonics and Joseph Ram(1)
10.8	Employment Agreement dated as of January 1, 2004 between InfoSonics and Abraham Rosler(1)
10.9	Employment Agreement dated as of January 1, 2004 between InfoSonics and Joseph Murgo(1)
10.10	Employment Agreement dated as of January 1, 2004 between InfoSonics and Jeffrey Klausner(1)
10.11	Lease Agreement effective April 1, 2004 between InfoSonics and Robert Jean Lichter and Gail F. Lichter Family Trust (2)
21	Subsidiaries of InfoSonics (9)
23	Consent of Independent Registered Public Accounting Firm (*)
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, implementing Section 302 of Sarbanes-Oxley Act of 2002 (*)
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) of the Securities Exchange

	Act of 1934, implementing Section 302 of Sarbanes-Oxley Act of 2002 (*)
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of Sarbanes-Oxley Act of 2002 (*)
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of Sarbanes-Oxley Act of 2002 (*)
99.1	Employee Code of Business Conduct and Ethics (9)
99.2	Code of Ethics for Chief Executive Officer, Chief Financial Officer and Controller (9)

(1) Incorporated by reference from the Company s Registration Statement on Form S-1, filed on January 30, 2004.

(2) Incorporated by reference from Amendment No. 2 to the Company s Registration Statement on Form S-1/A, filed on April 16, 2004.

(3) Incorporated by reference from Amendment No. 6 to the Company s Registration Statement on Form S-1/A, filed on May 20, 2004.

(4) Incorporated by reference from the Company s Current Report on Form 8-K, filed on January 25, 2005.

(5) Incorporated by reference from the Company s Current Report on Form 8-K, filed on February 2, 2006.

(6) Incorporated by reference from the Company s Current Report on Form 8-K, filed on October 13, 2005.

(7) Incorporated by reference from the Company s Current Report on Form 8-K, filed on November 29, 2005.

(8) Incorporated by reference from the Company s Current Report on Form 8-K, filed on November 3, 2004.

(9) Incorporated by reference from the Company s Annual Report on Form 10-K, filed on March 31, 2006.

(*) Filed herewith

SIGNATURES

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

September 15, 2006

By: /s/ JOSEPH RAM
Joseph Ram,
Chief Executive Officer and President

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INFOSONICS CORPORATION AND SUBSIDIARIES

Consolidated Financial Statements

For the years ended December 31, 2005, 2004 and 2003

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders
InfoSonics Corporation and subsidiaries

We have audited the consolidated balance sheets of InfoSonics Corporation and subsidiaries as of December 31, 2005 and 2004, and the related consolidated statements of operations, stockholders equity and cash flows for each of the three years in the period ended December 31, 2005. These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements 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 provided 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 InfoSonics Corporation and subsidiaries as of December 31, 2005 and 2004, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2005, in conformity with U. S. generally accepted accounting principles.

As discussed in Note 2 to the consolidated financial statements, the December 31, 2003 consolidated financial statements have been restated to adjust deferred offering costs and to reflect the fair value of stock options issued for services.

SINGER LEWAK GREENBAUM & GOLDSTEIN LLP

Los Angeles, California
February 10, 2006

INFOSONICS CORPORATION AND SUBSIDIARIES
Consolidated Balance Sheets
December 31, 2005 and 2004

	December 31 2005	2004
ASSETS		
Current assets		
Cash and cash equivalents	$ 7,712,915	$ 5,183,876
Trade accounts receivable, net of allowance for doubtful accounts of $552,993 and $250,000	19,962,630	7,596,104
Inventory, net of reserves of $249,476 and $141,086	5,612,343	4,640,756
Prepaid inventory	1,680,086	71,850
Prepaid expenses	478,196	384,456
Net assets of discontinued operations	18,931	181,010
Deferred tax assets current	550,000	285,000
Total current assets	36,015,101	18,343,052
Property and equipment, net	426,917	237,853
Intangible assets	504,000	
Deferred tax assets noncurrent		67,000
Other assets	90,791	71,851
Total assets	**$ 37,036,809**	**$ 18,719,756**
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities		
Line of credit	$ 10,000,000	$ 2,564,115
Accounts payable	5,986,890	2,576,034
Accrued expenses	2,983,880	447,054
Net liabilities of discontinued operations		693,542
Total current liabilities	18,970,770	6,280,745
Deferred tax liability non-current	22,207	
Total liabilities	18,992,977	6,280,745
Stockholders equity		
Preferred stock, $0.001 par value 10,000,000 shares authorized 0 and 0 shares issued and outstanding		
Common stock, $0.001 par value 40,000,000 shares authorized 5,626,422 and 5,212,000 shares issued and outstanding	5,626	5,212
Additional paid-in capital	13,426,937	10,529,652
Retained earnings	4,611,269	1,904,147
Total stockholders equity	18,043,832	12,439,011
Total liabilities and stockholders equity	**$ 37,036,809**	**$ 18,719,756**

The accompanying notes are an integral part of these financial statements

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INFOSONICS CORPORATION AND SUBSIDIARIES
Consolidated Statements of Operations
December 31, 2005, 2004 and 2003

	For the Year Ended December 31, 2005	2004	2003 (as restated*)
Net sales	$ 145,790,957	$ 73,406,390	$ 60,885,347
Cost of sales	133,689,921	67,863,339	56,083,862
Gross profit	12,101,036	5,543,051	4,801,485
Operating expenses	8,367,839	4,210,198	3,563,187
Operating income from continuing operations	3,733,197	1,332,853	1,238,298
Other income (expense)			
Interest income (expense), net	(399,205)	(95,941)	(140,453)
Income from continuing operations before provision for income taxes	3,333,992	1,236,912	1,097,845
Provision for income taxes	995,593	307,976	521,013
Income from continuing operations	**2,338,399**	**928,936**	**576,832**
Income (loss) from discontinued operations, net of income tax of $0	**368,723**	**(890,840)**	**562,181**
Net income	**$ 2,707,122**	**$ 38,096**	**$ 1,139,013**
Basic earnings per share			
From continuing operations	**$ 0.44**	**$ 0.22**	**$ 0.18**
From discontinued operations	**$ 0.07**	**$ (0.21)**	**$ 0.18**
Net Income	**$ 0.51**	**$ 0.01**	**$ 0.36**
Diluted earnings per share			
From continuing operations	**$ 0.38**	**$ 0.19**	**$ 0.15**
From discontinued operations	**$ 0.06**	**$ (0.18)**	**$ 0.14**
Net Income	**$ 0.44**	**$ 0.01**	**$ 0.29**
Basic weighted-average number of shares outstanding	**5,322,093**	**4,290,546**	**3,200,000**
Diluted weighted-average number of shares outstanding	**6,141,221**	**4,987,792**	**3,908,098**

* Refer to Note 2, Restatement of Consolidated Financial Statements.

The accompanying notes are an integral part of these financial statements

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INFOSONICS CORPORATION AND SUBSIDIARIES
Consolidated Statements of Stockholder s Equity
December 31, 2005, 2004, and 2003

	Common Stock Shares	Amount	Additional Paid-In Capital	Retained Earnings	Total
Balance, December 31, 2002	3,200,000	$ 3,200	$ 337,729	$ 727,037	$ 1,067,966
Stock Options issued for services rendered			190,534		190,534
Net Income (as restated*)				1,139,014	1,139,014
Balance, December 31, 2003 (as restated*)	3,200,000	3,200	528,263	1,866,051	2,397,514
Stock issued for cash	2,012,000	2,012	12,051,988		12,054,000
Stock Issuance Costs			(2,050,599)		(2,050,599)
Net income				38,096	38,096
Balance, December 31, 2004	5,212,000	5,212	10,529,652	1,904,147	12,439,011
Income tax benefit realized from the exercise of employee stock options			753,899		753,899
Exercise of stock options	249,422	249	1,248,051		1,248,300
Exercise of warrants	45,000	45	391,455		391,500
Stock issued as contingent consideration for acquisition	120,000	120	503,880		504,000
Net income				2,707,122	2,707,122
Balance, December 31, 2005	**5,626,000**	**$ 5,626**	**$ 13,426,937**	**$ 4,611,269**	**$ 18,043,832**

* Refer to Note 2, Restatement of Consolidated Financial Statements.

The accompanying notes are an integral part of these financial statements

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INFOSONICS CORPORATION AND SUBSIDIARIES
Consolidated Statements of Cash Flows
December 31, 2005, 2004 and 2003

	For the Year Ended December 31, 2005	2004	2003 (as restated*)
Cash flows from operating activities			
Net income from continuing operations	$ 2,338,399	$ 928,936	$ 576,832
Adjustments to reconcile net income from operations to net cash provided by (used in) operating activities			
Depreciation and amortization	93,658	28,390	10,688
Loss on disposal of fixed assets	2,334	2,017	1,088
Provision for bad debt	302,993	(109,990)	325,979
Provision for obsolete inventory	108,390	62,606	48,509
Income tax benefit realized from the exercise of employee stock options	753,899		
(Increase) decrease in			
Trade accounts receivable	(12,478,395)	1,147,170	(6,425,335)
Inventory	(1,079,977)	(3,127,363)	(344,759)
Prepaid inventory	(1,608,236)		
Prepaid expenses	(93,740)	(267,793)	(73,736)
Other assets	(210,063)	(49,084)	(1,274)
Increase (decrease) in			
Accounts payable	3,410,856	364,471	629,597
Accrued expenses	2,536,826	302,789	165,428
Deferred tax asset current	(265,000)	230,650	
Deferred tax asset non current	89,207	(67,000)	
Income tax liabilities		(821,982)	632,362
Cash used in continuing operations	(6,098,849)	(1,376,183)	(4,454,621)
Cash provided by (used in) discontinued operations	(162,740)	191,994	(653,356)
Net cash provided by (used in) operating activities	(6,261,589)	(1,184,189)	(5,107,977)
Cash flows from investing activities			
Purchase of property and equipment	$ (291,306)	$ (230,920)	$ (13,469)
Sale of property and equipment	6,250		
Net cash provided by (used in) investing activities	(285,056)	(230,920)	(13,469)
Cash flows from financing activities			
Bank overdraft		(867,555)	867,555
Borrowings from line of credit	93,922,834	48,404,847	27,187,014
Payments on line of credit	(86,486,949)	(51,077,191)	(23,950,582)
Payments on subordinated notes payable related parties		(30,000)	(57,509)
Offering costs		(1,887,686)	(162,913)
Cash received from stock, options and warrants	1,639,799	12,054,000	
Net cash provided by (used in) financing activities	9,075,684	6,596,415	3,883,565
Net increase (decrease) in cash and cash equivalents	2,529,039	5,181,306	(1,237,881)
Cash and cash equivalents, beginning of period	5,183,876	2,570	1,240,451
Cash and cash equivalents, end of period	**$ 7,712,915**	**$ 5,183,876**	**$ 2,570**
Cash paid for interest	353,233	136,144	142,218
Cash paid for income taxes	545,915	1,285,798	152,753

Supplemental disclosure of non-cash investing activities:

During the year ended December 31, 2005, the Company issued 120,000 shares of common stock valued at $504,000 as contingent consideration for the acquisition of Primasel S.A., see Note 1 for additional information.

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* Refer to Note 2, Restatement of Consolidated Financial Statements.

The accompanying notes are an integral part of these financial statements

NOTE 1 ORGANIZATION AND LINE OF BUSINESS

InfoSonics Corporation (InfoSonics) was incorporated in February 1994 in the state of California. InfoSonics and its subsidiaries, Axcess Mobile, LLC (Axcess Mobile), InfoSonics El Salvador, InfoSonics Guatemala, InfoSonics S.A. and InfoSonics de Mexico (collectively, the Company) sell wireless telecommunication products and accessories to dealer agents and network operators. The Company s principal markets are the United States and Latin America. In September 2003, the Company reincorporated in the state of Maryland under the name InfoSonics Corporation.

Purchase of InfoSonics de Mexico

On January 1, 2004, the Company purchased InfoSonics de Mexico, which distributes the Company s products in Mexico (as discussed in Note 12), from two of the Company s executives, for $3,600. The Company has accounted for the transaction as a merger between entities under common control in which the Company recognized the assets and liabilities transferred at their carrying amounts at the date of transfer. The assets of InfoSonics de Mexico were 0.36% of InfoSonics consolidated assets as of January 1, 2004.

Purchase of Primasel S.A.

On January 19, 2005, the Company purchased Primasel S.A (Primasel), from Fanrock Investments Limited for up to 120,000 shares of InfoSonics common stock, based on sales of certain levels being achieved in the next three years. In addition InfoSonics will pay profit sharing tied to sales and profitability for sales in Argentina. During the year ended December 31, 2005, 120,000 shares of common stock were issued related to this transaction and there was profit sharing expense and accrual of $1.4 million related to sales and profitability. The Company has accounted for the transaction as a stock purchase. The purchase price has been recorded as an intangible asset on the accompanying balance sheet. Primasel had a distribution agreement and a management agreement which was the purpose for the transaction, and the implied value of those agreements is the value of the 120,000 shares issued in October 2005. The Company allocated 75% of the non-cash cost of this issuance towards the management agreement and 25% towards the distribution agreement. In February 2005, Primasel S.A. changed its name to InfoSonics S.A, see Note 6 for additional information. A pro forma statement has not been presented as Primasel had no operations prior to the purchase.

Stock Split

In May 2003, the Company affected an eight-to-one stock split of its common stock. On September 11, 2003, the Company effected a one-for-two reverse split of its common stock. All share and per share data have been retroactively restated to reflect both stock splits.

NOTE 2 RESTATEMENT OF CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2003

The Company has restated its 2003 consolidated financial statements for the following:

Deferred offering costs The Company had previously included in deferring offering costs the audit fees relating to the audits of its financial statements for the years ended December 31, 1999 to December 31, 2003. Such costs were incurred during fiscal year 2003, in connection with the Company s anticipated initial public offering. Subsequent to year-end, management determined that such capitalization was improper and did not meet the guidelines established under the SEC s Staff Accounting Bulletin #5.

As a result, the Company determined that their 2003 consolidated financial statements required restatement. The restatement adjustment is reflected as a reduction of the Company s deferred offering costs. The after-tax effect of the related restatement adjustment decreased the Company s net income for the year ended December 31, 2003, by $44,143.

Stock option expense On December 31, 2003, the Company issued options to purchase 120,000 shares of the Company s common stock to one its stockholders for services rendered. The Company had previously determined that the fair value of such options was based on the current intrinsic value of the options as the exercise price of such options was based on a future event. As a result a charge was not recorded in connection with the issuance of such options as the exercise price of the stock options granted was not less than the fair market value of the Company s common stock price as of the date of grant. Subsequent to year-end, management determined that the accounting treatment of such options was incorrect and did not meet the guidelines established under Statement on Financial Accounting Standard (SFAS) No. 123 and Emerging Issues Task Force (EITF) Issue No. 96-18.

In accordance with SFAS No. 123 and EITF Issue No. 96-18, all transactions in which goods and services are the consideration received for the issuance of equity instruments are accounted for based on the fair value of the consideration received or the fair value of the equity instrument issued, whichever is more reliably measurable. In connection with the issuance, the Company determined that the fair value of the stock options granted was a more reliable measure of value than the value of consideration received. The Company used the Black-Scholes option-pricing model to determine the fair value of the stock option grant.

As a result, the Company determined that their 2003 consolidated financial statements required restatement. The restatement adjustment is reflected as an increase in the Company s operating expenses. The after-tax effect of the related restatement adjustment decreased the Company s net income for the year ended December 31, 2003, by $114,636.

A summary of the fiscal 2003 financial statement amounts impacted by the restatement adjustments is as follows, note that these amounts include the changes due to discontinued operations (see note 3):

	As Previously Reported	**Restatement Adjustments A**	**B**	**As Restated**
Year ended December 31, 2003				
Operating expenses	$ 3,296,153	$ 76,500	$ 190,534	$ 3,563,187
Income from operations	1,364,879	(76,500)	(190,534)	1,097,845
Provision for income taxes	629,268	(32,357)	(75,898)	521,013
Net income	1,297,792	(44,143)	(114,636)	1,139,013
Basic earnings per share	0.41	(0.10)	(0.40)	0.36
Diluted earnings per share	0.33	(0.10)	(0.30)	0.29
At December 31, 2003				
Deferred tax assets	439,752		75,898	515,650
Deferred offering costs	239,413	(76,500)		162,913
Total assets	12,698,817	(76,500)	75,898	12,698,215
Income taxes payable	854,339	(32,357)		821,982
Total liabilities	$ 10,333,058	$ (32,357)	$	$ 10,300,701

Restatement Adjustments:

A To expense fees relating to the audit of the Company s financial statements in conjunction with its initial public offering.

B To record the fair value of stock options granted to an outside consultant for services rendered.

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NOTE 3 DISCONTINUED OPERATIONS

During the quarter ended September 30, 2004, the Company and its Board of Directors discussed Axcess Mobile, LLC and its mall-based kiosk locations and the Company began to implement actions necessary to close those mall-based kiosk locations. On October 28, 2004, the Company assigned the leases for six of the mall-based kiosk locations to a third party; however, the assignment did not release the Company from the future lease obligations, the maximum potential liability of these future obligations is $1,095,405, exclusive of the $95,044 currently held by third party escrow. This liability is included in our lease commitment schedule. The third party assignee operates approximately 400 mall-based kiosks in 28 states. A third party is holding in escrow two months rent for the locations from the assignee, and in the event of default by the assignee those funds will be released to the Company. SFAS No. 142, Goodwill and Other Intangible Assets. SFAS No. 142 prohibits the amortization of goodwill, but requires that it be reviewed for impairment at least annually or on an interim basis if an event occurs or circumstances change that could indicate that its value has diminished or been impaired. As a result of the discontinued operation the Company has reassessed the goodwill and written down the value to zero, this write down was recorded as an operating expense in the year end December 31, 2004. The other lease locations were closed in October 2004. The results of the discontinued operations are as follows:

	Year Ended December 31, 2005	2004	2003
Net Sales		$ 2,706,134	$ 4,946,605
Gross Profit		$ 1,368,834	$ 2,991,088
Operating income (loss)	$ 368,723	$ (867,442)	$ 671,441
Capital Expenditures		$ 45,847	$ 27,975
Depreciation and Amortization		$ 15,454	$ 39,808

During 2005, we had income from our discontinued operations. This income is the result of our resolution of outstanding accounts with a former supplier for the discontinued operations. This former supplier is not involved with our continuing operations. As of December 31, 2005, Net assets of discontinued operations consist of cash of $13,000 and other assets of $6,000, The Company is currently in the process of resolving these balances. As of December 31, 2005, the plans for the discontinued operations were complete; however the Company expects to continue to record adjustments and expenses through discontinued operations as necessary.

NOTE 4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The consolidated financial statements include the accounts of InfoSonics and its wholly owned subsidiaries, Axcess Mobile InfoSonics El Salvador, InfoSonics Guatemala, InfoSonics S.A. and InfoSonics de Mexico. All significant inter-company accounts and transactions are eliminated in consolidation.

Revenue Recognition and Allowance for Returns

Revenues for cellular phone sales are recognized upon (i) shipment of the products to customers, (ii) when collection of the outstanding receivables are probable and (iii) the final price of the product is determined. As part of the sales process, the Company may perform certain valued added services such as programming, software loading and quality assurance testing. These value added services are considered an ancillary component of the sales process and amounts attributable to these processes are included to in the unit cost to the customer. The Company recognizes as a reserve against the related receivables estimates for product returns based on historical experience and other judgmental factors, evaluates these estimates on an on-going basis and adjusts its estimates each period based on actual product return activity. The Company recognizes freight costs billed to its customers in revenue and actual freight costs incurred as a component of cost of revenue.

Comprehensive Income

The Company utilizes SFAS No. 130, Reporting Comprehensive Income. This statement establishes standards for reporting comprehensive income and its components in a financial statement. Comprehensive income as defined includes all changes in equity (net assets) during a period from non-owner sources. Examples of items to be included in comprehensive income, which are excluded from net income, include foreign currency translation adjustments, minimum pension liability adjustments, and unrealized gains and losses on available-for-sale securities. Comprehensive income is not presented in the Company s financial statements since the Company did not have any changes in equity from non-owner sources.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand and in banks and credit card receivables. The Company maintains its cash deposits at numerous banks located throughout the United States, which at times, may exceed federally insured limits. The Company has not experienced any losses in such accounts and believes it is not exposed to any significant risk on cash and cash equivalents.

Trade Accounts Receivable

The Company provides for the possible inability to collect accounts receivable by recording an allowance for doubtful accounts. The Company writes off an account when it is considered to be uncollectible. As of December 31, 2005 and 2004, the allowance for doubtful accounts was $552,993 and $250,000, respectively.

Inventory

Inventory is stated at the lower of cost (first-in, first-out) or market and consists primarily of cellular phones and cellular phone accessories. The Company provides for the possible inability to sell its inventory by recording a reserve. As of December 31, 2005 and 2004, the inventory obsolescence reserve was $249,476 and $141,086, respectively. From time to time the Company has prepaid inventory as a result of payments for products which have not been received by the balance sheet date. As of December 31, 2005 and 2004, the prepaid inventory balances were $1.7 million and $72,000, respectively.

Property and Equipment

Property and equipment are stated at cost. The Company provides for depreciation using the straight-line method over estimated useful lives of three to seven years. Expenditures for maintenance and repairs are charged to operations as incurred while renewals and betterments are capitalized. Gains or losses on the sale of property and equipment are reflected in the statements of operations.

Fair Value of Financial Instruments

The Company s financial instruments include cash and cash equivalents, accounts receivable, prepaid expenses, accounts payable, and accrued expenses. The book value of all other financial instruments is representative of their fair values.

Accounting for the Impairment of Long-Lived Assets

The Company adopted SFAS No. 144, Accounting for the Impairment or disposal of Long-Lived Assets SFAS No. 144 requires impairment losses to be recorded on long-lived assets used in operation when indicators of impairment are present and the undiscounted cash flows estimated to be generated by those assets are less than the assets carrying amount. Management determined that there was no impairment of long-lived assets during the years ended December 31, 2005, 2004 and 2003, other than the impairment of the Company s investment in Axcess Mobile, LLC, which was discontinued during the year ended December 31, 2004.

Stock-Based Compensation

Stock-based awards to non-employees are accounted for using the fair value method in accordance with SFAS No. 123, Accounting for Stock-Based Compensation , and EITF Issue No. 96-18, Accounting for Equity Instruments that are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling Goods or Services . All transactions in which goods or services are the consideration received for the issuance of equity instruments are accounted for based on the fair value of the consideration received or the fair value of the equity instrument issued, whichever is more reliably measurable. The measurement date used to determine the fair value of the equity instrument issued is the earlier of the date on which the third-party performance is complete or the date on which it is probable that performance will occur.

In December 2002, the Financial Accounting Standards Board (FASB) issued SFAS No. 148, Accounting for Stock-Based Compensation Transition and Disclosure , effective for fiscal years ending after December 15, 2002. SFAS No. 148 amends SFAS No. 123 to provide alternative methods of transition to the fair value method of accounting for stock-based employee compensation. SFAS No. 148 also amends the disclosure provisions of SFAS No. 123 to require disclosure in the summary of significant accounting policies of the effects of an entity s accounting policy with respect to stock-based employee compensation on reported net income and earnings per share in annual and interim financial statements. SFAS No. 148 does not amend SFAS No. 123 to require companies to account for their employee stock-based awards using the fair value method. The disclosure provisions are required, however, for all companies with stock-based employee compensation, regardless of whether they utilize the fair value method of accounting described in SFAS No. 123 or the intrinsic value method described In Accounting Principles Board (APB) Opinion No. 25, Accounting for Stock Issued to Employees .

The Company has adopted the disclosure requirements of SFAS No. 148 effective January 1, 2003. The adoption of this standard did not have a significant impact on the Company s financial condition or operating results.

The Company accounts for stock-based awards to employees and board of directors for services provided as members of the board using the intrinsic value method in accordance with APB Opinion No. 25 and FIN No. 44. As permitted by SFAS No. 123, as amended by SFAS No. 148, the Company has chosen to continue to account for its employee stock-based compensation plans under APB Opinion No. 25 and provide the expanded disclosures specified in SFAS No. 123, as amended by SFAS No. 148.

Had compensation cost for the Company s stock option plan been determined based on the fair value at the grant date for awards consistent with the provisions of SFAS No. 123, the Company s net income and earnings per share for the years ended December 31, 2005, 2004 and 2003 would have been decreased to the pro forma amounts indicated below:

	2005	2004	2003 (as restated*)
Net income as reported	$ 2,707,122	$ 38,096	$ 1,139,014
Stock based employee compensation cost, Net or related tax effects, that would have been included in the determination of net income if the fair value method had been applied	(2,958,655)	(154,511)	(49,605)
Pro forma	$ (251,533)	$ (116,425)	$ 1,089,409
Basic earnings per common share as reported	$ 0.51	$ 0.01	$ 0.36
Stock based employee compensation cost, Net or related tax effects, that would have been included in the determination of net income if the fair value method had been applied	(0.56)	(0.04)	(0.02)
Pro forma	$ (0.05)	$ (0.03)	$ 0.34
Diluted earnings per common share as reported	0.44	0.01	0.29
Stock based employee compensation cost, Net or related tax effects, that would have been included in the determination of net income if the fair value method had been applied	(0.48)	(0.03)	(0.01)
Pro forma	$ (0.04)	$ (0.02)	$ 0.28

* Refer to Note 2, Restatement of Consolidated Financial Statements.

For purposes of computing the pro forma disclosures required by SFAS No. 123, the fair value of each option granted to employees and directors is estimated using the Black-Scholes option-pricing model with the following weighted-average assumptions for the years ended December 31, 2005, 2004 and 2003: dividend yields of 0%, 0%, and 0%, respectively; expected volatility of 91%, 62% and 61%, respectively; risk-free interest rates of 3.73% 2.75% and 1.85% respectively; and expected lives of 3.0, 2.96 and 2.83, respectively.

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options, which do not have vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions, including the expected stock price volatility. Because the Company s employee stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management s opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its employee stock options.

Advertising Expense

The Company expenses all advertising costs, including direct response advertising, as they are incurred. Advertising expense for the years ended December 31, 2005, 2004 and 2003 was $7,990, $8,360 and $19,490, respectively.

Income Taxes

The Company utilizes SFAS No. 109, Accounting for Income Taxes, which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements or tax returns. Under this method, deferred income taxes are recognized for the tax consequences in future years of differences between the tax bases of assets and liabilities and their financial reporting amounts at each year-end based on enacted tax laws and statutory tax rates applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are established, when necessary, to reduce deferred tax assets to the amount expected to be realized. The provision for income taxes represents the tax payable for the period and the change during the period in deferred tax assets and liabilities.

Earnings (Loss) Per Share

The Company utilizes SFAS No. 128, Earnings per Share. Basic earnings (loss) per share is computed by dividing income (loss) available to common stockholders by the weighted-average number of common shares outstanding. Diluted earnings (loss) per share is computed similar to basic earnings (loss) per share except that the denominator is increased to include the number of additional common shares that would have been outstanding if the potential common shares had been issued and if the additional common shares were dilutive. Common equivalent shares are excluded from the computation if their effect is anti-dilutive. The Company s common share equivalents consist of stock options.

Segment and Geographic Reporting

The Company accounts for segments and geographic revenues in accordance with SFAS No. 131, Disclosures about Segments of an Enterprise and Related Information. The Company s reportable segments are strategic business units that offer different products and services. In addition, the Company allocates revenues to geographic areas based on the location to which the product was shipped.

Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Major Suppliers

The Company contracts with various suppliers. Although there are a limited number of suppliers that could supply the Company s inventory, management believes any shortfalls from existing suppliers would be absorbed from other suppliers on comparable terms. However, a change in suppliers could cause a delay in sales and adversely effect results.

During the year ended December 31, 2005, the Company purchased materials from three suppliers, which accounted for 49%, 23% and 11% of total cost of sales. During the year ended December 31, 2004 the Company purchased materials from three suppliers which accounted for 44%, 14% and 19% of total cost of sales. During the year ended December 31, 2003, the Company purchased materials from three suppliers, which accounted for 22%, 17%, and 13% of total cost of sales.

Concentrations of Revenues and Credit Risk

The Company provides credit to its customers primarily in the United States and Latin America in the normal course of business. During the year ended December 31, 2005, four customers accounted for 17%, 15%, 13% and 13% of total product sales. These four customers represented 10%, 13%, 31% and 0% of accounts receivable at December 31, 2005. During the year ended December 31, 2004, one customer accounted for 10% of total product sales, and that customer represented 1% of accounts receivable at December 31, 2004. During the year ended December 31, 2003, one customer accounted for 17% of total product sales, and that customer represented 20% of accounts receivable at December 31, 2003. The Company does not obtain collateral with which to secure its accounts receivable. The Company performs ongoing credit evaluations of its customers and maintains reserves for potential credit losses based upon the Company s historical experience related to credit losses and any unusual circumstances that may affect the ability of its customers to meet their obligations. The Company also maintains two insurance policies, which cover its customer accounts, and helps to minimize the potential risk of loss. During 2005, the Company renewed its insurance policies, which cover losses up to $28,000,000 and have an aggregate deductible of $50,000, with a 10% co-insurance domestic and 5% co-insurance foreign.

Recently Issued Accounting Pronouncements

In November 2004, the FASB issued SFAS No. 151, Inventory Costs . SFAS No. 151 amends the accounting for abnormal amounts of idle facility expense, freight, handling costs, and wasted material (spoilage) under the guidance in ARB No. 43, Chapter 4, Inventory Pricing . Paragraph 5 of ARB No. 43, Chapter 4, previously stated that . . . under some circumstances, items such as idle facility expense, excessive spoilage, double freight, and re-handling costs may be so abnormal as to require treatment as current period charges. . . . This Statement requires that those items be recognized as current-period charges regardless of whether they meet the criterion of so abnormal. In addition, this Statement requires that allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. This statement is effective for inventory costs incurred during fiscal years beginning after June 15, 2005. Management does not expect adoption of SFAS No. 151 to have a material impact on the Company s financial statements.

In December 2004, the FASB issued SFAS No. 152, Accounting for Real Estate Time-Sharing Transactions . The FASB issued this Statement as a result of the guidance provided in AICPA Statement of Position (SOP) 04-2, Accounting for Real Estate Time-Sharing Transactions . SOP 04-2 applies to all real estate time-sharing transactions. Among other items, the SOP provides guidance on the recording of credit losses and the treatment of selling costs, but does not change the revenue recognition guidance in SFAS No. 66, Accounting for Sales of Real Estate , for real estate time-sharing transactions. SFAS No. 152 amends Statement No. 66 to reference the guidance provided in SOP 04-2. SFAS No. 152 also amends SFAS No. 67, Accounting for Costs and Initial Rental Operations of Real Estate Projects , to state that SOP 04-2 provides the relevant guidance on accounting for incidental operations and costs related to the sale of real estate time-sharing transactions. SFAS No. 152 is effective for years beginning after June 15, 2005, with restatements of previously issued financial statements prohibited. This statement is not applicable to the Company.

In December 2004, the FASB issued SFAS No. 153, Exchanges of Nonmonetary Assets, an amendment to Opinion No. 29, Accounting for Nonmonetary Transactions . Statement No. 153 eliminates certain differences in the guidance in Opinion No. 29 as compared to the guidance contained in standards issued by the International Accounting Standards Board. The amendment to Opinion No. 29 eliminates the fair value exception for nonmonetary exchanges of similar productive assets and replaces it with a general exception for exchanges of nonmonetary assets that do not have commercial substance. Such an exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. SFAS No. 153 is effective for nonmonetary asset exchanges occurring in periods beginning after June 15, 2005. Earlier application is permitted for nonmonetary asset exchanges occurring in periods beginning after December 16, 2004. Management does not expect adoption of SFAS No. 153 to have a material impact on the Company s financial statements.

In December 2004, the FASB issued SFAS No. 123(R), Share-Based Payment . SFAS 123(R) amends SFAS No. 123, Accounting for Stock-Based Compensation , and APB Opinion 25, Accounting for Stock Issued to Employees. SFAS No. 123(R) requires that the cost of share-based payment transactions (including those with employees and non-employees) be recognized in the financial statements. SFAS No. 123(R) applies to all share-based payment transactions in which an entity acquires goods or services by issuing (or offering to issue) its shares, share options, or other equity instruments (except for those held by an ESOP) or by incurring liabilities (1) in amounts based (even in part) on the price of the entity s shares or other equity instruments, or (2) that require (or may require) settlement by the issuance of an entity s shares or other equity instruments. This statement is effective (1) for public companies qualifying as SEC small business issuers, as of the first interim period or fiscal year beginning after December 15, 2005, or (2) for all other public companies, as of the first interim period or fiscal year beginning after June 15, 2005, or (3) for all nonpublic entities, as of the first fiscal year beginning after December 15, 2005. Management is currently assessing the effect of SFAS No. 123(R) on the Company s financial statement.

In May 2005, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 154, Accounting Changes and Error Corrections. SFAS No. 154 replaces Accounting Principles Board (APB) Opinion No. 20, Accounting Changes and SFAS No. 3, Reporting Accounting Changes in Interim Financial Statements , and changes the requirements for the accounting for and reporting of a change in accounting principle. This Statement applies to all voluntary changes in accounting principle. It also applies to changes required by an accounting pronouncement in the unusual instance that the pronouncement does not include specific transition provisions. When a pronouncement includes specific transition provision, those provisions should be followed.

Opinion 20 previously required that most voluntary changes in accounting principle be recognized by including in net income of the period of the change the cumulative effect of changing to the new accounting principle. This Statement requires retrospective application to prior periods financial statements of changes in accounting principle, unless it is impracticable to determine either the period-specific effects or the cumulative effect of the change. When it is impracticable to determine the period-specific effects of an accounting change on one or more individual prior periods presented, this Statement requires that the new accounting principle be applied to the balances of assets and liabilities as of the beginning of the earliest period for which retrospective application is practicable and that a corresponding adjustment be made to the opening balance of retained earnings (or other appropriate components of equity or net assets in the statement of financial position) for that period rather than being reported in an income statement. When it is impracticable to determine the cumulative effect of applying a change in accounting principle to all prior periods, this Statement requires that the new accounting principle be applied as if it were adopted prospectively from the earliest date practicable.

The correction of an error in previously issued financial statements is not an accounting change. However, the reporting of an error correction involves adjustments to previously issued financial statements similar to those generally applicable to reporting an accounting change retrospectively. Therefore, the reporting of a correction of an error by restating previously issued financial statements is also addressed by this Statement.

In February 2006 the Financial Accounting Standards Board issued Statement of Financial Accounting Standards (SFAS) 155 Accounting for Certain Hybrid Financial Instruments . SFAS 155 amends SFAS 133 to narrow the scope exception for interest-only and principal-only strips on debt instruments to include only such strips representing rights to receive a specified portion of the contractual interest or principal cash flows. SFAS 155 also amends SFAS 140 to allow qualifying special-purpose entities to hold a passive derivative financial instrument pertaining to beneficial interests that itself is a derivative financial instrument. Generally, FASB Statement of Financial Accounting Standards SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities , requires that a derivative embedded in a host contract that does not meet the definition of a derivative be accounted for separately (referred to as bifurcation) under certain conditions. That general rule notwithstanding, SFAS No. 133 (prior to amendments made to it by SFAS No. 155) provides a broad exception for interest-only and principal-only strips initially resulting from the separation of rights to receive contractual cash flows of a financial instrument that itself does not contain an embedded derivative that would have been accounted for separately. SFAS 155 amends SFAS 133 to restrict the scope exception to strips that represent rights to receive only a portion of the contractual interest cash flows or of the contractual principal cash flows of a specific debt instrument. Prior to amendments made by SFAS 155 , SFAS 140 , Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities , permitted a qualifying special-purpose entity (SPE) to hold only passive derivative financial instruments pertaining to beneficial interests (other than another derivative financial instrument) issued or sold to parties other than the transferor. SFAS 155 amends SFAS 140 to allow a qualifying SPE to hold a derivative instrument pertaining to beneficial interests that itself is a derivative financial instrument.

In March 2006, the FASB issued SFAS No. 156, Accounting for Servicing of Financial Assets (SFAS NO. 156), which provides an approach to simplify efforts to obtain hedge-like (offset) accounting. This Statement amends FASB Statement No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities , with respect to the accounting for separately recognized servicing assets and servicing liabilities. The Statement (1) requires an entity to recognize a servicing asset or servicing liability each time it undertakes an obligation to service a financial asset by entering into a servicing contract in certain situations; (2) requires that a separately recognized servicing asset or servicing liability be initially measured at fair value, if practicable; (3) permits an entity to choose either the amortization method or the fair value method for subsequent measurement for each class of separately recognized servicing assets or servicing liabilities; (4) permits at initial adoption a one-time reclassification of available-for-sale securities to trading securities by an entity with recognized servicing rights, provided the securities reclassified offset the entity s exposure to changes in the fair value of the servicing assets or liabilities; and (5) requires separate presentation of servicing assets and servicing liabilities subsequently measured at fair value in the balance sheet and additional disclosures for all separately recognized servicing assets and servicing liabilities. SFAS No. 156 is effective for all separately recognized servicing assets and liabilities as of the beginning of an entity s fiscal year that begins after September 15, 2006, with earlier adoption permitted in certain circumstances. The Statement also describes the manner in which it should be initially applied. The Company does not believe that SFAS No. 156 will have a material impact on its financial position, results of operations or cash flows.

NOTE 5 PROPERTY AND EQUIPMENT

Property and equipment for continuing operations at December 31, 2005 and 2004 consisted of the following:

	December 31	
	2005	**2004**
Machinery and Equipment	$ 487,998	$ 221,739
Furniture and Fixtures	117,082	100,619
	605,080	322,358
Less Accumulated Depreciation	178,163	84,505
Total	$ 426,917	$ 237,853

Depreciation expense was $93,657, $28,389 and $10,688 for the years ended December 31, 2005, 2004 and 2003 respectively.

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NOTE 6 Intangible assets

The Company utilizes SFAS 142, *Goodwill and Other Intangible Assets.* Pursuant to the provisions of SFAS 142 the Company performs an impairment test on its goodwill at least annually. In the third quarter of 2004, the Company recorded an impairment charge as a result of its decision to discontinue its retail kiosk operations. See Note 3 for additional information. In addition, as a result of the purchase of Primasel S.A., see Note 1 for additional information, The Company recorded an intangible asset of $504,000. This asset consists of a management agreement and a distribution agreement with values of $378,000 and $126,000, respectively, at December 31, 2005. The Company has determined that the management agreement has an indefinite life. In the fourth quarter of 2005, the Company performed the required annual impairment test on its remaining goodwill and incurred no additional impairment charges.

NOTE 7 LINE OF CREDIT

The Company has available a line of credit from a bank, which allows the Company and it s subsidiaries to borrow up to a maximum of $25 million. The line of credit provides for advances not to exceed 80% of eligible domestic accounts receivable and 85% of foreign insured accounts, depending on the country of the debtor. At December 31, 2005 the majority of the debtors were foreign. The line of credit also provides for advances of up to 40% of the Company s inventory. As of December 31, 2005, the Company s available borrowing capacity was $14,105,255, which represents the maximum line of credit less restricted receivables.

Interest is payable on a monthly basis at prime (7.25% at December 31, 2005) or at the London Inter-Bank Offering Rate (4.38% at December 31, 2005), plus 1.50%. The line of credit is collateralized by substantially all of the assets of the Company and expires in October 2006. In addition, to reporting and other non financial covenants the line of credit contains certain financial covenants which require the Company to maintain a tangible net worth of not less than $12,000,000, a quick ratio of not less than 1-to-1, a debt-to-net worth ratio of not greater than 2-to-1 and maintain a quarterly net income after taxes of at least $1. Management believes the Company was in compliance with these covenants at December 31, 2005. At December 31, 2005 and 2004, the amounts drawn against the line of credit were $10,000,000 and $2,564,115, respectively.

NOTE 8 COMMITMENTS AND CONTINGENCIES

Leases

The Company leases its corporate and administrative offices, warehouse and distribution centers, retail wireless locations consisting of five leased kiosks, and certain equipment under operating lease agreements, which expire through December 2009. Certain of the agreements contain renewal options. Future minimum payments under these operating lease agreements at December 31, 2005 were as follows, including sublease income from buildings and retail kiosks from our discontinued operations:

Year Ending December 31,	Gross payments	Sublease income	Net payments
2006	$ 1,123,094	$ 923,477	$ 199,617
2007	1,158,403	697,621	460,782
2008	944,456	180,595	763,862
2009	112,650	36,990	75,660
2010			
Total	$ 3,338,604	$ 1,838,682	$ 1,499,921

Rent expense was $300,430 (net of sublease income) $289,163 and $186,294 for the years ended December 31, 2005, 2004 and, 2003 respectively.

In January 2004, the Company entered into a building lease agreement for its corporate and administrative office facilities. The lease agreement is for a period of 84 months and requires month rental payments of $33,521. We have the option to terminate the lease at month 60, providing prior written notice to our landlord. In addition, commencing on each anniversary date of the lease, the monthly rent will increase by 3%.

Litigation

The Company may become involved in certain legal proceedings and claims which arise in the normal course of business. As of December 31, 2005, the Company did not have any significant litigation outstanding, and management does not expect any matters to have a material impact on the Company s liquidity or the financial statements taken as a whole.

Consulting Agreement

During the year ended December 31, 2003, the Company entered into a consulting agreement with an advisor related to certain financial and advisory services. This agreement as amended on March 25, 2004, provides for such services to be rendered for a twelve month period following the initial public offering date. In connection with such financial and advisory services the Company was obligated to compensate the consultant in the amount of $7,500 per month for a period of twelve months. In addition, the Company issued options to purchase 125,000 shares of the Company s common stock at an exercise price of 120% of the initial public offering price. The options are exercisable for a period of three years following the effective date of the initial public offering. This consultant was hired as an employee in July 2004, which resulted in termination of this consulting agreement.

Vendors

The Company has entered into written agreements with some of its supplier-manufacturers. None of these agreements require minimum amounts of product to be purchased. Some of the agreements contain automatic renewal clauses and the Company believes that it will be able to renew these contracts with similar terms upon their individual expiration.

Employee Agreements

The Company entered into an employment agreement with its Chief Executive Officer that expires on December 31, 2007. The employment agreement provides for an annual salary of $275,000. The agreement also provides that the Company may terminate the agreement upon 30 days written notice if termination is without cause. The Company s only obligation would be to pay its Chief Executive Officer the greater of a) 18 months salary or b) one-half of the salary payable over the remaining term of the agreement which ever is greater.

The Company entered into an employment agreement with its Chief Financial Officer that expires on December 31, 2007. The employment agreement provides for an annual salary of $150,000. The agreement also provides that the Company may terminate the agreement upon 30 days written notice if termination is without cause. The Company s only obligation would be to pay its Chief Financial Officer the greater of a) 18 months salary or b) one-half of the salary payable over the remaining term of the agreement which ever is greater.

The Company entered into an employment agreement with its Executive Vice President that expires on December 31, 2007. The employment agreement provides for an annual salary of $120,000. The agreement also provides that the Company may terminate the agreement upon 30 days written notice if termination is without cause. The Company s only obligation would be to pay its Executive Vice President the greater of a) 18 months salary or b) one-half of the salary payable over the remaining term of the agreement which ever is greater.

The Company entered into an employment agreement with its Vice President of Sales and Marketing that expires on December 31, 2007. The employment agreement provides for an annual salary of $100,000 and an annual bonus based on the Company s performance not to exceed $200,000. The agreement also provides that the Company may terminate the agreement upon 30 days written notice if termination is without cause. The Company s only obligation would be to pay its Vice President of Sales and Marketing the greater of a) 18 months salary or b) one-half of the salary payable over the remaining term of the agreement which ever is greater.

NOTE 9 STOCKHOLDERS EQUITY

Preferred Stock

The Company has authorized the issuance of 10,000,000 shares of preferred stock, which may be issued from time to time in one or more series by the Board of Directors. In addition, the Board is authorized to set the rights, preference, privileges, and restrictions of these shares, including dividends rights, conversion rights, voting rights, and liquidation preferences. These shares may have rights senior to those of the Company s common stock holders. As of December 31, 2005 and 2004, the Company did not have any preferred shares outstanding.

Common Stock

In January 2004, the Company sold 12,000 shares of common stock at $4.50 per share for gross proceeds of $54,000. In June 2004 the Company sold 2 million shares of common stock at $6.00 per share for gross proceeds of $12 million, with net proceeds to The Company of approximately $10 million.

During 2005 The Company issued shares related to exercise of previously issued stock options and warrants. A total of 294,422 shares of common stock were issued for proceeds of $1,639,600, the range of options and warrants exercised was $1.00 to $8.70.

In January 2006**,** the Company sold an aggregate of 1,100,000 shares of its common stock at $13.10 per share, for total gross proceeds of $14,410,000, see Note 13 for additional information.

Stock Options

During June 1998, the Board of Directors approved the adoption of a stock option plan (the 1998 Plan). The 1998 Plan is intended to provide incentives to key employees, officers, and directors of the Company who provide significant services to the Company. There are 858,700 shares available for grant under the Plan. The exercise price will be determined by the Option Committee. Options granted under the 1998 Plan vest in accordance with the terms established by the Company s stock option committee and generally terminate 10 years after the date of issuance.

In September 2003, the Board of Directors approved the 2003 stock option plan (the 2003 Plan). The 2003 Plan is intended to provide incentives to key employees, officers, and directors of the Company who provide significant services to the Company. In January 2005 the Board of Directors increased the number of options available under the 2003 Stock Option Plan to 1,400,000 options available for grant under the Plan Options granted may be either incentive options, non-qualified options or non-discretionary options. Incentive and non-qualified options will vest over a period of time as determined by the Board of Directors for up to 10 years from the date of grant. Non-discretionary options may be granted only to non-employee directors, vest over a period of three years and expire five years after the date of grant. The exercise price of the options granted under the 2003 Plan will be determined by the Board of

Directors, provided that the exercise price is not less than the fair market value of the Company s common stock on the date of grant.

On December 11, 2003, the Company granted options to purchase 53,000 shares of the Company s common stock to employees with an exercise price of $4.50 per share. The options vest upon issuance and expire ten years from the date of grant. A compensation charge was not recorded in connection with the issuance of such options as the exercise price of the stock options granted was not less than the fair market value of the Company s stock price as of the date of grant.

On December 30, 2003, the Company granted options to purchase 250,000 shares of the Company s common stock to its Chief Financial Officer. The exercise price of the options is $4.50 for the first 125,000 options and $6.00 per share for the remaining 125,000 options. One third of the options were exercisable on July 1, 2004, and the remaining options will vest monthly on a pro rata basis thereafter. A compensation charge was not recorded in connection with the issuance of such options as the exercise price of the stock options granted was not less than the fair market value of the Company s stock price as of the date of grant.

On December 31, 2003, the Company granted non-discretionary options to purchase an aggregate of 50,000 shares of the Company s common stock to three members of its board of directors for services to be provided as members of the Company s board. The options have an exercise price of $6.00 per share. One-third of the options become exercisable on the last day of each year starting December 31, 2004. The Company uses the intrinsic method to measure the value of stock-based compensation issued to their board of directors for services provided as a member of the Company s board. A compensation charge was not recorded in connection with the issuance of such options as the exercise price of the stock options granted was not less than the fair market value of the Company s common stock price as of the date of grant.

On December 31, 2003, the Company granted options to purchase 120,000 shares of the Company s common stock to one of its stockholders for services previously rendered. These options were issued outside of the Company s 1998 Plan and the 2003 Plan. The options have an exercise price of $7.20 per share. The options vested June 17, 2004 and terminate on December 31, 2008.

On January 21, 2005, the Company granted options to purchase 335,000 shares of the Company s common stock to its executives and employees. The exercise price is $3.29. These options vest the later of one year from date of hire, or date of grant. A compensation charge was not recorded in connection with the issuance of such options as the exercise price of the stock options granted was not less than the fair market value of the Company s common stock price as of the date of grant.

On May 25, 2005, the Company granted options to purchase 39,500 shares of the Company s common stock to its employees. The exercise price is $3.29. These options vest at December 31, 2005, provided the employees are still employed by the Company. A compensation charge was not recorded in connection with the issuance of such options as the exercise price of the stock options granted was not less than the fair market value of the Company s common stock price as of the date of grant.

During August and October 2005, the Company granted options to purchase 41,500 shares of the Company s common stock to its employees. The exercise price ranges from $4.16 to $4.32, based on the market price on the date of the grant. These options vest over a period of two years from the date of grant, provided the employees are still employed by the Company. A compensation charge was not recorded in connection with the issuance of such options as the exercise price of the stock options granted was not less than the fair market value of the Company s common stock price as of the date of grant.

On December 30, 2005, the Company granted options to purchase 220,500 shares of the Company s common stock to its executives and employees. The exercise price is $16.24. These options vest on the date of grant. A compensation charge was not recorded in connection with the issuance of such options as the exercise price of the stock options granted was not less than the fair market value of the Company s common stock price as of the date of grant.

The Company uses the fair value method to measure the value of stock-based compensation issued to non-employees in accordance with SFAS No. 123 and EITF Issue No. 96-18. In accordance with such pronouncements all transactions in which goods or services are the consideration received for the issuance of equity instruments are accounted for based on the fair value of the consideration received or the fair value of the equity instrument issued, whichever is more reliably measurable. In connection with the issuance, the Company determined that the fair value of the stock options granted was a more reliable measure of value than the value of consideration received. Using the Black-Scholes option-pricing model the Company determined that the fair value of stock options granted was $190,534, which has been recorded as a consulting expense in the accompanying financial statements.

The following table summarizes stock option activity in the 1998 Plan and the 2003 Plan:

	Number of Shares	Weighted-Average Exercise Price
Outstanding, December 31, 2002	858,700	$ 0.79
Granted during fiscal year 2003	353,000	$ 4.50
Outstanding, December 31, 2003	1,211,700	$ 1.68
Granted during fiscal year 2004	338,500	$ 6.00
Outstanding, December 31, 2004	1,550,200	$ 2.62
Granted during fiscal year 2005	636,500	$ 7.84
Exercised during fiscal year 2005	249,422	$ 5.00
Returned during fiscal year 2005	138,028	$ 5.30
Outstanding, December 31, 2005	1,799,250	$ 4.29
Exercisable, December 31, 2005	1,640,333	$ 4.17

The weighted-average remaining contractual life of the options outstanding at December 31, 2005 was 5.71 years. The weighted-average fair value per share of options granted was $8.08 $ 0.32 and $1.79 for the years ended December 31, 2005, 2004 and 2003, respectively. The exercise prices of the options outstanding at December 31, 2005 ranged from $0.25 to $16.24, and information relating to these options is as follows:

Exercise Prices	Stock Options Outstanding	Stock Options Exercisable	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price of Options Outstanding	Weighted-Average Exercise Price of Options Exercisable
$0.26	400,000	400,000	2.55 years	$ 0.25	$ 0.26
$0.50	160,000	160,000	3.01 years	$ 0.50	$ 0.50
$1.70	255,500	255,500	5.29 years	$ 1.70	$ 1.70
$4.50	145,000	145,000	7.50 years	$ 4.50	$ 4.50
$6.00	262,500	145,083	8.47 years	$ 6.00	$ 6.00
$7.20	22,000	22,000	3.47 years	$ 7.20	$ 7.20
$3.29	292,250	292,250	2.06 years	$ 3.29	$ 3.29
$4.16	25,000		2.63 years	$ 4.16	$ 4.16
$4.32	16,500		2.81 years	$ 4.32	$ 4.32
$16.24	220,500	220,500	3.00 years	$ 16.24	$ 16.24
	1,799,250	**1,640,333**			

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NOTE 10 INCOME TAXES

The following table presents the current and deferred income tax provision for federal and state income taxes for the years ended December 31, 2005, 2004 and 2003:

	For the Year Ended December 31, 2005	2004	2003 (As Restated*)
Current tax provision			
Federal	$ 983,705	$ 202,827	$ 361,961
State	186,888	105,149	159,052
	1,170,593	307,976	521,013
Deferred tax provision (benefit)			
Federal	(130,000)	(222,000)	(410,702)
State	(45,000)	(63,000)	(104,948)
	(175,000)	(285,000)	(515,650)
Total provision (benefit) for income taxes	**$ 995,593**	**$ 22,976**	**$ 5,363**

* Refer to Note 2, Restatement of Consolidated Financial Statements

The provision for income taxes differs from the amount that would result from applying the federal statutory rate for the years ended December 31, 2005, 2004 and 2003:

	For the year ended December 31, 2005	2004	2003 (As restated*)
Statutory regular federal income tax rate	34.0 %	34.0 %	34.0 %
State taxes net of federal benefit	5.1	6.0	1.0
Non-deductible entertainment	0.4	1.0	0.2
Other	(0.7)	11.0	(2.5)
Total	38.8 %	52.0 %	32.6 %

* Refer to Note 2, Restatement of Consolidated Financial Statements.

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Significant components of the Company s deferred tax assets and liabilities for federal and state income taxes as of December 31, 2005 and 2004 consisted of the following:

	December 31, 2005	2004
Current deferred tax assets		
Allowance for bad debt	$ 220,000	$ 166,000
Property and equipment		(2,000)
Allowance for obsolete inventory	99,000	56,000
State tax expense	26,000	
Accrued compensation	12,000	
Customer Rebates		18,000
Other accruals	193,000	47,000
Total Current deferred tax assets	550,000	285,000
Non-current deferred tax assets		
Depreciation	(23,000)	
Net operating loss carry-forward		67,000
Total non-current deferred tax assets	(23,000)	67,000
Net deferred tax assets	**$ 527,000**	**$ 352,000**

NOTE 11 SEGMENT AND RELATED INFORMATION

SFAS No. 131 Disclosure about Segments of an Enterprise and Related Information requires that the Company disclose certain information about it operating segments where operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. Generally, financial information is required to be reported on the basis that is used internally for evaluating segment performance and deciding how to allocate resources to segments.

Summarized financial information concerning the Company s reportable regions is shown in the following tables for the years ended December 31, 2005, 2004 and 2003.

All fixed assets are located in the Company s offices in the United States. Geographical revenues for the years ended December 31, 2005, 2004 and 2003 were as follows:

	Year ended December 31, 2005	2004	2003
North America	$ 45,575,714	$ 64,754,575	$ 56,375,979
Argentina	72,333,046		
Latin America	27,882,197	8,564,078	2,449,441
Asia Pacific			1,517,687
Europe		87,737	542,240
Total	$ 145,790,957	$ 73,406,390	$ 60,885,347

During the years ended December 31, 2005, 2004 and 2003, no revenues from any individual country other than the United States or Argentina were greater than 10% of the Company s consolidated revenues.

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NOTE 12 RELATED PARTY TRANSACTIONS

The Company entered into a management services agreement with one of its stockholders for a monthly fee of $10,000. The agreement expired in December 2003. The Company recorded management fee expense of $120,000 for the year ended December 31, 2003. We subsequently determined not to renew the agreement beyond December 31, 2003 and in consideration for services rendered, the stockholder would receive a one-time grant of options to purchase an aggregate of 120,000 shares of common stock until December 31, 2008 at a price equal to 120% of the public offering price, or $7.20 per share. We recorded a non-cash expense in fiscal 2003 related to the issuance of these options of $190,000.

NOTE 13 SUBSEQUENT EVENTS

Sale of Common Stock

On January 30, 2006**,** the Company sold an aggregate of 1,100,000 shares of its common stock at $13.10 per share, for total gross proceeds of $14,410,000. The purchasers were also issued warrants to purchase an aggregate of 330,000 shares of the Company s common stock at an exercise price of $18.38 per share during the period beginning six months after the date of the purchase agreement and ending four years later. The Company also issued three year term warrants to purchase a total of 28,600 shares to the placement agents in the offering. Of the total number of placement agent warrants, warrants to purchase 22,000 shares have an exercise price of $13.76 per share and 6,600 have an exercise price of $19.30 per share. The placement agents also received cash compensation equal to 6% of the gross proceeds raised in the offering plus incidental expenses.

NOTE 14 QUARTERLY FINANCIAL DATA

The following tables are summaries of the unaudited quarterly financial information for the years ended December 31, 2005 and 2004.

	Year Ended December 31, 2005				
	First	**Second**	**Third**	**Fourth**	**Total**
Operating Data:					
Net sales	$ 24,024,217	$ 32,527,630	$ 54,237,278	$ 35,001,832	$ 145,790,957
Cost of sales	21,892,957	29,871,047	50,047,209	31,878,708	133,689,921
Gross profit	2,131,260	2,656,583	4,190,069	3,123,124	12,101,036
Operating Expenses	1,566,914	1,980,779	2,970,160	1,849,986	8,367,839
Operating income from Continuing Operations before interest expense and tax provision	564,346	675,804	1,219,909	1,273,138	3,733,197
Income (loss) from Discontinued Operations	(6,077)	(11,007)	391,563	(5,756)	368,723
Net income (loss)	$ 314,838	$ 407,937	$ 1,173,693	$ 810,654	$ 2,707,122
Diluted weighted-average number of shares outstanding	5,856,686	5,827,793	5,967,670	6,654,028	6,141,221
Diluted earnings (loss) per share Continuing Operations	$ 0.05	$ 0.07	$ 0.13	$ 0.13	$ 0.38

	Year Ended December 31, 2004				
	First	**Second**	**Third**	**Fourth**	**Total**
Operating Data:					
Net sales	$ 18,743,319	$ 17,660,301	$ 17,393,081	$ 19,609,689	$ 73,406,390
Cost of sales	17,328,642	16,116,885	16,116,974	18,300,838	67,863,339
Gross profit	1,414,677	1,543,416	1,276,107	1,308,851	5,543,051
Operating Expenses	1,020,981	1,016,808	1,076,520	1,095,889	4,210,198
Operating income from Continuing Operations before interest expense and tax provision	393,696	526,608	119,587	292,692	1,332,853
Income (loss) from Discontinued Operations	(33,554)	(139,155)	(788,635)	70,504	(890,840)
Net income (loss)	$ 195,935	$ 229,615	$ (459,987)	$ 72,533	$ 38,096
Diluted weighted-average number of shares outstanding	3,916,498	4,217,217	5,212,000	5,881,219	4,987,792
Diluted earnings (loss) per share Continuing Operations	$ 0.05	$ 0.08	$ 0.06	$ 0.00	$ 0.19

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM ON FINANCIAL STATEMENT SCHEDULE

Board of Directors and Stockholders
InfoSonics Corporation and subsidiaries

Our audits of the consolidated financial statements referred to in our report dated February 10, 2006 also included the financial statement schedule of InfoSonics Corporation, listed in Item 15(a) of this Form 10-K. This schedule is the responsibility of InfoSonics Corporation s management. Our responsibility is to experess an opinion based on our audits of the consolidated financial statements.

In our opinion, the financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly in all material respects the information set forth therein.

SINGER LEWAK GREENBAUM & GOLDSTEIN LLP

Los Angeles, California
February 10, 2006

SUPPLEMENTAL INFORMATION

Valuation and Qualifying Accounts Schedule II

	Balance, beginning of year	Additions charged to operations	Deletions from Reserve	Balance, end of year
Allowance for doubtful accounts				
December 31, 2005	$ 250,000	$ 1,186,823	$ 883,830	$ 552,993
December 31, 2004	359,990	704,200	814,190	250,000
December 31, 2003 (as restated*)	34,011	569,743	243,764	359,990
Reserve for inventory obsolescence				
December 31, 2005	141,084	935,684	827,292	249,476
December 31, 2004	78,480	1,398,442	1,335,838	141,084
December 31, 2003 (as restated*)	$ 28,311	$ 811,721	$ 761,552	$ 78,480

* Refer to Note 2, Restatement of Consolidated Financial Statements.

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EXHIBIT INDEX

Number	**Description**
3.1	Articles Of Incorporation(1)
3.2	Bylaws(1)
4.1	Specimen Common Stock Certificate(1)
4.2	1998 Stock Option Plan(3)
4.3	2003 Stock Option Plan, as amended(9)
4.4	Form of Stock Option Agreement 2003 Stock Option Plan Non Employee Director(4)
4.5	Form of Stock Option Agreement 2003 Stock Option Plan Incentive Stock Option(4)
10.1	Stock Purchase Agreement dated as of January 26, 2004 among InfoSonics, InfoSonics Mexico, Inc., Joseph Ram and Abraham Rosler concerning InfoSonics de Mexico.(1)
10.2	Securities Purchase Agreement by and among InfoSonics and the investors listed thereon dated January 30, 2005(5)
10.3	Form of Common Stock Purchase Warrant(5)
10.4	Credit Agreement dated October 6, 2005 between InfoSonics and Wells Fargo HSBC Trade Bank, National Association(6)
10.5	First Amendment to Credit Agreement dated November 22, 2005 between InfoSonics and Wells Fargo HSBC Trade Bank, National Association(7)
10.6	Agreement for Purchase and Sale of Assets dated October 20, 2004 between The Mobile Solution Corporation and Axcess Mobile, LLC (InfoSonics subsidiary)(8)
10.7	Employment Agreement dated as of January 1, 2004 between InfoSonics and Joseph Ram(1)
10.8	Employment Agreement dated as of January 1, 2004 between InfoSonics and Abraham Rosler(1)
10.9	Employment Agreement dated as of January 1, 2004 between InfoSonics and Joseph Murgo(1)
10.10	Employment Agreement dated as of January 1, 2004 between InfoSonics and Jeffrey Klausner(1)
10.11	Lease Agreement effective April 1, 2004 between InfoSonics and Robert Jean Lichter and Gail F. Lichter Family Trust(2)
21	Subsidiaries of InfoSonics(9)
23	Consent of Independent Registered Public Accounting Firm(*)
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, implementing Section 302 of Sarbanes-Oxley Act of 2002(*)
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, implementing Section 302 of Sarbanes-Oxley Act of 2002(*)
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of Sarbanes-Oxley Act of 2002(*)
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of Sarbanes-Oxley Act of 2002(*)
99.1	Employee Code of Business Conduct and Ethics (9)
99.2	Code of Ethics for Chief Executive Officer, Chief Financial Officer and Controller (9)

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(1) Incorporated by reference from the Company s Registration Statement on Form S-1, filed on January 30, 2004.

(2) Incorporated by reference from Amendment No. 2 to the Company s Registration Statement on Form S-1/A, filed on April 16, 2004.

(3) Incorporated by reference from Amendment No. 6 to the Company s Registration Statement on Form S-1/A, filed on May 20, 2004.

(4) Incorporated by reference from the Company s Current Report on Form 8-K, filed on January 25, 2005.

(5) Incorporated by reference from the Company s Current Report on Form 8-K, filed on February 2, 2006.

(6) Incorporated by reference from the Company s Current Report on Form 8-K, filed on October 13, 2005.

(7) Incorporated by reference from the Company s Current Report on Form 8-K, filed on November 29, 2005.

(8) Incorporated by reference from the Company s Current Report on Form 8-K, filed on November 3, 2004.

(9) Incorporated by reference from the Company s Annual Report on Form 10-K, filed March 31, 2006.

(*) Filed herewith