

INFOSONICS CORP
Form 10-Q
May 15, 2009
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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**QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934.**

For the quarterly period ended March 31, 2009

OR

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

For the transition period from to

Commission File Number - 001-32217

InfoSonics Corporation

(Exact name of registrant as specified in its charter)

Maryland
(State or other jurisdiction of
incorporation or organization)

33-0599368
(IRS Employer Identification Number)

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4350 Executive Drive Suite #100 San Diego, CA 92121

(Address of principal executive offices including zip code)

(858) 373-1600

(Registrant's telephone number, including area code)

Not Applicable

(Former Name or Former Address, if Changed Since Last Report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

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

As of May 7, 2009, the Registrant had 14,724,205 shares outstanding of its \$.001 par value common stock.

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InfoSonics Corporation and Subsidiaries

Quarterly Report on Form 10-Q For The Period Ended March 31, 2009

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Item 1. Financial Statements

InfoSonics Corporation and Subsidiaries**Consolidated Balance Sheets**

	March 31, 2009 (unaudited)	December 31, 2008 (audited)
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 11,856,495	\$ 24,714,753
Trade accounts receivable, net of allowance for doubtful accounts of \$424,047 (unaudited) and \$429,126	36,746,976	22,727,738
Other receivables (Note #13)	1,341,745	4,209,658
Inventory, net of reserves of \$161,556 (unaudited) and \$161,556	3,998,742	4,375,334
Prepays	608,914	244,103
Assets of discontinued operations	3,104,981	3,264,817
Total current assets	57,657,853	59,536,403
Property and equipment, net	536,739	498,079
Intangible assets	504,000	504,000
Other assets	110,174	115,900
Total assets	\$ 58,808,766	\$ 60,654,382
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	\$ 2,678,537	\$ 10,982,306
Accrued expenses	6,259,137	7,304,090
Line of credit	21,524,501	14,273,978
Income taxes payable	32,130	24,100
Liabilities of discontinued operations	1,314,100	1,310,434
Total current liabilities	31,808,405	33,894,908
Total liabilities	31,808,405	33,894,908
Commitments and contingencies (Note #13)		
Stockholders equity:		
Preferred stock, \$0.001 par value 10,000,000 shares authorized (no shares issued and outstanding as of applicable period end)		
Common stock, \$0.001 par value 40,000,000 shares authorized 15,010,807 and 15,010,807 shares issued and 14,789,772 and 14,956,270 shares outstanding as of March 31, 2009 and	14,790	14,956

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December 31, 2008, respectively

Treasury stock, at cost, 221,035 and 54,537 shares as of March 31, 2009 and December 31,

2008, respectively

Additional paid-in capital	31,679,980	31,666,434
Accumulated other comprehensive loss	(8,258)	(25,211)
Accumulated deficit	(4,632,753)	(4,879,805)

Total stockholders equity	27,000,361	26,759,474
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Total liabilities and stockholders equity	\$ 58,808,766	\$ 60,654,382
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Accompanying notes are an integral part of these financial statements.

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InfoSonics Corporation and Subsidiaries

Consolidated Statements of Operations

(unaudited)

	For the Three Months Ended March 31,	
	2009	2008
Net sales	\$ 42,625,118	\$ 67,933,267
Cost of sales	39,270,497	64,344,481
Gross profit	3,354,621	3,588,786
Operating expenses	2,876,972	3,697,468
Operating income (loss) from continuing operations	477,649	(108,682)
Other income (expense)		
Other income	42	442
Interest (expense)	(27,878)	(189,501)
Income (loss) from continuing operations before benefit for income taxes	449,813	(297,741)
Provision for income taxes	9,700	32,172
Income (loss) from continuing operations	440,113	(329,913)
Loss from discontinued operations, net of tax (Note #11)	(193,061)	(83,268)
Net income (loss)	\$ 247,052	\$ (413,181)
Basic earnings (loss) per share		
From continuing operations	\$ 0.03	\$ (0.02)
From discontinued operations	\$ (0.01)	\$ (0.01)
Net income (loss)	\$ 0.02	\$ (0.03)
Diluted earnings (loss) per share		
From continuing operations	\$ 0.03	\$ (0.02)
From discontinued operations	\$ (0.01)	\$ (0.01)
Net income (loss)	\$ 0.02	\$ (0.03)
Basic weighted-average number of common shares outstanding	14,881,774	14,758,413
Diluted weighted-average number of common shares outstanding	14,881,774	14,758,413

Accompanying notes are an integral part of these financial statements.

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InfoSonics Corporation and Subsidiaries
Consolidated Statements of Comprehensive Operations
(unaudited)

	For the Three Months Ended March 31,	
	2009	2008
Net profit income (loss)	\$ 247,052	\$ (413,181)
Other comprehensive loss:		
Foreign currency translation adjustments	16,954	(2,209)
Comprehensive income (loss)	\$ 264,006	\$ (415,390)

Accompanying notes are an integral part of these financial statements.

Table of Contents**InfoSonics Corporation and Subsidiaries****Consolidated Statements of Cash Flows****(unaudited)**

	For the Three Months Ended March 31,	
	2009	2008
Cash flows from operating activities:		
Net income (loss)	\$ 247,052	\$ (413,181)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities		
Depreciation	74,097	161,305
Provision for bad debt	(5,079)	167,973
Impairment on fixed assets		17,084
Provision for obsolete inventory		(82,882)
Stock option expense	13,445	20,392
(Increase) decrease in		
Trade accounts receivable	(11,146,246)	(20,307,053)
Inventory	376,592	1,674,763
Prepays	(364,814)	(2,250,025)
Other assets	5,726	(7,887)
Deferred tax asset current		(67,340)
Deferred tax asset non current		(405,479)
Increase (decrease) in		
Accounts payable	(8,303,771)	(1,132,489)
Accrued expenses	(1,044,953)	1,686,609
Income tax liabilities	8,030	(39,560)
Cash used in continuing operations	(20,139,921)	(20,977,770)
Cash provided by discontinued operations	163,504	3,382,781
Net cash used in operating activities	(19,976,417)	(17,594,989)
Cash flows from investing activities:		
Purchase of property and equipment	(111,839)	(4,899)
Cash provided by (used in) discontinued operations		
Net cash used in investing activities	(111,839)	(4,899)
Cash flows from financing activities:		
Borrowings from line of credit	50,713,251	36,322,720
Payments on line of credit	(43,462,728)	(36,611,470)
Cash received from stock and options		22,453
Cash paid for treasury stock	(36,557)	
Cash provided by (used in) discontinued operations		
Net cash provided by (used in) financing activities	7,213,966	(266,297)
Effect of exchange rate changes on cash	16,032	(2,208)
Net decrease in cash and cash equivalents	(12,858,258)	(17,868,393)
Cash and cash equivalents, beginning of period	24,714,753	20,652,154
Cash and cash equivalents, end of period	\$ 11,856,495	\$ 2,783,761

Non-Cash Supplemental Disclosure:		
Cash paid for interest	27,885	202,804
Cash paid for taxes		

Non-Cash Operating Activities

During the quarter ended March 31, 2009, \$3.8 million of the accrued legal settlement was paid by the insurance carrier and the corresponding receivable and liability have been reduced. (see Note 7)

Accompanying notes are an integral part of these financial statements.

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InfoSonics Corporation

Condensed Notes to Consolidated Financial Statements

(unaudited)

NOTE 1. Basis of Presentation

The accompanying unaudited consolidated financial statements and these condensed notes have been prepared in accordance with accounting principles generally accepted in the United States (GAAP) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X of the Securities Exchange Act of 1934, as amended (the Exchange Act). Accordingly, they do not include all of the information and notes required by GAAP for complete financial statements. The preparation of financial statements requires management to make estimates and assumptions that affect amounts reported in the financial statements and accompanying notes. Actual results are likely to differ from those estimates, but management does not believe such differences will materially affect the financial position or results of operations of InfoSonics Corporation (the Company), although they may. These unaudited consolidated financial statements and condensed notes should be read in conjunction with the financial statements and notes as of and for the year ended December 31, 2008 included in the Company s Annual Report on Form 10-K for the year ended December 31, 2008. These unaudited consolidated financial statements reflect all adjustments considered, in the opinion of the Company s management, necessary to fairly present the results for the periods covered herein and such adjustments are considered of a normal recurring nature.

The unaudited consolidated financial statements include the accounts of the Company and its subsidiaries, Access Mobile LLC, InfoSonics Latin America, Inc., InfoSonics de Mexico S.A. de C.V., InfoSonics de Guatemala S.A., InfoSonics El Salvador S.A. de C.V., InfoSonics S.A., InfoSonics Corporation Chile y Compania Limitada, InfoSonics Colombia S.A. and verykool USA, Inc., all of which are wholly owned. Significant intercompany accounts and transactions have been eliminated in consolidation of these consolidated financial statements.

The unaudited consolidated balance sheet, the unaudited consolidated statements of operations and the unaudited consolidated statements of comprehensive operations as of or for the three months ended March 31, 2009 and the unaudited consolidated statement of cash flows for the three months ended March 31, 2009 are not necessarily indicative of the financial condition, operating results or cash flows that may be expected for the full fiscal year of 2009 or for any future period.

NOTE 2. Stock-Based Compensation

The Company has three equity incentive plans, the 2006 Equity Incentive Plan (2006 Plan), the 2003 Stock Option Plan (2003 Plan) and the 1998 Stock Option Plan (1998 Plan). Each of the plans has been approved by our stockholders. The 2006 Plan authorizes the grant of up to 1,000,000 shares for equity incentives. As of March 31, 2009, options to purchase 146,000 shares were outstanding under the 2006 Plan and 72,000 have been exercised or forfeited. The Company is also a party to non-plan option agreements with several non-employee directors and several institutions.

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On December 28, 2007, the Securities and Exchange Commission (SEC) staff published Staff Accounting Bulletin No. 110 (SAB 110), which updates SAB 107 and provides the SEC staff's views on a variety of matters relating to stock-based payments. SAB 110 requires stock-based compensation to be classified in the same expense line items as cash compensation. Information about stock-based compensation included in the unaudited results of operations for the three months ended March 31, 2009 and 2008 is as follows:

	For The Three Months Ended	
	March 31,	
	2009	2008
	(unaudited)	(unaudited)
Officer compensation	\$	\$
Non-employee directors		3,451
Sales, general and administrative	13,445	16,941
Total stock option expense, included in total operating expenses	\$ 13,445	\$ 20,392

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Our stock options vest on an annual or a monthly basis. The Company recognizes stock-based compensation costs on a straight-line basis over the requisite service period of the award, which is generally the option vesting term. Such amounts may change as a result of additional grants, forfeitures, modifications in assumptions and other factors. SFAS 123R provides that income tax effects of share-based payments are recognized in the financial statements for those awards which will normally result in tax deductions under existing tax law. During the three months ended March 31, 2009, we recorded an expense of \$13,445 related to options previously granted and granted during the first three months of 2009. During the three months ended March 31, 2008, we recorded an expense of \$20,392 related to options previously granted and granted during the first three months of 2008. Under current U.S. federal tax law, we receive a compensation expense deduction related to non-qualified stock options only when those options are exercised and vested shares are received. Accordingly, the financial statement recognition of compensation cost for non-qualified stock options creates a deductible temporary difference which results in a deferred tax asset and a corresponding deferred tax benefit in our consolidated statements of operations.

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model with the following weighted-average assumptions used for grants in 2008 (there have been no grants during 2009): risk-free interest rate of 1.47% in 2008, based on the U.S. Treasury yields in effect at the time of grant; expected dividend yields of 0% as the Company has not, and does not intend to, issue dividends; and expected lives of 3 to 6 years based upon the historical life of options. For grants in 2008, the expected volatility used ranged from 88% to 89%, based on the Company's historical stock price fluctuations for a period matching the expected life of the options. As of March 31, 2009, there was \$86,000 of total unrecognized compensation costs related to the non-vested stock options. That cost is expected to be recognized over the remaining weighted-average period of 2.75 years.

A summary of option activity under all of the above plans as of March 31, 2009 and changes during the three months then ended is presented in the table below:

	Shares	Wtd. Avg. Exercise Price	Wtd. Avg. Remaining Contractual Life	Aggregate Intrinsic Value
Outstanding at December 31, 2008	1,575,944	\$ 1.46	2.98	
Granted		\$		
Exercised		\$		
Forfeited	62,500	\$ 1.60		
Outstanding at March 31, 2009	1,513,444	\$ 1.45	2.77	
Vested and expected to vest	1,513,444	\$ 1.45	2.77	
Exercisable at March 31, 2009	1,417,828	\$ 1.46	2.63	

A summary of the status of the Company's non-vested options at March 31, 2009 and changes during the three months ended March 31, 2009 is presented below:

	Shares	Weighted-average grant-date fair value
Non-vested at December 31, 2008	146,660	\$ 1.27
Granted		\$

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Vested	21,044	\$	1.36
Forfeited	30,000	\$	1.04
Non-vested at March 31, 2009	95,616	\$	1.33

NOTE 3. Earnings Per Share

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

Common shares from exercise of certain options and warrants have been excluded from the computation of diluted earnings per share because their exercise prices are greater than the Company's weighted-average stock price for the period. For the three months ended March 31, 2009 and 2008, the number of shares excluded was 1,600,944 and 2,916,254, respectively.

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Since their effect would have been anti-dilutive, for the three months ended March 31, 2008, the number of shares excluded was 3,588,922, from the computation of net loss per share.

NOTE 4. Income Taxes

The Company adopted the Financial Accounting Standards Board's Interpretation No. 48, Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109 (FIN 48) effective January 1, 2007. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in financial statements and requires the impact of a tax position to be recognized in the financial statements if that position is more likely than not of being sustained by the taxing authority. As a result of the implementation of FIN 48, the Company made a comprehensive review of its portfolio of uncertain tax positions in accordance with recognition standards established by FIN 48. In this regard, an uncertain tax position represents the Company's expected treatment of a tax position taken in a filed tax return, or planned to be taken in a future tax return, that has not been reflected in measuring income tax expense for financial reporting purposes. At the date of adoption, and as of December 31, 2008 and March 31, 2009, the Company does not have a liability for unrecognized tax benefits. The Company concluded that at this time there are no uncertain tax positions. As a result of applying the provisions of FIN 48, there was no cumulative effect on retained earnings.

The Company is subject to US federal income tax as well as income tax in multiple states and foreign jurisdictions. For all major taxing jurisdictions, the tax years 2003 through 2008 remain open to examination. As of March 31, 2009, the Company does not expect any material changes to unrecognized tax positions within the next twelve months.

SFAS No. 109, *Accounting for Income Taxes*, establishes financial accounting and reporting standards for the effect of income taxes. The objectives of accounting for income taxes are to recognize the amount of taxes payable or refundable for the current year and deferred tax liabilities and assets for the future tax consequences of events that have been recognized in an entity's financial statements or tax returns. Judgment is required in assessing the future tax consequences of events that have been recognized in our financial statements or tax returns. Fluctuations in the actual outcome of these future tax consequences could materially impact our financial position or our results of operations. For the three months ended March 31, 2009, deferred income tax assets and the corresponding valuation allowance increased by \$671,000.

NOTE 5. 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 March 31, 2009 and December 31, 2008, the inventory reserve was \$161,556. 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 March 31, 2009 and December 31, 2008, the prepaid inventory balances were \$394,890 and \$170, respectively. Included in Assets for Discontinued Operations as of March 31, 2009 and December 31, 2008 are inventory balances of \$1,148,127 and \$1,307,463, respectively. Inventory consists of the following:

	March 31, 2009 (unaudited)	December 31, 2008 (audited)
Finished goods	\$ 4,160,298	\$ 4,536,890

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Inventory in-transit				
Inventory reserve		(161,556)		(161,556)
Net inventory	\$	3,998,742	\$	4,375,334

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Property and equipment are primarily located in the United States, with the exception of certain tooling and product molds which are located in Asia, and consisted of the following as of the dates presented:

	March 31, 2009 (unaudited)	December 31, 2008 (audited)
Machinery and equipment	\$ 467,507	\$ 469,411
Furniture and fixtures	106,314	106,314
Tooling and molds	445,489	330,828
Subtotal	1,019,310	906,553
Less accumulated depreciation	482,571	408,474
Total	\$ 536,739	\$ 498,079

Depreciation expense was \$74,097 and \$161,305 for the three months ended March 31, 2009 and 2008, respectively.

NOTE 7. Accrued Expenses

As of March 31, 2009 and December 31, 2008, accrued expenses consisted of the following:

	March 31, 2009 (unaudited)	December 31, 2008 (audited)
Accrued product costs	\$ 3,236,604	\$ 3,070,058
Accrued legal settlement*	350,000	4,150,000
Other accruals (including taxes)	2,672,533	84,032
Total	\$ 6,259,137	\$ 7,304,090

* As of March 31, 2009, \$3.8 million of the accrued legal settlement was paid by the insurance carrier and is being held in an escrow account for the plaintiffs benefit of the Class Action lawsuit, and thus has been removed from the balance sheet at March 31, 2009. The remaining balance of \$350,000 relates to legal fees for the derivative suit lawyers, and is offset by an equivalent receivable from our insurance carrier at March 31, 2009.

NOTE 8. Borrowings

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On April 30, 2008, the Company entered into a Loan, Security and Bulk Purchase Agreement and a Letter of Credit and Security Agreement (collectively, the Agreement) with Wells Fargo Century, Inc. (Lender), replacing the then existing asset-based secured credit facility with Wells Fargo HSBC Trade Bank, N.A. Pursuant to the Agreement, the Lender may advance up to \$45,000,000 to the Company based on the expected collections of eligible receivables as well as value of the Company's eligible inventory determined in accordance with the Agreement. The outstanding advances may not exceed the lesser of (i) \$45,000,000 or (ii) the sum of the value of the eligible receivables and eligible inventory multiplied by their respective advance rates as set forth in the Agreement (\$27.8 million as of March 31, 2009). At March 31, 2009, the majority of our debt was based on foreign accounts receivable. This credit facility has a two-year term ending April 2010 and is secured by all of the assets of the Company. The interest rate for each borrowing under the credit facility is, at the option of the Company, either the Wells Fargo Bank N.A. prime rate minus 0.50% (3.25% less 0.50% at March 31, 2009) or the LIBOR rate plus 2.00% (1.27% plus 2.00% at March 31, 2009). At March 31, 2009, the amount drawn against the line of credit was \$21,524,501, and additionally available at March 31, 2009 was \$6,283,912. As of March 31, 2009, the Company was in compliance with the covenants of the credit facility. If any adverse events occur or we are unable to renew our new credit facility or enter into an adequate credit relationship as needed, our business financial condition or operating results could be negatively affected.

The Company has no other notes payable.

NOTE 9. Stockholders' Equity

Common Stock

On May 15, 2008, the Company agreed to issue 100,000 unregistered shares of common stock in connection with an amendment to a then existing agreement with an unrelated partner. The shares were issued October 20, 2008. The amendment modifies a profit sharing agreement to increase the portion of profit sharing the Company earns. The increase in the portion of the profit sharing to the Company is retroactive to January 1, 2008 and continued to December 31, 2008.

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Stock Options

Effective March 18, 2008 and May 13, 2008, the Company granted options to purchase an aggregate of 180,500 and 2,500 shares, respectively, of its common stock to certain non-executive employees (the "Employee Options"). One-fourth of the total shares subject to these option grants became exercisable one year from the date of grant, and 1/48th of the total options become exercisable each month thereafter until fully vested. These options have exercise prices of \$1.04 per share, which was the closing price per share of the Company's common stock on each of March 18, 2008 and May 13, 2008, and expire six years from the date of grant. See Note 2 for Stock-Based Compensation discussion.

Treasury Stock

On December 15, 2008, the Company announced a share buyback program, authorizing up to \$500,000 to be used for stock repurchases. As of March 31, 2009 and December 31, 2008, we had purchased 221,035 and 54,537 shares, respectively, at a total cost of \$53,619 and \$16,955, respectively.

NOTE 10. Recent Accounting Pronouncements

Recently adopted:

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 157, Fair Value Measurements (SFAS No. 157). SFAS No. 157 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurement. SFAS No. 157 also emphasizes that fair value is a market-based measurement, not an entity-specific measurement, and sets out a fair value hierarchy with the highest priority being quoted prices in active markets. Under SFAS No. 157, fair value measurements are disclosed by level within that hierarchy. In February 2008, the FASB issued FASB Staff Position No. 157-2, Effective Date of FASB Statement No. 157, which permitted a one-year deferral for the implementation of SFAS No. 157 with regard to nonfinancial assets and liabilities that are not recognized or disclosed at fair value in the financial statements on a recurring basis. The Company adopted SFAS No. 157 for the fiscal year beginning January 1, 2008, except for nonfinancial assets and nonfinancial liabilities that are recognized or disclosed at fair value in the financial statements on a nonrecurring basis, which was adopted in the first quarter of 2009. The adoption of the remaining provisions of SFAS No. 157 did not have a material impact on the Company's condensed consolidated financial statements.

The Financial Accounting Standards Board (FASB) has issued FASB Statements No. 141 (revised 2007) ("SFAS 141R"), *Business Combinations*, and No. 160 ("SFAS 160"), *Noncontrolling Interests in Consolidated Financial Statements*. These new standards represent the completion of the FASB's first major joint project with the International Accounting Standards Board (IASB). The FASB and the IASB first initiated the joint project that resulted in the new standards because U.S. generally accepted accounting principles and International Financial Reporting Standards (IFRS) differed widely in their approach to accounting for business combinations. The IASB plans to issue its counterpart standards IFRS 3 (revised), *Business Combinations*, and International Accounting Standard 27 (as revised in 2007), *Consolidated and Separate Financial Statements*, early next year. The new standards to be issued by the IASB are expected to contain the same fundamental principles as those of the FASB, but will diverge with respect to certain issues.

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In SFAS 141(R), the FASB retained the fundamental requirements of SFAS 141 to account for all business combinations using the acquisition method (formerly the purchase method) and for an acquiring entity to be identified in all business combinations. However, the fair value principles in the revised Statement are a major change from SFAS 141's cost allocation process, together with other revisions from past practice. Among numerous changes, SFAS 141(R) requires the acquiring entity in a business combination to:

- Recognize the assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree at the acquisition date, measured at their fair values as of that date, with limited exceptions
- Recognize and measure the goodwill acquired in the business combination or a gain from a bargain purchase
- Expense acquisition-related costs, such as legal and due diligence costs, when incurred

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- Recognize any restructuring costs that the acquiring entity expects to incur with respect to the acquired business as an expense, rather than capitalize as part of the acquisition
- Disclose to investors and other users all of the information they need to evaluate and understand the nature and financial effect of the business combination.

SFAS 160 amends Accounting Research Bulletin No. 51, *Consolidated Financial Statements*, and requires all entities to report noncontrolling (minority) interests in subsidiaries within equity in the consolidated financial statements, but separate from the parent shareholders' equity. SFAS 160 also requires any acquisitions or dispositions of noncontrolling interests that do not result in a change of control to be accounted for as equity transactions. Further, the Statement requires that a parent recognize a gain or loss in net income when a subsidiary is deconsolidated.

The final business combinations and noncontrolling interest statements are effective for annual periods beginning on or after December 15, 2008. The Statements should be applied on a prospective basis, except for the presentation and disclosure requirements of SFAS 160, which must be applied retrospectively. Entities are prohibited from adopting the Statements before their effective dates. The adoption of SFAS 141(R) and SFAS 160 did not have a material effect on the Company's financial statements.

In March 2008, the FASB issued Statement of Financial Accounting Standards No. 161 (SFAS 161) *Disclosures about Derivative Instruments and Hedging Activities* an amendment of FASB Statement No. 133. SFAS 161 amends and expands the disclosure requirements for derivative instruments and hedging activities. Entities are required to provide enhanced disclosures about (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under SFAS 133 and its related interpretations, and (c) how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. SFAS 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. This statement encourages, but does not require, comparative disclosures for earlier periods at initial adoption. The adoption of SFAS 161 did not have a material effect on the Company's financial statements.

In May 2008, the FASB issued Statement of Financial Accounting Standards No. 163 (SFAS 163), *Accounting for Financial Guarantee Insurance Contracts*, an interpretation of FASB Statement No. 60, which requires that an insurance enterprise recognize a claim liability prior to an event of default (insured event) when there is evidence that credit deterioration has occurred in an insured financial obligation, and clarifies how FASB Statement 60 applies to financial guarantee insurance contracts, including the recognition and measurement to be used to account for premium revenue and claim liabilities, and requires expanded disclosures about financial guarantee insurance contracts. SFAS 163 is effective for financial statements issued for fiscal years beginning after December 15, 2008, and all interim periods within those fiscal years. The adoption of SFAS 163 did not have a material effect on the Company's financial statements.

NOTE 11. Discontinued Operations

During the quarter ended June 30, 2008, the Company assessed opportunities in the United States and Mexico, and the Company began to implement actions necessary to close sales operations in both of those countries, which actions continue, although were substantially completed by end of 2009. These two areas accounted for less than 1% of our net sales in the first three months of 2009 and 2008. Due to the changing environment and consolidation in the United States of the regional cellular carriers, along with the challenges of opening sales relations with the cellular carriers in Mexico, management determined that it was necessary to take decisive actions to mitigate further losses. The results of the unaudited discontinued operations are as follows:

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	For the Three Months Ended March 31,	
	2009 (unaudited)	2008 (unaudited)
Net Sales	\$ 246,946	\$ 374,352
Gross profit	(155,304)	(68,202)
Operating loss	\$ (192,040)	\$ (627,409)
Identifiable assets	\$ 3,104,980	\$ 7,501,514
Capital expenditures	\$	\$
Depreciation and amortization	\$	\$ 8,083

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Liabilities of discontinued operations consist primarily of accounts payable. Assets of discontinued operations are as follows:

	March 31, 2009 (unaudited)	December 31, 2008 (audited)
Accounts Receivable	\$ 1,045,047	\$ 1,307,463
Inventory	1,148,127	1,050,758
Prepaid Taxes	898,401	897,955
Other Assets	13,406	8,641
Total	\$ 3,104,981	\$ 3,264,817

As of March 31, 2009, the plans for the discontinued operations were substantially complete; however, the Company expects to continue to record adjustments and expenses through discontinued operations as necessary.

NOTE 12. Geographic Information

The Company currently operates in one business segment. All fixed assets are located in Company or third party facilities in the United States, Asia and Mexico. The unaudited net sales by geographical area for the three months ended March 31, 2009 and 2008 were:

	For the Three Months Ended March 31,	
	2009 (unaudited)	2008 (unaudited)
Central America	\$ 3,114,597	\$ 21,166,224
South America	39,510,521	46,767,043
Total	\$ 42,625,118	\$ 67,933,267