INFOSONICS CORP
Form 10-Q
November 14, 2012
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF

THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2012

Commission File Number - 001-32217

InfoSonics Corporation

(Exact name of registrant as specified in its charter)

Maryland	**33-0599368**
(State or other jurisdiction of	**(IRS Employer**

incorporation or organization)	Identification Number)

3636 Nobel Drive, Suite #325, San Diego, CA 92122

(Address of principal executive offices including zip code)

(858) 373-1600

(Registrant s telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

Indicate by check mark whether the registrant 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 x 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. (Check one):

Large accelerated filer	¨	Accelerated filer	¨
Non-accelerated filer	¨ (Do not check if a smaller reporting company)	Smaller reporting company	x

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

As of November 14, 2012, the Registrant had 14,184,145 shares outstanding of its $0.001 par value common stock.

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InfoSonics Corporation

FORM 10-Q

For quarterly period ended September 30, 2012

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Part I. FINANCIAL INFORMATION

Item 1. Financial Statements

InfoSonics Corporation and Subsidiaries

Consolidated Statements of Operations and Comprehensive Loss

(Amounts in thousands, except per share data)

(unaudited)

	For the Three Months Ended September 30, 2012	2011	For the Nine Months Ended September 30, 2012	2011
Net sales	$ 5,373	$ 7,173	$ 25,842	$ 22,960
Cost of sales	4,234	5,955	20,392	20,027
Gross profit	1,139	1,218	5,450	2,933
Operating expenses:				
Selling, general and administrative	1,804	1,256	5,262	3,966
Research and development	527	384	1,523	1,135
	2,331	1,640	6,785	5,101
Operating loss from continuing operations	(1,192)	(422)	(1,335)	(2,168)
Other income (expense):				
Other income (expense)		2	(65)	30
Interest, net	3		53	11
Loss from continuing operations before provision for income taxes	(1,189)	(420)	(1,347)	(2,127)
Provision for income taxes			(2)	(2)
Loss from continuing operations	(1,189)	(420)	(1,349)	(2,129)
Income from discontinued operations, net of tax (Note 10)		7		
Net loss	$ (1,189)	$ (413)	$ (1,349)	$ (2,129)
Net loss per share (basic and diluted):				
Continuing operations	$ (0.08)	$ (0.03)	$ (0.09)	$ (0.15)
Discontinued operations		0.00		
Net loss	$ (0.08)	$ (0.03)	$ (0.09)	$ (0.15)
Basic and diluted weighted-average number of common shares outstanding	14,184	14,184	14,184	14,184
Comprehensive loss:				
Continuing operations	$ (1,189)	$ (413)	$ (1,349)	$ (2,129)
Foreign currency translation adjustments	59	(46)	102	7

Comprehensive loss	$ (1,130)	$ (459)	$ (1,247)	$ (2,122)

Accompanying notes are an integral part of these consolidated financial statements.

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InfoSonics Corporation

Consolidated Balance Sheets

(Amounts in thousands, except per share data)

	September 30, 2012 (unaudited)	December 31, 2011 (audited)
ASSETS		
Current assets:		
Cash and cash equivalents	$ 9,341	$ 11,422
Restricted cash	1,002	1,000
Trade accounts receivable, net of allowance for doubtful accounts of $322 and $97, respectively	6,731	8,610
Other accounts receivable	99	76
Inventory	4,547	2,238
Prepaid assets	1,447	2,485
Total current assets	23,167	25,831
Property and equipment, net	303	311
Other assets	307	69
Total assets	$ 23,777	$ 26,211
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 2,198	$ 2,506
Accrued expenses	3,666	4,719
Total current liabilities	5,864	7,225
Commitments and Contingencies (Note 12)		
Stockholders equity:		
Preferred stock, $0.001 par value, 10,000 shares authorized (no shares issued and outstanding)		
Common stock, $0.001 par value, 40,000 shares authorized; 14,184 shares issued and outstanding as of September 30, 2012 and December 31, 2011	14	14
Additional paid-in capital	32,225	32,051
Accumulated other comprehensive loss	(15)	(117)
Accumulated deficit	(14,311)	(12,962)
Total stockholders equity	17,913	18,986
Total liabilities and stockholders equity	$ 23,777	$ 26,211

Accompanying notes are an integral part of these consolidated financial statements.

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InfoSonics Corporation

Consolidated Statements of Cash Flows

(Amounts in thousands)

(unaudited)

	For the Nine Months Ended September 30, 2012	2011
Cash flows from operating activities:		
Net loss	$ (1,349)	$ (2,129)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation	208	138
Loss on disposal of fixed assets	66	12
Provision for (recovery of) bad debts	225	(100)
Provision for obsolete inventory	51	124
Stock-based compensation expense	174	135
(Increase) decrease in:		
Trade accounts receivable	1,654	7,187
Other accounts receivable	(23)	520
Inventory	(2,360)	(1,561)
Prepaids	1,038	(1,196)
Other assets	(238)	10
Increase (decrease) in:		
Accounts payable	(308)	(2,796)
Accrued expenses	(1,053)	68
Cash provided by (used in) continuing operations	(1,915)	412
Cash provided by discontinued operations		710
Net cash provided by (used in) operating activities	(1,915)	1,122
Cash flows from investing activities:		
Purchase of property and equipment	(266)	(167)
Sale of property and equipment		6
Increase in restricted cash	(2)	
Net cash used in investing activities	(268)	(161)
Effect of exchange rate changes on cash	102	7
Net increase (decrease) in cash and cash equivalents	(2,081)	968
Cash and cash equivalents, beginning of period	11,422	12,484
Cash and cash equivalents, end of period	$ 9,341	$ 13,452
Cash paid for interest	$	$
Cash paid for income taxes		

Accompanying notes are an integral part of these consolidated 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, 2011 included in the Company s Annual Report on Form 10-K.

The Company s consolidated financial statements include assets, liabilities and operating results of its wholly-owned subsidiaries. All significant intercompany accounts and transactions have been eliminated.

In the opinion of management, these unaudited consolidated financial statements reflect all normal recurring adjustments considered necessary to fairly present the Company s results of operations, financial position and cash flows as of September 30, 2012 and for all periods presented. The results reported in these consolidated financial statements for the three and nine months ended September 30, 2012 are not necessarily indicative of the operating results, financial condition or cash flows that may be expected for the full fiscal year of 2012 or for any future period.

NOTE 2. Stock-Based Compensation

The Company has two equity incentive plans: the 2006 Equity Incentive Plan (2006 Plan) and the 2003 Stock Option Plan (2003 Plan). Each of the plans was approved by our stockholders. As of September 30, 2012, options to purchase 631,000 shares and 12,000 shares were outstanding under the 2006 Plan and the 2003 Plan, respectively, and a total of 717,000 shares are available for grant under the 2006 Plan. There are no options available for grant under the 2003 Plan.

The Company s stock options vest on an annual or a monthly basis. The Company recognizes stock-based compensation expense on a straight-line basis over the requisite service period of the award, which is generally the option vesting term. Such amount may change as a result of additional grants, forfeitures, modifications in assumptions and other factors. 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 and nine months ended September 30, 2012, we recorded an expense of $27,000 and $84,000, respectively, related to options previously granted. During the three and nine months ended September 30, 2011, we recorded an expense of $19,000 and $45,000, respectively, related to options previously granted. 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 expense for non-qualified stock options creates a deductible temporary difference that results in a deferred tax asset and a corresponding deferred tax benefit in our consolidated statements of operations.

During the nine months ended September 30, 2012, the Company granted a stock option on 10,000 shares. The fair value of the option grant was estimated on the date of grant using the Black-Scholes option pricing model with the following weighted-average assumptions: risk-free interest rate of 0.91% 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, declare dividends; and an expected life of 4 years based upon the historical life of options. The expected volatility used in the calculation was 109% based on the Company s historical stock price fluctuations for a period matching the expected life of the options. During the nine months ended September 30, 2011, the Company granted stock options for an aggregate of 250,000 shares. As of September 30, 2012, there was $93,000 of total unrecognized compensation expense related to non-vested stock options. That expense is expected to be recognized over the remaining weighted-average period of 0.88 years.

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A summary of option activity under all of the above plans as of September 30, 2012 and changes during the nine months then ended is presented in the table below (shares in thousands):

	Shares	Wtd. Avg. Exercise Price	Wtd. Avg. Remaining Contractual Life
Outstanding at December 31, 2011	633	$ 0.90	5.61
Granted	10	$ 0.74	6.46
Exercised		$	
Forfeited		$	
Outstanding at September 30, 2012	643	$ 0.90	4.88
Vested and expected to vest	643	$ 0.90	4.88
Exercisable at September 30, 2012	450	$ 1.01	4.66

A summary of the status of the Company s non-vested options at September 30, 2012 and changes during the nine months then ended is presented below (shares in thousands):

	Shares	Weighted-average grant-date fair value
Non-vested at December 31, 2011	349	$ 0.50
Granted	10	$ 0.54
Vested	(166)	$ 0.50
Forfeited		$
Non-vested at September 30, 2012	193	$ 0.50

During the quarter ended June 30, 2010, the Company established a wholly owned subsidiary in Hong Kong to serve as the base for the Company s sales and marketing efforts of its proprietary line of *verykool*® products in Asia-Pacific. It also established a wholly owned subsidiary of the Hong Kong entity in China for the purpose of designing and developing *verykool*® products. The Company funded the combined operations of these entities with $1.0 million and agreed to invest up to $1.0 million in additional funding as needed. In order to provide incentives to the China development team, the Company granted a warrant exercisable for 38% of the equity ownership of the Hong Kong subsidiary to a management company for the benefit of the China employees. The Company also committed to reserve up to 5% more to attract additional talent as needed. The total exercise price of the warrant is $1.00, with vesting to occur one-third upon the first anniversary of the warrant and the remaining two-thirds to vest on a monthly basis over the succeeding 24 months. The warrant has a 6-year life, but will not be exercisable until the third anniversary of its issuance.

The Company evaluated the warrant on its Hong Kong subsidiary in accordance with ASC 718-50 and concluded that because the warrants were issued to the management company for allocation at its discretion, the proper treatment of the warrants was as specified in ASC 505-50 as equity-based payments to non-employees in exchange for services. The Company also concluded that the estimated fair value of the warrant at the date of grant was $365,000. The Company is recording the expense for this warrant based upon its estimated fair value on a straight-line basis over the three year performance period. During the three and nine months ended September 30, 2012, we recorded an expense of $30,000 and $90,000, respectively, related to this warrant. During the three and nine months ended September 30, 2011, we also recorded an expense of $30,000 and $90,000, respectively, related to this warrant.

The Company s stock-based compensation is 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 and nine months ended September 30, 2012 and 2011 is as follows (in thousands):

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2012	**2011**	**2012**	**2011**
Officer compensation	$ 16	$ 11	$ 48	$ 25
Non-employee directors	5	3	15	6
Sales, general and administrative	6	5	21	14
Research and development	30	30	90	90
Total stock option/warrant expense, included in total operating expenses	$ 57	$ 49	$ 174	$ 135

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NOTE 3. Earnings Per Share

Basic earnings per share are 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.

Common shares from the potential exercise of certain options have been excluded from the computation of earnings (loss) per share because their exercise prices are greater than the Company s average stock price for the period. For both the three and nine months ended September 30, 2012, the number of shares excluded was 37,000. For the three and nine months ended September 30, 2011, the number of shares excluded was 106,000 and 506,000, respectively. In addition, because their effect would have been anti-dilutive, common shares from exercise of in-the-money options for both the three and nine months ended September 30, 2012 of 606,000, and for the three and nine months ended September 30, 2011 of 527,000 and 127,000, respectively, have also been excluded from the computation of net loss per share.

NOTE 4. Income Taxes

The Company made a comprehensive review of its portfolio of uncertain tax positions in accordance with applicable standards of the Financial Accounting Standards Board (FASB). 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. As a result of this review, the Company concluded that at this time there are no uncertain tax positions, and there has been no cumulative effect on retained earnings.

The Company is subject to U.S. federal income tax as well as income tax in multiple states and foreign jurisdictions. For all major taxing jurisdictions, the tax years 2004 through 2011 remain open to examination or re-examination. As of September 30, 2012, the Company does not expect any material changes to unrecognized tax positions within the next twelve months.

The Company recognizes 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 the Company s financial position or results of operations. For the three and nine months ended September 30, 2012, deferred income tax assets and the corresponding valuation allowance increased by $267,000 and $392,000, respectively.

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 records a reserve against inventories to account for obsolescence and possible price concessions required to liquidate inventories below cost. During the nine months ended September 30, 2012, the inventory reserve balance was increased by $51,000. As of September 30, 2012 and December 31, 2011, the inventory reserve was $158,000 and $107,000, 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 September 30, 2012 and December 31, 2011, the prepaid inventory balances were $1,037,000 and $2,158,000, respectively, which are included in prepaid assets in the accompanying consolidated balance sheets. Inventory consists of the following (in thousands):

	September 30, 2012 (unaudited)	**December 31, 2011 (audited)**
Finished goods	$ 4,705	$ 2,345
Inventory reserve	(158)	(107)
Net inventory	$ 4,547	$ 2,238

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NOTE 6. Property and Equipment

Property and equipment are primarily located in the United States and China, including test fixtures and computer equipment at the Company s development subsidiary in China and certain tooling and product molds located at outsourced manufacturers in Asia. Fixed assets consisted of the following (in thousands):

	September 30, 2012 (unaudited)	December 31, 2011 (audited)
Machinery and equipment	$ 322	$ 284
Tooling and molds	433	764
Furniture and fixtures	65	42
Subtotal	820	1,090
Less accumulated depreciation	(517)	(779)
Total	$ 303	$ 311

Depreciation expense for the three and nine months ended September 30, 2012 was $76,000 and $208,000, respectively, and for the three and nine months ended September 30, 2011 was $43,000 and $138,000, respectively.

NOTE 7. Accrued Expenses

As of September 30, 2012 and December 31, 2011, accrued expenses consisted of the following (in thousands):

	September 30, 2012 (unaudited)	December 31, 2011 (audited)
Accrued product costs (including warranty)	$ 2,361	$ 1,667
Income taxes payable	97	98
Other accruals	1,208	2,954
Total	$ 3,666	$ 4,719

NOTE 8. Derivative Instruments and Hedging Activities

On December 9, 2011, the Company entered into a Foreign Exchange Trading Master Agreement and a Pledge Agreement (collectively, the Agreement) with HSBC Bank USA (the Bank). Under the terms of the Agreement, the Company and the Bank may enter into spot and/or forward foreign exchange transactions and/or foreign currency options. The Company intends to use these derivative instruments to manage the foreign currency risk associated with its trade accounts receivable that are denominated in foreign currencies, primarily the Mexican peso. In order to secure its obligations under the Agreement, the Company deposited $1 million into a restricted account. For the three months ended March 31, 2012, foreign exchange losses amounted to $48,000, and there were no foreign exchange losses in the six months ended September 30, 2012. At December 31, 2011 we had a single foreign currency forward contract in the amount of $303,000. There were no such contracts outstanding at September 30, 2012.

NOTE 9. Recent Accounting Pronouncements

Recently Adopted:

In May 2011, the FASB issued guidance to amend the accounting and disclosure requirements on fair value measurements. The new guidance limits the highest-and-best-use measure to nonfinancial assets, permits certain financial assets and liabilities with offsetting positions in market or counterparty credit risks to be measured at a net basis, and provides guidance on the applicability of premiums and discounts. Additionally, the new guidance expands the disclosures on Level 3 inputs by requiring quantitative disclosure of the unobservable inputs and assumptions, as well as description of the valuation processes and the sensitivity of the fair value to changes in unobservable inputs. The new guidance was effective for annual periods beginning after December 15, 2011. Other than requiring additional disclosures, the full adoption of this new guidance has not had an impact on the Company s consolidated financial statements.

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In June 2011, the FASB issued guidance on presentation of comprehensive income. The new guidance eliminates the current option to report other comprehensive income and its components in the statement of changes in equity. Instead, an entity will be required to present either a continuous statement of net income and other comprehensive income or in two separate but consecutive statements. This new guidance was effective for fiscal years and interim periods beginning after December 15, 2011 and was adopted by the Company on January 1, 2012. The adoption of this new guidance did not have an impact on the Company s consolidated financial statements.

Issued (Not adopted yet):

In December 2011, the FASB issued guidance on offsetting (netting) assets and liabilities. Entities are required to disclose both gross information and net information about both instruments and transactions eligible for offset in the statement of financial position and instruments and transactions subject to an agreement similar to a master netting arrangement. The new guidance is effective for annual periods beginning after January 1, 2013. We do not expect the adoption of this new guidance to have an impact on the Company s consolidated financial statements.

NOTE 10. Discontinued Operations

During the quarter ended June 30, 2008, the Company assessed its business in the United States and Mexico. Due to the changing environment and consolidation in the United States of the smaller regional cellular carriers (one of the Company s then target markets) into larger national carriers, along with the Company s inability to penetrate the Mexico market due to challenges of fostering sales relations with the dominant cellular carriers there, management determined that it was necessary to take decisive actions to mitigate further losses. The Company implemented actions necessary to close operations related to sales in both of those countries, which actions were substantially completed by the end of 2009. The discontinuation of both operations was totally complete as of December 31, 2011. Results of the unaudited discontinued operations for the three and nine months ended September 30, 2011 were as follows (in thousands):

	Three Months Ended September 30, 2011	Nine Months Ended September 30, 2011
Net sales	$	$
Gross profit		53
Net income	7	
Identifiable assets		
Capital expenditures		
Depreciation and amortization		

NOTE 11. Geographic Information

The Company currently operates in one business segment. Fixed assets are principally located in Company or third-party facilities in the United States and Asia. The unaudited net sales by geographical area for the three and nine months ended September 30, 2012 and 2011 were (in thousands):

	For the Three Months Ended		For the Nine Months Ended	
	Sept. 30, 2012	Sept. 30, 2011	Sept. 30, 2012	Sept. 30, 2011
Central America	$ 1,636	$ 3,536	$ 6,228	$ 8,654
South America	1,883	1,237	7,925	10,290
Mexico	78		1,647	151
U.S.-based Latin American distributors	1,075	2,104	4,859	3,381
United States	41		118	
Europe, Middle East and Africa	507		4,636	
Asia Pacific	153	296	429	484
Total	$ 5,373	$ 7,173	$ 25,842	$ 22,960

NOTE 12. Commitments and Contingencies

On May 22, 2012, a lawsuit was filed against the Company in Santo Domingo, Dominican Republic (Case No. FP-12-461) by Viaimport, SRL, a former customer of the Company, and served on the Company on July 12, 2012. The complaint alleges breach of contract and seeks U.S. $1 million in damages. The Company believes that this case is without merit and intends to vigorously defend itself. In addition, on August 31, 2012, the Company filed a lawsuit against Viaimport and its principal, Omar Hassan, in Miami-Dade County Florida (Case No. 12-34647CA32) for non-payment of purchase obligations aggregating $288,559 and other damages. Although both lawsuits are in their early stages, at this time we do not believe it will have a material adverse effect on our financial condition. However, the ultimate legal and financial liability with respect to these matters cannot be estimated with certainty and the Dominican Republic case is complicated by its foreign venue.

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The Company may become involved in certain other legal proceedings and claims which arise in the normal course of business. Other than as described above, as of the filing date of this report, the Company did not have any significant litigation outstanding.

The Company leased its corporate office under an operating lease agreement that expired on September 30, 2012. On May 23, 2012, the Company entered into an amendment to that lease agreement under which the Company now occupies as its corporate office an alternate property owned by the same landlord for an additional five year term that commenced October 1, 2012 and will end September 30, 2017. The new property is approximately 10% larger, but the initial rental rate is 44% lower than the expiring rate on the previous property. Future minimum payments under the amendment are $916,000.

NOTE 13. Fair Value of Financial Instruments

The FASB accounting guidance requires disclosure of fair value information about financial instruments, whether or not recognized in the accompanying consolidated balance sheets. Fair value as defined by the guidance is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value estimates of financial instruments are not necessarily indicative of the amounts we might pay or receive in actual market transactions. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts. Effective April 1, 2008 the Company adopted and follows ASC 820, Fair Value Measurements and Disclosures (ASC 820) which established a fair value hierarchy that requires the Company to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. A financial instruments categorization within the hierarchy is based on the lowest level of input that is significant to the fair value measurement.

The Company s cash and cash equivalents and restricted cash are measured at fair value in the Company s consolidated financial statements and are valued using unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 inputs under ASC 820). The carrying amount of our accounts receivable, other accounts receivable, prepaid expenses, accounts payable and accrued expenses reported in the consolidated balance sheets approximates fair value because of the short maturity of those instruments.

At September 30, 2012 and December 31, 2011, we did not have any material applicable nonrecurring measurements of nonfinancial assets and nonfinancial liabilities.

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Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations

Forward-Looking Statements, Safe Harbor Statement and Other General Information

This discussion and analysis of financial condition and results of operations should be read in conjunction with the accompanying unaudited consolidated financial statements and condensed notes thereto and other information included in this report and our Annual Report on Form 10-K for the year ended December 31, 2011 (including our 2011 audited consolidated financial statements and related notes thereto and other information). Our discussion and analysis of financial condition and results of operations are based upon, among other things, our unaudited consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States (GAAP). The preparation of financial statements in conformity with GAAP requires us to, among other things, make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosures of contingent liabilities as of the date of our most recent balance sheet, and the reported amounts of revenues and expenses during the reporting periods. We review our estimates and assumptions on an ongoing basis. Our estimates are based on our historical experience and other assumptions that we believe to be reasonable under the circumstances. Actual results are likely to differ from these estimates under different assumptions or conditions, but we do not believe such differences will materially affect our financial position or results of operations, although they may. Our critical accounting policies, the policies we believe are most important to the presentation of our financial statements and require the most difficult, subjective and complex judgments are outlined in Critical Accounting Policies in our Annual Report on Form 10-K. All references to results of operations in this discussion generally are to results from continuing operations, unless otherwise noted.

This report contains forward-looking statements, including, without limitation, statements about customer relationships, marketing of our *verykool*® products, sales levels, cost reductions, operating efficiencies, profitability and adequacy of working capital, that are based on current management expectations and which involve certain risks and uncertainties. These risks and uncertainties, in whole or in part, could cause such expectations to fail to be achieved and have a material adverse effect on our business, financial condition and results of operations, and include, without limitation: (1) intense competition internationally, including competition from alternative business models, such as manufacturer-to-carrier sales, which may lead to reduced prices, lower sales, lower gross margins, extended payment terms with customers, increased capital investment and interest costs, bad debt risks and product supply shortages; (2) the ability of our China R&D group to develop new *verykool*® handsets and successfully introduce them into new emerging markets; (3) extended general economic downturn in world markets; (4) inability to secure adequate supply of competitive products on a timely basis and on commercially reasonable terms; (5) foreign exchange rate fluctuations, devaluation of a foreign currency, adverse governmental controls or actions, political or economic instability, or disruption of a foreign market, including, without limitation, the imposition, creation, increase or modification of tariffs, taxes, duties, levies and other charges and other related risks of our international operations which could significantly increase selling prices of our products to our customers and end-users; (6) the ability to attract new sources of profitable business from expansion of products or services or risks associated with entry into new markets, including geographies, products and services; (7) an interruption or failure of our information systems or subversion of access or other system controls may result in a significant loss of business, assets, or competitive information; (8) significant changes in supplier terms and relationships or shortages in product supply; (9) loss of business from one or more significant customers; (10) customer and geographical accounts receivable concentration risk and other related risks; (11) rapid product improvement and technological change resulting in inventory obsolescence; (12) uncertain political and economic conditions internationally, including terrorist or military actions; (13) the loss of a key executive officer or other key employees and the integration of new employees; (14) changes in consumer demand for multimedia wireless handset products and features; (15) our failure to adequately adapt to industry changes and to manage potential growth and/or contractions; (16) seasonal buying patterns; (17) the resolution of any litigation for or against the Company; (18) the ability of the Company to have access to adequate capital to fund its operations; and (19) the ability of the Company to generate taxable income in future periods. Reference is also made to other factors detailed from time to time in our periodic reports filed with the Securities and Exchange Commission. These forward-looking statements speak only as of the date of this release and we undertake no obligation to publicly update any forward-looking statements to reflect new information, events or circumstances after the date of this release. We have instituted in the past, and continue to institute, changes to our strategies, operations and processes to address risks and uncertainties and to mitigate their impacts on our results of operations and financial condition. However, no assurances can be given that we will be successful in these efforts. For a further discussion of significant risk factors to consider, see Risk Factors below in this report and Item 1A. Risk Factors of our Annual Report on Form 10-K. In addition, other risks or uncertainties may be detailed from time to time in our future SEC filings.

Overview

We are a provider of wireless handsets and accessories to carriers, distributors and original equipment manufacturers (OEMs) in Latin America, Asia Pacific, Europe and Africa. We design, develop, source and sell our proprietary line of products under the *verykool®* brand and on a private label basis to certain customers (collectively referred to as our *verykool®* products). We first introduced our *verykool®* brand in 2006 and *verykool®* products include entry-level, mid-tier and high-end products.

Prior to March 2012 and for the past five years before then, there were essentially two ways through which we provided wireless handsets and accessories: (1) through the distribution of wireless handsets supplied by major manufacturers, primarily Samsung, and (2) through the provision of our proprietary *verykool®* phones that we originally sourced from independent design houses and original design manufacturers (ODMs). Our annual revenue peaked in 2006 when we recorded approximately $241 million of net sales. In 2009, more than 95% of our net sales of approximately $231 million were derived from distribution sales of Samsung products to carriers in Argentina. In late 2009, however, a stiff import tariff on certain electronic devices, including wireless handsets, was enacted in Argentina. The tariff had a significant negative impact on our sales beginning in the first quarter of 2010, and ultimately resulted in a decrease of 69% of our sales volume in 2010 compared to 2009. Then, in February 2011, Argentina enacted a further import regulation effective March 6, 2011 which signaled the closing stage of our distribution business. Our distribution agreement with Samsung expired on March 31, 2012. Since then and going forward, our business has been and will be centered on our *verykool®* product line. Our goal is to eventually replace the lost gross profit from distribution revenues with higher margin *verykool®* sales through the expansion of our product portfolio and entry into new geographic markets in Latin America, Asia Pacific, Europe and Africa.

The *verykool®* brand is now our flagship product. In order to better control the roadmap for this product line, in April 2010 we established an in-house design center in Beijing, China where we are now designing a number of phones in our product portfolio. We continue to source many of our phones from independent design houses, but expect that eventually the majority of our phones will come from our own design center as our team expands and increases its capacity. We contract with electronic manufacturing services (EMS) providers to manufacture all of our *verykool®* products, and maintain personnel in China to oversee production and conduct quality control.

Industry and Market Trends and Risks

The wireless business is extremely competitive. The industry is characterized by rapid technological development driven by faster and more capable chipsets, innovative software features and applications and faster networks provided by wireless carriers. In this environment, it is extremely difficult to differentiate our products, and price pressure is constant.

Over the past several years, our business has been concentrated in countries in Latin America. In addition, during that time, the majority of our revenue was derived from distribution sales of Samsung products in Argentina, typically at very thin margins. As mentioned above, in late 2009, Argentina enacted a significant import tariff on certain electronic devices, including wireless handsets, that threatened our distribution business and largely eroded our sales during 2010 and 2011.

In late 2010, we expanded sales of our *verykool®* products into the Asia Pacific market with initial sales to customers in both China and India, and in 2011, we added customers in Western Europe, Russia, Singapore, Africa and certain other Southeast Asian countries. The economic profile of the consumer markets in both Latin America and Asia Pacific are similar in that they are extremely price sensitive. As a consequence, unlike the U.S. domestic market that is dominated by large providers, these markets are more open to smaller providers such as InfoSonics who are able to supply more competitively priced handsets with similar features. We expect

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this situation to continue for the foreseeable future. The Latin America and Asia Pacific markets are also more attractive to us because the current level of cellular customer penetration is significantly lower in most countries in these regions in comparison to North America and Western Europe.

Results of Operations

The following table sets forth certain items from our consolidated statements of operations as a percentage of net sales for the periods indicated:

	Three months ended September 30,		Nine months ended September 30,	
	2012	2011	2012	2011
Net sales	100.0%	100.0%	100.0%	100.0%
Cost of sales	78.8%	83.0%	78.9%	87.2%
Gross profit	21.2%	17.0%	21.1%	12.8%
Operating expenses:				
Selling, general and administrative	33.6%	17.5%	20.4%	17.3%
Research and development	9.8%	5.4%	5.9%	4.9%
	43.4%	22.9%	26.3%	22.2%
Operating loss from continuing operations	(22.2%)	(5.9%)	(5.2%)	(9.4%)
Other income (expense):				
Other income (expense)		0.0%	0.0%	0.1%
Interest, net	0.1%		0.0%	0.0%
Loss from continuing operations before income taxes	(22.1%)	(5.9%)	(5.2%)	(9.3%)
Provision for income taxes			0.0%	0.0%
Loss from continuing operations	(22.1%)	(5.9%)	(5.2%)	(9.3%)
Income from discontinued operation, net of tax		0.1%		
Net loss	(22.1%)	(5.8%)	(5.2%)	(9.3%)

Three months ended September 30, 2012 compared with three months ended September 30, 2011

Net Sales

For the three months ended September 30, 2012, our net sales amounted to $5.4 million, a decrease of $1.8 million, or 25%, from $7.2 million in the same period last year. The decrease was due to a softening of demand at a number of our larger customers, primarily in Guatemala and the Latin American open market (non-carrier), as well as a decline of $1.2 million in distribution sales as a consequence of the termination of our Samsung distribution agreement at the end of the first quarter of 2012 and the absence of Samsung sales during the third quarter of 2012. Excluding the decline in distribution sales, net sales of *verykool*® products declined 10% during the third quarter of 2012 compared to the third quarter of the prior period. Sales of *verykool*® products to customers in Latin America declined 18% from $5.7 million to $4.7 million, but was partially offset by $0.4 million of incremental private label sales to customers in Western Europe, Russia, Africa and Asia Pacific. In total, we shipped 22% more *verykool*® handsets during the quarter than in the prior year, but the average selling price declined 26% due to a shift in product mix driven by the popularity of lower-priced phones in our Latin American markets and a lowering of our sales prices during the third quarter of 2012 to spur sales.

We believe that the softening of our sales in the third quarter of 2012 reflects a general weakness of consumer demand that was experienced across a number of different industry sectors. We are encouraged by the firming of customer orders we are experiencing mid-way through the fourth quarter of 2012 and believe that our fourth quarter results will show meaningful improvement over the third quarter.

Cost of Sales, Gross Profit and Gross Margin

For the three months ended September 30, 2012, our gross profit amounted to $1,139,000, a decrease of $79,000, or 7%, from $1,218,000 in the same period last year, as a result of the decreased sales volume of our proprietary *verykool*® products and the absence of Samsung distribution revenues. Our gross profit margin for the three months ended September 30, 2012 rose to 21.2% from 17.0% in the same period last year, due primarily to the absence of low margin distribution sales in the third quarter of 2012. For the three months ended September 30, 2012, substantially all of our net sales were generated by *verykool*® products, compared to 83% in the same period last year.

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Operating Expenses

For the three months ended September 30, 2012, total operating expenses amounted to $2.3 million, an increase of 42% compared to $1.6 million in the same period last year. The increase in expenses in combination with the decline in net sales resulted in an increase in operating expenses as a percentage of net sales to 43.4% in the three months ended September 30, 2012, compared with 22.9% for the same period last year. Selling, general and administrative expenses for the three months ended September 30, 2012 amounted to $1.8 million, an increase of $548,000, or 44%, compared to $1.3 million in the prior year quarter. The increases were primarily related to increases in marketing, our annual sales meeting and increased compensation expense for new employees and contractors. R&D expenses for the three months ended September 30, 2012 amounted to $527,000, an increase of $143,000, or 37%, compared to $384,000 in the prior year quarter. The increase was primarily due to increased compensation expense from expansion of our development team.

Other Income (Expense)

Other income (expense) was not significant for the three months ended September 30, 2012 or 2011.

Provision for Income Taxes

Because of our prior operating losses and lack of carry-back ability, we had no provision for income taxes for the three months ended September 30, 2012 and 2011.

Income from Discontinued Operations (net of tax)

The discontinuance and closure of our operations in the U.S. and Mexico that began in the second quarter of 2008 was completed as of December 31, 2011. During the three months ended September 30, 2011, we reported net income from discontinued operations of $7,000.

Nine months ended September 30, 2012 compared with nine months ended September 30, 2011

Net Sales

For the nine months ended September 30, 2012, our net sales amounted to $25.8 million, an increase of $2.9 million, or 13%, from $23.0 million in the same period last year. The increase reflects a significant increase in sales of our proprietary *verykool*® handsets. Net sales of *verykool*® products during the nine months ended September 30, 2012 amounted to $23.1 million, an increase of $10.1 million, or 78%, from $13.0 million in the same period last year. We shipped 114% more *verykool*® handsets during the first nine months of 2012 than in the first nine months of the prior year, and the average selling price declined by 17% primarily due to a shift in product mix to lower priced phones that are popular in Latin America.

Partially offsetting the increase in sales of our proprietary *verykool*® handsets was a decline in Samsung distribution sales reflecting the wind down of our Samsung distribution business. Distribution sales during the nine months ended September 30, 2012 amounted to $2.7 million, a decrease of $7.2 million, or 73%, from $9.9 million in the same period last year.

Cost of Sales, Gross Profit and Gross Margin

For the nine months ended September 30, 2012, our gross profit amounted to $5.5 million, an increase of $2.5 million, or 86%, from $2.9 million in the same period last year. The significant increase reflects the combined effect of the increased level of sales during the period and the higher mix of sales this year of our proprietary *verykool*® products compared to our distribution revenues. Our gross profit margin for the nine months ended September 30, 2012 was 21.1% of net sales, a 65% increase from the gross margin of 12.8% in the same period last year. For the nine months ended September 30, 2012, net sales of *verykool*® products represented 89% of our total sales, compared to 57% in the same period last year.

Operating Expenses

For the nine months ended September 30, 2012, total operating expenses amounted to $6.8 million, an increase of 33% compared to $5.1 million in the same period last year. Operating expenses as a percentage of net sales increased to 26.3% in the nine months ended September 30, 2012, compared with 22.2% for the same period last year, as expenses increased at a faster pace than net sales. Selling, general and administrative expenses for the nine months ended September 30, 2012 amounted to $5.3 million, an increase of $1.3 million, or 33%, compared to $4.0

million for the same period last year. This increase is primarily related to an increase of $225,000 in our bad debt reserve, increased compensation expense for new employees and contractors, sales commissions on increased sales, increased marketing and annual sales meeting expenses and increased homologation expenses to prepare new phone models for sale and use on carrier networks. Research and development expenses for the nine months ended September 30, 2012 amounted to $1.5 million, an increase of $388,000, or 33%, compared to $1.1 million for the same period last year. The increase is primarily related to compensation expense from expansion of our development team and prototyping and abandoned tooling expense.

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Other Income (Expense)

For the nine months ended September 30, 2012, other income (expense) included $65,000 of expense comprised of $48,000 of foreign exchange losses and a $17,000 loss on disposal of fixed assets. We also recorded $53,000 of interest income primarily related to financed customer receivables. For the nine months ended September 30, 2011, we recorded $30,000 of other income relating principally to the gain on sale of fixed assets in connection with the closure of our Miami warehouse on March 31, 2011 and $11,000 of interest income earned on an income tax refund.

Provision for Income Taxes

Because of our operating losses and lack of carry back ability, our tax provisions for the nine month periods ended September 30, 2012 and 2011 were nominal and consisted only of state and local taxes.

Liquidity and Capital Resources

Historically, our primary sources of liquidity have been cash generated from operations, lines of credit (bank and vendor) and, from time to time, the sale and exercise of securities to provide capital needed to support our business. However, we have incurred losses for the last three fiscal years and negative cash flow from operations in one of those years. In the nine months ended September 30, 2012, we used $1.9 million in cash for operations. Primary uses of cash included a $2.4 million increase in inventories due primarily to the slowing of sales in the third quarter of 2012, a $1.4 million decrease in accounts payable and accruals, and a $0.6 million net loss before non-cash charges. Primary sources of cash included a $1.7 million reduction in accounts receivable, a $0.8 million decrease in prepaids and other assets. Although we do not currently have a bank credit line, we believe that our current cash resources and working capital are sufficient to fund our operations for the foreseeable future.

Critical Accounting Policies

There have been no material changes to our critical accounting policies and estimates affecting the application of those accounting policies since our Annual Report on Form 10-K for the year ended December 31, 2011.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

The primary objective of the following information is to provide forward-looking quantitative and qualitative information about our potential exposure to market risk. The term market risk for us refers to the risk of loss arising from adverse changes in interest rates and various foreign currencies. The disclosures are not meant to be precise indicators of expected future losses, but rather indicators of reasonably possible losses. This forward-looking information provides indicators of how we view and manage our ongoing market risk exposures.

Interest Rate Risk

At September 30, 2012, we had no outstanding interest bearing debt and no rate-sensitive investments.

Foreign Exchange and Other Risks

At September 30, 2012 and December 31, 2011, foreign currency cash accounts in Mexican pesos amounted to $153,000 and $64,000, respectively. Also at September 30, 2012 and December 31, 2011, accounts receivable denominated in Mexican pesos amounted to $27,000 and $251,000, respectively. Prior to December 2011, all of our sales transactions were denominated in U.S. dollars. Beginning in December 2011, we began to price sales in foreign currencies only to certain customers in Mexico. Product costs and the majority of our operating expenses are also denominated in U.S. dollars, but payroll and other costs of our Beijing development team are denominated in Chinese Yuan Renminbi.

Foreign currency risks are associated with our cash, receivables, payroll and payables denominated in foreign currencies. Fluctuations in exchange rates will result in foreign exchange gains and losses on these foreign currency assets and liabilities, which are included in other income (expense) in our consolidated statements of operations. For the three month period ended March 31, 2012, foreign exchange losses amounted to $48,000. We had no foreign exchange losses in the six month period ended September 30, 2012. At December 31, 2011 we had a single foreign currency forward contract in the amount of $303,000. There were no such contracts outstanding at September 30, 2012.

As a result of our international sales, our future operating results could also be adversely affected by a variety of factors, including changes in specific countries political, economic or regulatory conditions and trade protection measures, particularly in China.

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Item 4. Controls and Procedures

Disclosure Controls

An evaluation was performed pursuant to Rule 13a-15(b) of the Exchange Act under the supervision and with the participation of our management, including the President and Chief Executive Officer and the Vice President and Chief Financial Officer, of the effectiveness of the Company s disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act) as of the end of the period covered by this quarterly report. These disclosure controls and procedures are designed to ensure that information required to be disclosed by the Company in the reports it files or submits under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the SEC s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that this information is accumulated and communicated to our management, including our principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure. Based on the evaluation, the President and Chief Executive Officer and the Vice President and Chief Financial Officer concluded that the Company s disclosure controls and procedures were effective as of the end of the period covered by this quarterly report.

Changes in Internal Control over Financial Reporting

There was no change in our internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f) of the Exchange Act) during our third quarter ended September 30, 2012, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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PART II. OTHER INFORMATION

Item 1. Legal Proceedings

Viamport Litigation

On May 22, 2012, a lawsuit was filed against the Company in Santo Domingo, Dominican Republic (Case No. FP-12-461) by Viaimport, SRL, a former customer of the Company, and served on the Company on July 12, 2012. The complaint alleges breach of contract and seeks U.S. $1 million in damages. The Company believes that this case is without merit and intends to vigorously defend itself. In addition, on August 31, 2012, the Company filed a lawsuit against Viaimport and its principal, Omar Hassan, in Miami-Dade County Florida (Case No. 12-34647CA32) for non-payment of purchase obligations aggregating $288,559 and other damages. Although both lawsuits are in their early stages, at this time we do not believe it will have a material adverse effect on our financial condition. However, the ultimate legal and financial liability with respect to these matters cannot be estimated with certainty and the Dominican Republic case is complicated by its foreign venue.

The Company may become involved in certain other legal proceedings and claims which arise in the normal course of business. Other than as described above, as of the filing date of this report, the Company did not have any significant litigation outstanding.

Item 1A. Risk Factors

In addition to the risk factors included below and other information set forth in this report, you should carefully consider the factors discussed in Part I. Item 1A. Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2011 and those included in our Quarterly Reports on Forms 10-Q for the quarters ended March 31, 2012 and June 30, 2012, which factors and information could materially affect our business, financial condition or operating results. The risk factors and uncertainties described in our last Annual Report on Form 10-K, our Quarterly Report on Form 10-Q and this report are not the only risks and uncertainties facing our business. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially affect our business, financial condition or operating results. Except as set forth below, there have been no material changes to the risk factors included in our last Annual Report on Form 10-K and those included in our Quarterly Reports on Forms 10-Q for the quarters ended March 31, 2012 and June 30, 2012.

The loss or reduction in orders from principal customers or a reduction in the prices we are able to charge these customers could have a negative impact upon our financial results.

Our three largest customers in the three months ended September 30, 2012 represented 33%, 16% and 15%, respectively, of our net sales during that period. The markets we serve and are targeting for future business are subject to significant price competition and other competitive pressures, and our current customers are not contractually obligated to purchase products from us. For these and other reasons, our customers may seek to obtain products or services from us at lower prices than we have been able to charge in the past, and they could terminate our relationship or reduce their purchases from us in favor of lower-priced alternatives. In addition, we have experienced losses of certain customers through industry or vendor consolidation, a trend that may increase in our markets and in the ordinary course of business. The further loss of any of our principal customers, a reduction in the amount of product or services our principal customers order from us or the inability to maintain current terms, including price, with these or other customers could have an adverse effect on our financial condition, results of operations and liquidity.

We have been experiencing net losses and expect that net losses may occur for an uncertain period of time. If we operate at a loss, our business may not be financially viable.

Although we reported net income of $105,000 for the three months ended March 31, 2012, we reported a $1.3 million loss for the nine months ended September 30, 2012 and we previously reported five consecutive loss years with an aggregate net loss of $19.6 million. As of September 30, 2012, our balance of cash and restricted cash was $10.3 million, we had net working capital of $17.3 million and we had no outstanding debt. Given the continued economic volatility and the uncertainty of most global markets, we cannot clearly evaluate the financial viability of our business or our long-term prospects with any certainty. While our business plan includes a number of objectives to reach and maintain profitability, if we do not succeed in these objectives, our business might continue to experience losses and may not be sustainable in the future.

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Risks Related To Our Common Stock

The market for our common stock is volatile and our stock price could decline.

The stock market in general, including the market for telecommunications-related stocks in particular, has been highly volatile. For example, the price of our common stock has fluctuated between $1.78 and $0.85 from July 1, 2012 through November 13, 2012. The market price of our common stock has been and is likely to remain volatile, and investors in our common stock may experience a decrease in the value of their stock, including decreases unrelated to our operating performance or prospects, resulting in a substantial loss on their investment.

We may be delisted from The NASDAQ Capital Market if we do not satisfy continued listing requirements.

At various times over the last several years we faced potential delisting from The NASDAQ Capital Market for failure to maintain the minimum $1.00 bid price per share requirement for continued listing. If our common stock trades for 30 consecutive business days below the $1.00 minimum closing bid price requirement, NASDAQ will send us a deficiency notice advising us that we will be afforded a compliance period of 180 calendar days to regain compliance with the applicable requirements. For the 13 consecutive trading days beginning October 24, 2012 and through November 13, 2012 the closing bid price of our common stock has been below $1.00. We intend to continue to monitor the closing bid price of our common stock and there can be no assurance that the price will rise above the $1.00 level before the 30 day period ends on December 7, 2012.

If our common stock were delisted from The NASDAQ Stock Market, you may find it difficult to dispose of your shares and our share price may be adversely affected.

If our common stock were to be delisted from The NASDAQ Capital Market, trading of our common stock most likely would be conducted in the over-the-counter market on an electronic bulletin board established for unlisted securities such as OTC Pink, OTCQX, OTCQB or the OTC Bulletin Board. Such trading would reduce the market liquidity of our common stock. As a result, an investor would find it more difficult to dispose of, or obtain accurate quotations for the price of, our common stock, thereby negatively impacting the share price of our common stock.

If our common stock is delisted from The NASDAQ Capital Market and the trading price remains below $5.00 per share, trading in our common stock might also become subject to the requirements of certain rules promulgated under the Securities Exchange Act of 1934, which require additional disclosure by broker-dealers in connection with any trade involving a stock defined as a penny stock (generally, any equity security not listed on a national securities exchange or quoted on The NASDAQ Stock Market that has a market price of less than $5.00 per share, subject to certain exceptions). Many brokerage firms are reluctant to recommend low-priced stocks to their clients. Moreover, various regulations and policies restrict the ability of stockholders to borrow against or margin low-priced stocks, and declines in the stock price below certain levels may trigger unexpected margin calls. Additionally, because brokers commissions on low-priced stocks generally represent a higher percentage of the stock price than commissions on higher priced stocks, the current price of the common stock can result in an individual stockholder paying transaction costs that represent a higher percentage of total share value than would be the case if our share price were higher. This factor may also limit the willingness of institutions to purchase our common stock. Finally, the additional burdens imposed upon broker-dealers by these requirements could discourage broker-dealers from facilitating trades in our common stock, which could severely limit the market liquidity of the stock and the ability of investors to trade our common stock, thereby negatively impacting the share price of our common stock.

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Item 6. Exhibits

Exhibit Number	Description of Exhibit
31.1	Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer.
31.2	Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer.
32.1	Section 1350 Certification of Chief Executive Officer and Chief Financial Officer.
101.INS	XBRL Instance Document.
101.SCH	XBRL Taxonomy Extension Schema Document.
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

InfoSonics Corporation

Date: November 14, 2012	By:	/s/ JOSEPH RAM **Joseph Ram** **President and Chief Executive Officer**
Date: November 14, 2012	By:	/s/ VERNON A. LOFORTI **Vernon A. LoForti** **Vice President and Chief Financial Officer**