InfoSonics Corp
Form 10-K
March 08, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark one)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2017

or

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

Commission File No. 001-32217

InfoSonics Corporation

(Exact name of registrant as specified in its charter)

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

4435 Eastgate Mall, Suite 320

San Diego, CA 92121

(Address of principal executive offices including zip code)

Registrant’s telephone number, including area code: (858) 373-1600

Securities registered pursuant to Section 12(b) of the Act: Common Stock, Par Value $0.001 Per Share; Common stock traded on the NASDAQ Stock Market

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, as of the last business day of the registrant's most recently completed second fiscal quarter was $4,783,955. This calculation is based upon the closing price of $2.35 of the stock on June 30, 2017 (as adjusted for the reverse stock split on October 10, 2017). Without asserting that any director or executive officer of the registrant, or the beneficial owner of more than five percent of the registrant's common stock, is an affiliate, the shares of which they are the beneficial owners have been deemed to be owned by affiliates solely for this calculation.

As of March 5, 2018, there were 3,378,280 shares of the registrant's common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

None.

InfoSonics Corporation

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Forward-Looking Statements

Certain statements in this annual report on Form 10-K constitute “forward-looking statements.” These forward-looking statements involve known or unknown risks, uncertainties and other factors that may or may not be outside our control and that may cause our actual results, performance, or achievements to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. Specifically, the actions of competitors, suppliers, customers and the NASDAQ Stock Market are generally outside of our control. Our ability to execute our business plans and to increase revenues and operating income are each dependent upon our ability to continue to expand our current businesses and to enter new business areas, as well as upon general economic conditions and other factors, including some of the factors identified as “Risk Factors” in this annual report and from time to time in our other SEC filings. You can identify forward-looking statements by terminology such as “may,” “will,” “should,” “expects,” “intends,” “plans,” “anticipates,” “believes,” “estimates,” “predicts,” “potential,” “continues,” or the nega terms, or other comparable terminology. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance, achievements or continued market listing. We do not intend to publicly release any revisions to these forward-looking statements to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events, unless required by law.

In this annual report on Form 10-K, “InfoSonics,” “InfoSonics Corporation,” “the Company,” “we,” “us” and “our” refer to InfoSonics Corporation and our wholly owned subsidiaries on a consolidated basis, unless the context otherwise provides.

PART I

Item 1. Business
Company Overview

We are a provider of wireless handsets (which may be referred to herein as “phones”, “cell phones”, “mobile phones”, “feature phones” and “smartphones”), tablets and accessories to carriers, distributors and retailers, primarily in Latin America. We define, source and sell our proprietary line of products under the verykool® brand, with the goal to provide the market with products that are unique, handsomely designed, feature rich and provide exceptional “value” for the consumer. Our verykool® products include a wide range of GSM Android-based smartphones and a limited number of feature phones and Android-based tablets.

Our corporate headquarters are in San Diego, California. We have wholly owned subsidiaries in Mexico, Central America and South America, which conduct some of our business activities in their respective regions, as well as subsidiaries in Hong Kong and China where we source our verykool® products, oversee production at manufacturers, conduct quality control and monitor third party logistics and warehousing for shipment to our customers. We also have sales representatives, field engineers and marketing resources located throughout Latin America, our principal market.

We incorporated under the laws of the State of California on February 7, 1994, under the name InfoSonics Corporation. On September 11, 2003, we reincorporated under the same name under the laws of and into the State of Maryland.

On July 25, 2017, we entered into an Agreement and Plan of Merger (as amended “Merger Agreement”) by and among InfoSonics, Cooltech Holding Corp. (“Cooltech”), and our wholly-owned subsidiary, InfoSonics Acquisition Sub, Inc. (“Merger Sub”), pursuant to which Cooltech will merge with and into Merger Sub (the “Merger”), with Cooltech surviving as a wholly-owned subsidiary of InfoSonics. The Merger Agreement provides that we will issue an aggregate of 9,375,000 shares of InfoSonics common stock in exchange for all of the outstanding capital stock of Cooltech. On September 19, 2017, we filed a registration statement on Form S-4 with the SEC registering the InfoSonics common stock to be issued in exchange for Cooltech’s outstanding capital stock upon consummation of the Merger. Such registration statement was declared effective by the SEC on February 12, 2018. The Merger Agreement and the Merger were adopted and approved by our stockholders at a special meeting held on March 7, 2018, and the transactions contemplated thereby are subject to a number of customary closing conditions. See Item 1A “Risk Factors - Risks Relating to the Merger” for additional information and risks relating to the Merger.

Global Wireless Industry

Today’s wireless handsets can be segmented into two primary categories: smartphones and feature phones. The distinguishing characteristics of smartphones are that they are built on a mobile operating system and are generally more sophisticated, have higher computing power and are more expensive than feature phones. Rapid technological developments within the wireless telecommunications industry have allowed wireless subscribers to talk, send and receive text messages, send and receive e-mails, capture and transmit digital images and videos, send and receive multimedia messages, play games, listen to music, watch visual content, run application programs and browse the Internet using all-in-one wireless handsets. Wireless handsets, accessories and services also are being used around the world to provide remote monitoring, point-of-sale transaction and payment processing, inter-device communications, local area networks, location monitoring, sales force automation and customer relationship management.

Our Business and Strategy

The worldwide market for wireless handsets and tablets is extremely competitive. It is characterized by a large number of providers, often with very similar products, that ultimately compete on price at very thin margins. The capabilities and features of the phones are primarily a function of the chipset manufacturers, and it is difficult to achieve differentiation. Despite this, we still strive to achieve the following: (1) a consistent, attractive industrial design, (2) a compelling combination of hardware and software features, (3) a quality product with low failure rate, and (4) an attractive price point, which together provide exceptional “value” to the consumer.

Our strategy includes the following elements:

- Consistent introduction of new models to our verykool® portfolio to keep it refreshed and attractive to customers.
- Maintenance of a broad selection of smartphones across various price points in response to the affordability and popularity of smartphones in worldwide markets. In addition, we focus on large-screen phones to fill the elevated consumer appetite for such devices.
- Expansion of our retail sales channel throughout Latin America, building upon our success in Mexico.
- Maintain a strong presence in social media and other selected outlets to promote brand awareness of verykool®.

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Technological advances and affordability in smartphones, including the pervasiveness of the open source Android operating system, have driven the global wireless industry. The popularity of smartphones has gained dramatically in developed countries with broader-based consumer purchasing power. However, in certain geographic regions, including Latin America, the market is extremely price sensitive and the current price points of traditional smartphones are beyond the reach of many consumers. With increasing volumes and lower production costs for smartphones, we have expanded our portfolio of affordable smartphones. Although we continue to carry a small number of low-end feature phones, more expensive feature phones have been replaced with entry-level smartphones.

If the contemplated Merger is consummated, our business and strategy will change materially. More information on Cooltech’s business, financial condition and strategy is contained in the registration statement on Form S-4 that we filed with the SEC September 19, 2017, as amended.

Customers

Our current Latin American customers include carriers, distributors and retailers. We exited the United States market in late 2016, a decision prompted by our lack of penetration in the United States market and the significant cost of defending ourselves against patent lawsuits from domestic non-practicing entities. We sell our products pursuant to customer purchase orders and ship products by common carrier based on customer-specified delivery dates. During 2017, we sold products to approximately 35 customers. Our three largest customers in 2017 represented 21%, 20% and 14% of our net sales, respectively. Our largest customer was a big box retailer, and our second and third largest customers were distributors.

Purchasing and Suppliers

We have established key relationships with a number of independent design houses and Original Design Manufacturers (“ODMs”) in China who design and manufacture wireless handsets to our specifications or based upon their own criteria. In 2017, we purchased products from 10 manufacturers, the top three representing 41%, 31% and 12%, respectively, of our cost of sales.

We purchase products from manufacturers pursuant to purchase orders placed from time to time in the ordinary course of business. Purchase orders are typically filled, based on manufacturing lead times, and shipped to our designated warehouses by common freight carriers. We believe that our relationships with our suppliers are generally good. Any failure or delay by our suppliers in supplying us with products on favorable terms and at competitive prices may severely diminish our ability to obtain and deliver products to our customers on a timely and competitive basis. Although there are a number of such suppliers available to provide or manufacture our products, the establishment of these relationships typically requires a significant investment of time by both parties, and a change in suppliers could cause a delay in or loss of sales and adversely affect our results.

Sales and Marketing

We believe that direct selling and one-on-one relationships, as well as in-depth product and competitive landscape knowledge, are important factors in the marketing of the products we sell. Accordingly, in our business-to-business environment, we promote relationship building and maintenance through personal customer contact by our in-country sales and marketing professionals. Additionally, in order to promote our verykool® brand, we advertise in certain of the geographies where we do business in industry publications, both print and online, on billboards and by attending industry trade shows. Further, we participate in co-op advertising sponsored by our customers in other forms of media.

As of December 31, 2017, we employed or contracted with 9 sales, marketing and merchandizing professionals who are assigned specific geographic territories, most of whom reside in-country. Each salesperson is generally compensated with a base salary or retainer plus a commission or bonus based on sales in his or her territory.

Financial and Other Information about Our Business

Other information, including financial, customer, competitive and geographic information is incorporated by reference herein from Items 1A, 7 and 7A hereof and Note 11 to our Consolidated Audited Financial Statements.

Seasonality

Our operations may be influenced by a number of seasonal factors in the countries and markets in which we operate. Absent other factors, our business historically has experienced stronger sales during the fourth quarter of the calendar year due to the Christmas holiday season. On the supply side of our business, because all manufacturing of our branded verykool® phones is done in China, the first quarter of the calendar year can be a difficult time during closure of factories for the Chinese New Year. We strive to manage around the closure, but if factories have difficulty starting back up, we could experience delays in getting product and satisfying customer orders, which could have a material adverse effect on our results.

Competition

The industry and markets where we operate are highly competitive and such competition may increase in the future. We compete for sales of wireless handsets and accessories with well-established large manufacturers, many small brands and independent design houses. Wireless handsets are subject to price competition and price erosion over the lives of the products. We compete on a number of factors, including product design and features, product pricing, product quality, level of services offered, market and product knowledge, customer service, product availability and overall value provided to our customers. Our competitors often possess substantially greater financial, technological, marketing, personnel and other resources than we do, which could enable them to withstand substantial price competition, launch new products and implement extensive advertising and promotional campaigns. Historically, the barriers to entry into the sourcing and distribution of wireless handsets have been relatively low. Our ability to continue to compete successfully in the wireless handset business is largely dependent on our ability to anticipate and respond to various competitive and other factors affecting the industry, including new or changing outsourcing requirements, new technology requirements, new and differentiated product introductions, inconsistent or inadequate supply of product, changes in consumer preferences, demographic trends, regional and local economic conditions, and discount pricing strategies and promotional activities by competitors.

Employees

As of December 31, 2017, we had 35 employees and contractors. Of these employees and contractors, 2 were in executive management positions, 9 were engaged in sales and marketing, 2 were in service operations, 5 were in finance and administration, and 17 were in product management, including development, sourcing, quality control, logistics and field engineering. From time to time, we utilize temporary employees to perform warehouse functions. Our employees and contractors are not covered by a collective bargaining agreement. We believe that our relations with our employees and contractors are good.

Available Information

Our website at www.infosonics.com provides a link to the Securities and Exchange Commission's ("SEC") website where our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to these reports (as well as exhibits and supplementary schedules) filed with or furnished to the SEC can be accessed free of charge. Our website also provides links to the charters for our Audit, Compensation and Nominating & Governance Committees as well as our Code of Business Conduct and Ethics, which can be accessed free of charge at http://www.infosonics.com/index.php/investors/corporate-governance.

Item 1A. Risk Factors

Risks Relating to Our Business

The loss or reduction in orders from principal customers, a reduction in prices we are able to charge these customers, or default by these customers on accounts receivable, would have a negative impact upon our business and financial results.

Our three largest customers for the year ended December 31, 2017, represented 21%, 20% and 14%, respectively, of our net sales. 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, 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 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, the default by customers on the amounts they owe us, 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 business, financial condition, results of operations and liquidity.

We sustained losses in each of the last three years. If we are unable to achieve sustained profitability, our business may not be financially viable.

For the years ended December 31, 2017, 2016 and 2015, we reported net losses of $4.7 million, $2.8 million and $1.2 million, respectively. As of December 31, 2017, our cash balance was $612,000, we had net working capital of $6.7 million and no outstanding debt. While our 2018 business plan includes objectives to achieve profitability, if we do not succeed in these objectives, our business might continue to experience losses and may not be sustainable in the future.

We may not succeed in our development, introduction and establishment of proprietary products in our markets.

The development, introduction, establishment and maintenance of new products in our proprietary verykool® line requires a significant investment in product development, sourcing, manufacturing and marketing. In addition, our new products may not be well received by our customers or end-users. Further, failure to adequately carry out our product marketing, sales and delivery strategy or otherwise be successful in promoting our verykool® brand may result in inventory obsolescence, including inventory which we have built in anticipation of market acceptance of our products. If any of these events occur, our financial condition and operating results would be negatively impacted.

Our operating results may vary significantly, which may cause our stock price to fluctuate.

Our operating results are influenced by a number of factors that may cause our sales and operating results to fluctuate significantly from quarter to quarter. These factors include:

- the addition or loss of customer or supplier relationships;
- product availability and cost;
- market competition and selling prices;
- the cost of promotions, price protection and subsidies;
- U.S. and foreign government policies and stability;
- the timing of introduction of new products by our suppliers and competitors;
- purchasing patterns of customers in different markets; and
- general economic conditions.

Our operating performance may cause our stock price to fluctuate. Between January 1, 2017 and March 5, 2018, our stock price has fluctuated between $1.21 and $5.20 per share, and we anticipate that significant volatility in our stock price will continue for the foreseeable future.

We may not have sufficient capital to grow our business.

We currently do not have a bank line of credit. While we believe that lines of credit with our primary suppliers, together with our current working capital, may adequately fund our operations at the current level for the coming year, the lack of financing or other available capital could impede the sustainability and future growth of our business.

We face many risks relating to intellectual property rights.

Our business will be harmed if we or our manufacturers are found (or in some instances, even when only claims are made) to have infringed intellectual property rights of third parties, or if our intellectual property protection is inadequate to protect proprietary rights used in our verykool® product line.

Although all our proprietary verykool® smartphones utilize open source Android operating systems, they are comprised of complex technology, and we may be subject to or impacted by litigation regarding intellectual property rights. Third parties in the past have asserted and may in the future assert intellectual property infringement claims against us and against our manufacturers. Defending claims may be expensive and divert the time and efforts of our management and employees. For example, one of the reasons we exited the U.S. market in the fourth quarter of 2016 is because of the cost and diversion of management due to third-party patent claims. Increasingly, third parties have sought broad injunctive relief in our industry, which could ultimately limit our ability to sell our verykool® products. If litigation arises (whether we do succeed in such litigation or not), we could be required to expend significant resources (for legal costs, to pay damages and otherwise), develop non-infringing intellectual property or to obtain licenses to the intellectual property that is the subject of such litigation. However, we cannot be certain that any such licenses, if available at all, will be available to us on commercially reasonable terms. In some cases, we might be forced to stop delivering certain or all of our verykool® products if we or our manufacturers are subject to a final injunction or other restrictions.

Typically, our manufacturers are unwilling to provide us with intellectual property indemnities for infringement of third-party intellectual property rights. Any manufacturer's indemnity we are able to obtain may not cover any or all damages and losses suffered by us due to a potentially infringing verykool® product, and a manufacturer may not choose to accept a license or to modify or replace its products with non-infringing products, which would otherwise mitigate such damages and losses. Further, we may not be able to participate in intellectual property litigation involving a manufacturer or influence any ultimate outcome that may adversely impact products or our sales, such as an injunction or other restrictions relating to our verykool® products.

In addition, it may be possible for a third party to obtain and use our or our manufacturers' proprietary information or develop similar technology relating to our verykool® products independently. Furthermore, effective patent, copyright, trademark and trade secret protection may be unavailable or limited, especially in certain foreign countries, such as China, where adherence to enforcement of intellectual property rights is not as prevalent or available as in other countries, such as the United States. Unauthorized use of our or our manufacturers' intellectual property rights by third parties and the cost of any litigation necessary to enforce our or our manufacturers' intellectual property rights could have an adverse impact on our business.

The majority of our revenues during the year ended December 31, 2017 were, and for the near future will likely continue to be, generated outside of the United States, in countries that may have volatile currencies or other risks.

The vast majority of our sales activities are conducted in territories and countries outside of the United States, primarily in Latin America. The majority of our sales transactions in Latin America are denominated in U.S. Dollars and therefore may be impacted by changes in the strength of the U.S. Dollar relative to the foreign economies where we conduct business. Sales transactions in Mexico are denominated in the Mexican Peso, which has been a very volatile currency in relation to the U.S. Dollar and resulted in a $2.6 million accumulated other comprehensive loss on our balance sheet at December 31, 2017. Further, the fact that we sell all of our products into, and have developed and manufactured products in, a number of territories and countries other than the United States exposes us to, among other things, increased credit risks, customs duties, import quotas and other trade restrictions and risks, potentially greater and more unpredictable inflationary and currency pressures, labor risks and shipping delays. Changes may occur in social, political, regulatory (including tax) and economic conditions or in laws and policies governing foreign trade, manufacturing, development and investment in the territories and countries where we currently develop and sell products. United States laws and regulations relating to investment and trade in foreign countries could also change to our detriment. We are particularly exposed to the fact that all our manufacturing sources are in China, which may change its own policies on business and foreign investment in companies there, and much of our sales are made in Latin America, including Mexico, where the Trump administration has indicated that potential trade policy changes could be made in the near term. Any of these factors could have material adverse effects on our business and operations. Also, although we purchase and sell products primarily in U.S. Dollars and do not engage in significant exchange swaps, futures or options contracts or other hedging techniques, fluctuations in currency exchange rates could reduce demand for products sold in U.S. Dollars. We cannot predict the effect that future exchange rate fluctuations will have on our operating results or financial position. Although we occasionally engage in currency hedging transactions related to our sales to customers in Mexico, such transactions have in the past, and may in the future, result in significant additional financial risks, including increased costs and losses.

We may not be able to adequately respond to rapid technological changes in the wireless handset industry, which could cause us to lose customers.

The technology relating to wireless handsets changes rapidly, resulting in product obsolescence or short product life cycles. We are required to anticipate future technological changes in our industry and to continually identify, obtain and market new products that will satisfy evolving industry and customer requirements. Although we work closely with our technology partners to keep our proprietary verykool® products competitive in terms of technology and features, there is no guarantee we will have success with this, which could materially affect our business. Competitors or manufacturers of wireless handsets may market products which have perceived or actual advantages over products that we market or which otherwise render those products obsolete or less marketable. Furthermore, if we do not adequately anticipate future technological changes, we may not establish appropriate supplier relationships or perform appropriate product development. These factors all pose significant risks to loss of customers and decreased sales and profitability.

Substantial defaults by our customers on accounts receivables could have a significant negative impact on our cash flow and financial condition.

We offer open account terms to certain of our customers, both large and small, which may subject us to credit risks, particularly to the extent that our receivables represent sales to a limited number of customers or are concentrated in particular geographic markets. A substantial default by a major customer, or multiple customers, could have a material adverse effect on our financial position, cash flow and results of operations.

We rely on our information technology systems to function efficiently, without interruptions, and if they do not, customer relationships could be harmed.

We are dependent upon our information systems to manage our business and to be responsive to our customers' needs. These systems may experience interruptions, including interruptions of related services from third-party providers which may be beyond our control. Such business interruptions could cause us to fail to meet customer requirements and could result in the loss of business relationships. All information technology systems, both internal and external, are potentially vulnerable to damage or interruption from a variety of sources, including, without limitation, computer viruses and malware, security breaches, energy blackouts, natural disasters, terrorism, war and telecommunication failures, as well as third-party provider failures. We have implemented various measures to manage our risks related to system and network disruptions, but a systems failure or security breach or other problem with our information technology systems could negatively impact our operations and financial results.

We face risks related to our dependence on third parties to manufacture our proprietary verykool® products.

Our third party manufacturers typically provide limited or no warranties on their products. We generally pass through any warranties received from our manufacturers to our customers, and in absence of such warranties, we are solely responsible for the products. If a product we source from a manufacturer has delivery, quality or performance problems, our ability to provide satisfactory products to our customers could be disrupted (including, for example, during and after Chinese New Year) and our reputation could be impaired. We also may be unable to sell these products before payment is due to our manufacturers or at prices above our cost. Any of these risks could have a negative impact on our business and operations.

The wireless handset industry is intensely competitive and we may not be able to continue to compete against well-established competitors with greater resources.

We compete for sales of wireless handsets and accessories with numerous well-established manufacturers, carriers and distributors, sometimes including our own suppliers and customers. Many of our competitors possess greater financial and other resources than we do and may market similar products or services directly to our customers or potential customers. Sourcing and distribution of wireless handsets and accessories has generally had low barriers to entry. As a result, additional competitors may choose to enter our industry in the future. The markets for wireless handsets and accessories are characterized by intense price competition and significant price erosion over the life of a product. Many of our competitors have the financial resources to withstand substantial price competition and to implement extensive advertising and promotional programs, both generally and in response to efforts by additional competitors to enter into new markets or introduce new products. Our ability to continue to compete successfully will depend largely on our ability to maintain our current industry relationships, with both manufacturers and carrier customers, as well as differentiate our verykool® branded products from the competition. We may not be successful in anticipating and responding to competitive factors affecting our industry or these relationships, including introduction of new products, changes in consumer preferences, demographic trends, new or changing outsourcing requirements, the entry of additional well-capitalized competitors, international, national, regional and local economic conditions, and competitors' discount pricing and promotion strategies. As wireless telecommunications markets continue to mature, and as we seek to enter into new markets and offer new products, the competition that we face may change and grow more intense.

We rely on trade secret laws and agreements with our key employees and other third parties to protect our proprietary rights, which may not afford adequate protection.

We rely on trade secret laws to protect our proprietary knowledge, particularly, the information and technology related to our verykool® brand, our database of customers and suppliers and business terms, such as pricing. In general, we also have non-disclosure agreements with our key employees and limit disclosure of our trade secrets and other proprietary information. These measures may prove difficult to enforce and may not prove adequate to prevent misappropriation of our proprietary information.

We are dependent on a small number of personnel.

Our success depends in large part on the abilities and continued service of our executive officers, particularly Joseph Ram, our CEO and largest stockholder, and other key employees. If we are unable to retain our executive officers or other key personnel, it could impede our ability to fully and timely implement our business plan and future growth strategy. In addition, in order to support our continued growth, we will be required to effectively recruit, develop and retain additional qualified management. Competition for such personnel is intense, and there can be no assurance that we will be able to successfully attract, assimilate or retain sufficiently qualified personnel.

We may become subject to lawsuits alleging medical risks associated with our wireless handsets, the cost of which could be substantial.

Lawsuits or claims have been filed or made against manufacturers of wireless handsets alleging possible medical risks, including brain cancer, associated with the electromagnetic fields emitted by wireless handsets. There has been research in this area, and this research has not been conclusive as to what effects, if any, exposure to electromagnetic fields emitted by wireless handsets has on human cells. Substantially all of our revenues are derived, either directly or indirectly, from sales of wireless handsets. We may become subject to lawsuits filed by plaintiffs alleging various health risks from our products. If any future studies find possible health risks associated with the use of wireless handsets, or if any damages claimed against us or a business partner are successful, it could have a material adverse effect on our business. Even an unsubstantiated perception that health risks exist could adversely affect our ability or the ability of our customers to market wireless handsets.

Risks Related To Our Common Stock

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

An active trading market for our common stock may not be sustained, which could affect the ability of our stockholders to sell their shares and could depress the market price of our shares. The stock market in general, including the market for telecommunications-related stocks in particular, may be volatile. Our stock, for example, has had both a volatile trading volume and share price over the last 15 months. The closing price of our common stock has fluctuated between $1.21 and $5.20 from January 1, 2017 through March 5, 2018. Trading volume and 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 Stock Market if we do not satisfy continued listing requirements.

At various times over the last several years we faced potential delisting from The NASDAQ Stock Market for failure to maintain the minimum $1.00 bid price per share requirement for continued listing. On May 3, 2016, we received a NASDAQ staff Deficiency letter indicating that, for the prior thirty consecutive business days, the bid price for our common stock had closed below the minimum $1.00 per share requirement for continued listing on The NASDAQ Capital Market under NASDAQ Listing Rule 5550(a)(2). In accordance with NASDAQ Listing Rule 5810(c)(3)(A), we were provided an initial period of 180 calendar days, or until October 31, 2016, to regain compliance. Although we failed to regain compliance by October 31, 2016, we were granted an additional 180 calendar day period by NASDAQ, or until May 1, 2017, to regain compliance.

As of May 1, 2017, we had not regained compliance with the bid price requirement and requested an oral hearing before the NASDAQ Hearings Panel (the “Panel”) that was held on June 1, 2017. We presented a plan to the Panel to regain compliance with the minimum bid price requirement which included the Merger and a reverse stock split, and requested a further extension of time to execute the plan. On June 6, 2017, we received a letter from the Nasdaq Office of General Counsel advising us of the decision of the Panel to grant the Company an extension of time until October 30, 2017.

On October 10, 2017, we effected a 1-for-5 reverse stock split in order to regain compliance with the minimum bid price requirement. On October 25, 2017, after 10 consecutive days of trading, we received notification from the NASDAQ Stock Market indicating that we had regained compliance.

We intend to closely monitor the bid price of our stock in light of the Merger. Nasdaq Listing Rule 5110(a) requires that because the Merger with Cooltech (a non-Nasdaq entity) will result in a change of control, we have submitted an initial listing application for the post-Merger entity, which requires us to comply with a higher minimum bid price requirement of $4.00 per share and will necessitate an additional reverse stock split that is being presented to our stockholders for approval.

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 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.

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.

The ability of our stockholders to control our policies or effect a change in control of our company is limited, which may not be in our stockholders' best interests.

Some provisions of our charter and bylaws and the General Corporation Law of Maryland, under which we are incorporated, may delay or prevent a change in control of our Company or other transactions that could provide our common stockholders with a premium over the then-prevailing market price of our common stock or that might otherwise be in the best interests of our stockholders. These include the ability of our Board of Directors to authorize the issuance of preferred stock without stockholder approval, which preferred stock may have voting provisions that could delay or prevent a change in control or other transaction that might involve a premium price or otherwise be in the best interests of our stockholders. Maryland law imposes restrictions on some business combinations and requires compliance with statutory procedures before some mergers and acquisitions can occur. These provisions of Maryland law may have the effect of discouraging offers to acquire us even if the acquisition would be advantageous to our stockholders.

Stockholders have been and may be diluted as a result of past or future offerings or other financings or equity grants, including substantial dilution from the Cooltech Merger.

We have raised and may in the future raise additional capital through one or more public offerings, private placements or other financings involving our securities. In May 2015, we filed a shelf registration statement on Form S-3 that could allow us to issue various types of equity securities, from time to time, up to potentially an aggregate amount of $25 million. In August 2017 in a public offering from the shelf registration statement, we sold 500,000 shares of common stock and privately placed warrants to purchase an additional 500,000 shares of common stock to investors affiliated with Cooltech. Also in August 2017 in a private placement, we sold on a contingent basis 875,000 shares of common stock and warrants to purchase an additional 875,000 shares of common stock to investors affiliated with

Cooltech. Both the shares and the proceeds from this sale are being held in escrow pending the completion of the Merger. In January 2018 in a private placement, we sold $1 million face value of three year 0% convertible notes and warrants to purchase 571,427 shares of common stock to investors affiliated with Cooltech. In March 2018, we expect to issue 9,375,000 of common stock to acquire Cooltech in connection with the closing of the Merger. In addition, we have made or may make stock option and other equity incentive grants. As a result of the Merger and these financings or grants, ownership interests in us may be substantially diluted.

Our largest stockholder may have strategic interests that differ from those of our other stockholders, and can significantly influence important corporate matters.

As of March 5, 2018, our Chief Executive Officer, Joseph Ram, beneficially owned approximately 21% of our outstanding common stock. As a result, Mr. Ram may be able to significantly influence corporate actions relating to:

- controlling the composition of our board of directors;
- controlling our management and policies;
- determining the outcome of significant corporate transactions, including changes in control that may not be beneficial to other stockholders; and
- acting in his own interest, which may conflict with, or be different from, the interests of other stockholders.

Risk Factors Related to the Merger

Although InfoSonics and Cooltech expect that the Merger will result in benefits to the combined company, the combined company may not realize those benefits because of various challenges.

InfoSonics and Cooltech believe that the Merger will result in greater returns for the InfoSonics stockholders than if InfoSonics remained as a standalone entity. However, the integration of a new company is a complex, costly and time-consuming process. This process may disrupt the business of either or both of the companies, and may not result in the full benefits expected by InfoSonics and Cooltech. There can be no assurance that the combination of InfoSonics and Cooltech will result in the realization of the anticipated benefits from the Merger.

The pendency of the Merger could have an adverse effect on our stock price and/or our business, financial condition, results of operations or business prospects.

The pendency of the Merger could have an adverse effect on our stock price and increase the price volatility and risk of trading in our stock. Our business, financial condition, results of operations or business prospects could also be adversely affected. In addition, the attention of our management may be directed toward the completion of the Merger and related matters and may be diverted from the day-to-day business operations, including from other opportunities that otherwise might be beneficial to us.

Failure to complete the Merger could impact negatively our business, financial condition or results of operations or our stock price.

The completion of the Merger is subject to a number of conditions and there can be no assurance that the conditions to the completion of the Merger will be satisfied. If the Merger is not completed, InfoSonics will be subject to several risks, including:

- the current trading price of InfoSonics Common Stock may reflect a market assumption that the Merger will occur, meaning that a failure to complete the Merger could result in a decline in the price of InfoSonics Common Stock;
- certain of our executive officers and/or directors may seek other employment opportunities, and the departure of any of our executive officers and the possibility that InfoSonics would be unable to recruit and hire a replacement executive could impact negatively our business and operating results;
- the InfoSonics Board would need to reevaluate our strategic alternatives, which alternatives may include a sale of the Company, liquidation of the Company, a return to pre-Merger strategies of growing commercial sales, or other strategic transactions;
- we have incurred and will continue to incur substantial transaction costs in connection with the Merger whether or not the Merger is completed;
- we would not realize any of the anticipated benefits of having completed the Merger; and

- under the Merger Agreement, we are subject to certain restrictions on the conduct of our business prior to the completion of the Merger, which restrictions could adversely affect our ability to realize our business strategies or take advantage of certain business opportunities in the event the Merger is not completed.

If the Merger is not completed, these risks may materialize and materially and adversely affect our business, financial condition, results of operations or stock price.

The issuance of shares of InfoSonics Common Stock to Cooltech stockholders in connection with the Merger will dilute substantially the voting power of our current stockholders.

Pursuant to the Merger Agreement and assuming that Cooltech stockholders purchased all shares and warrants issued by InfoSonics in the Public Offering and will purchase all shares and warrants issued in the Private Placement, as defined and discussed herein, at the effective time of the Merger, InfoSonics will issue shares of InfoSonics Common Stock to the former Cooltech stockholders which, together with the InfoSonics Common Stock, will represent approximately 78.9% of the shares of InfoSonics Common Stock after the Merger, subject to adjustment pursuant to the Merger Agreement. Further, on a fully diluted basis, assuming the former Cooltech stockholders also purchase all notes and warrants issued in the Note Private Placement, the former Cooltech stockholders would hold approximately 82.2% of the shares of InfoSonics Common Stock after the Merger on a fully diluted basis. Accordingly, the issuance of shares of InfoSonics Common Stock to Cooltech stockholders in connection with the Merger will reduce significantly the relative voting power of each share of InfoSonics Common Stock held by our current stockholders. Consequently, our stockholders as a group will have significantly less influence over the management and policies of the combined company after the Merger than prior to the Merger.

If the option to purchase certain assets is approved and exercised after consummation of the Merger, a substantial number of shares of InfoSonics Common Stock will be issued to Cooltech stockholders in connection thereof and will dilute substantially the voting power of our current stockholders.

Pursuant to the terms of the Option Agreement, Cooltech, through OneClick International, LLC and OneClick License, LLC (together, “OneClick”), was granted the option to purchase certain assets used in retail operations in the Dominican Republic (the “Unitron Assets”) from the current owners (the “Option”). The Option is exercisable from the period beginning at the effective time of the Merger and ending on the twelve (12) month anniversary of grant date (the “Option Period “), unless further extended in accordance with the terms of the Option Agreement. Upon exercise of the Option, the Unitron Assets would be transferred to OneClick in exchange for $4,568,000.

Upon exercise of the Option during the Option Period, InfoSonics will issue a total of 3,125,000 shares of InfoSonics Common Stock (including the securities convertible into common stock) to former Cooltech stockholders, provided all necessary approvals as set forth in the Merger Agreement have been obtained. Former Cooltech stockholders who are entitled to Merger Consideration will be entitled to receive their pro rata portion of the 3,125,000 shares of InfoSonics Common Stock if the Option is exercised. Accordingly as a result of the Option exercise, former Cooltech stockholders may receive an additional 3,125,000 shares of InfoSonics Common Stock, which represents approximately 18.7% of the shares of InfoSonics Common Stock outstanding after the Merger, and which, together with the Merger Consideration issuance at the effective time of the Merger completion of the Public Offering and the Private Placement, will represent approximately 83% of the shares of InfoSonics Common Stock held by former Cooltech stockholders after the effective time of the Merger and upon exercise of the Option.

Accordingly, the issuance of shares of InfoSonics Common Stock to Cooltech stockholders in connection with the Option will further reduce significantly the relative voting power of each share of InfoSonics Common Stock held by our current stockholders and result in substantial dilution. Consequently, our stockholders as a group will have significantly less influence over the management and policies of the combined company after exercise of this Option than prior to exercise of this Option. However there is no assurance that the Option will be exercised during the Option Period. Our stockholders, prior to voting for approval of the Merger, should consider carefully the full potential dilution that may be experienced as a result of the Merger, including the issuance upon exercise of the Option.

Exercise of the Option is expressly conditioned upon OneClick first obtaining InfoSonics’ post-Merger Board of Directors (in addition to any post-Merger Special Committee of the InfoSonics’ Board) approval of the transactions contemplated in the Option, a fairness opinion regarding the Option consideration if required or reasonably necessary, and all regulatory and national securities exchange approvals/consents for the transactions contemplated in the Option, including the 3,125,000 share issuance.

The Merger will result in changes to the InfoSonics Board and InfoSonics will pursue different strategies after the Merger than we have pursued independently.

If the Merger is completed, the composition of the InfoSonics Board will change in accordance with the Merger Agreement. Following completion of the Merger, the InfoSonics Board is expected to consist of five members. Initially, the InfoSonics Board is expected to be comprised of Robert Picow and four directors appointed by former Cooltech stockholders. Because a majority of the InfoSonics Board after the Merger will initially be comprised of directors selected by Cooltech, following the Merger we will pursue certain business strategies that we would not have pursued had the Merger not taken place.

We cannot predict when or if the Merger will close.

The Merger is contingent upon a number of conditions beyond our control. We are, therefore, unable to accurately predict when or if the Merger will close. If we are unable to close the Merger for any reason, we will not realize the potential benefits of the Merger and may face significant liquidity risks, which may have a material adverse effect on our business prospects and the value of our common stock.

The potential Merger will subject us to significant additional liabilities and other risks and will cause us to incur significant expenses.

Following the Merger, we will be subject to substantially all the liabilities of Cooltech. The Merger and subsequent integration process may be complex, costly, time-consuming and divert management's time and attention, which could have a material adverse effect on our business, financial condition, results of operations and cash flows. We expect to incur a significant amount of expenses in connection with the Merger, including legal, accounting, financial advisory and other expenses. Many of these expenses are payable by us whether or not the Merger is completed.

If we are unable to consummate the Merger, our stock price may be adversely affected and our financial condition and liquidity position may materially suffer.

If the Merger is not completed for any reason, the trading price of our common stock may decline to the extent that the market price of our common stock reflects positive market assumptions that the Merger will be completed and the related benefits will be realized. In addition, if the Merger is not completed our financial condition could materially suffer, including with respect to our liquidity position, which may be substantially negatively impacted due to expenses related to the Merger.

The Merger will result in a change of control of InfoSonics, and Cooltech will be required to submit a new application under NASDAQ's original listing standards. If such application is not approved by NASDAQ, our common stock may be delisted from the NASDAQ Stock Market.

In connection with the Merger, the Company will issue 9,375,000 shares of common as consideration to Cooltech stockholders under the Merger Agreement. We believe that this issuance will result in a change of control of the Company. NASDAQ Listing Rule 5110(a) provides that a company must apply for initial listing in connection with a transaction whereby a company combines with a non-NASDAQ entity, resulting in a change of control of such company and potentially allowing the non-NASDAQ entity to effectively obtain NASDAQ listing. In determining whether a change of control has occurred, NASDAQ considers all relevant factors including, changes in management, board of directors, voting power, ownership and financial structure of the Company. If our initial listing application is not approved by NASDAQ pursuant to Rule 5110(a), our common stock may be delisted from the NASDAQ Stock Market.

Item 1B. Unresolved Staff Comments.
Not Applicable.

Item 2. Properties.
Our corporate headquarters office is located in San Diego, California. Our verykool® quality control center is located in Shenzhen, China, close to our design partners and manufacturers. Our distribution center is located in Miami, Florida. All of these facilities are occupied pursuant to operating leases. The table below summarizes information concerning those leases, but does not include local sales tax, VAT tax or common area maintenance charges where

applicable:

	Aggregate Square Footage	Approximate Monthly Rent	Lease term
San Diego, California	4,400	$ 9,000	Oct 2017 to Sep 2018
Shenzhen, China	1,023	$ 3,000	Sep 2017 to Nov 2018
Miami, Florida	14,384	$ 13,000	Apr 2015 to May 2020

We believe that these facilities are adequate for our current requirements and that suitable alternative or additional space will be available as needed for alternative space or to accommodate future expansion of our operations.

Item 3. Legal Proceedings.

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

Item 4. Mine Safety Disclosures.

Not Applicable.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

Our Common Stock trades on The NASDAQ Capital Market under the symbol "IFON." The following table sets forth, for the periods indicated, the high and low trading prices of our common stock as reported by The NASDAQ Stock Market:

2017	High	Low
First Quarter	$3.90	$1.75
Second Quarter	$5.20	$1.95
Third Quarter	$4.20	$1.65
Fourth Quarter	$2.69	$1.32

2016	High	Low
First Quarter	$10.00	$3.95
Second Quarter	$5.25	$3.30
Third Quarter	$4.65	$2.40
Fourth Quarter	$3.25	$1.73

As of March 6, 2018, the closing price of our common stock on The NASDAQ Capital Market was $1.46, and there were approximately 4 stockholders of record.

We have not paid any cash dividends and do not expect to pay any cash dividends in the foreseeable future.

The information regarding equity compensation plans is incorporated by reference into Item 12 of this Form 10-K.

Unregistered Issuances.

None for applicable period.

Issuer Repurchases of Equity Securities.

None for applicable period.

Item 6. Selected Financial Data.

Not Applicable.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Our management's discussion and analysis of financial condition and results of operations should be read in conjunction with our accompanying Consolidated Audited Financial Statements and related notes, as well as the "Risk Factors" and other information contained in this annual report. The discussion is based upon, among other things, our Consolidated Audited Financial Statements, which have been prepared in accordance with 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 at the financial statement dates 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 those 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 could. 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 below in "Critical Accounting Policies." All references to results of operations in this discussion are references to results of continuing operations, unless otherwise noted.

Overview and Recent Developments

We are a provider of wireless handsets (which may be referred to herein as "phones", "cell phones", "mobile phones", "feature phones" or "smartphones") and accessories to carriers, distributors and retailers, primarily in Latin America. We define, source and sell our proprietary line of products under the verykool® brand (collectively referred to as verykool® products). verykool® products include a wide range of GSM Android-based smartphones and a limited number of feature phones. Our phones are sourced from independent design houses and ODMs. We previously sold phones into the United States market, but exited in late 2016, a decision prompted by our lack of penetration in the United States market and the significant cost of defending ourselves against patent lawsuits. Prior to 2015, a significant majority of our revenues were derived from carrier customers. However, over the past few years, we have lost or turned away from many carrier customers as a result of the extremely thin margins and high cost of doing business with them. This is a consequence of the increasing pressure put on carriers by the open market segment of the business, in which many consumers are now buying cell phones from dealers, retailers and online stores instead of from the carriers where they purchase wireless services. In order to put pressure on suppliers, certain carriers shifted to a model of conducting quarterly blind bidding competitions in order to secure the lowest pricing possible. The resulting single digit gross margins, requirement of significant marketing support and slow payment terms often make such business marginally profitable and too risky in terms of exposure to order cancellation and penalties.

On July 25, 2017, we entered into an Agreement and Plan of Merger (as amended "Merger Agreement") by and among InfoSonics, Cooltech Holding Corp. ("Cooltech"), and our wholly-owned subsidiary, InfoSonics Acquisition Sub, Inc. ("Merger Sub"), pursuant to which Cooltech will merge with and into Merger Sub (the "Merger"), with Cooltech surviving as a wholly-owned subsidiary of InfoSonics. The Merger Agreement provides that we will issue an aggregate of 9,375,000 shares of InfoSonics common stock in exchange for all of the outstanding capital stock of Cooltech. On September 19, 2017, we filed a registration statement on Form S-4 with the SEC registering the InfoSonics common stock to be issued in exchange for Cooltech's outstanding capital stock upon consummation of the Merger. Such registration statement was declared effective by the SEC on February 12, 2018. The Merger Agreement and the Merger were adopted and approved by our stockholders at a special meeting held on March 7, 2018, and the transactions contemplated thereby are subject to a number of customary closing conditions. See Item 1A "Risk Factors - Risks Relating to the Merger" for additional information and risks relating to the Merger. In addition, more information on Cooltech's business, financial condition and such strategy is contained in the registration statement on Form S-4 that we filed with the SEC September 19, 2017, as amended.

Areas of Management Focus and Performance Indicators

We focus on the needs of our customers, developing and sourcing new and innovative products, fostering close relationships with manufacturers, and expanding our business in our current markets and entering into new geographic markets, as applicable opportunities arise, all while maintaining close attention to operational efficiencies and costs. We are particularly focused on increasing sales volumes of higher margin proprietary products in a cost effective manner to enable us to return to profitability, as well as monitoring and managing levels of accounts receivable and inventory to minimize risk. Performance indicators that are important for the monitoring and management of our business include top line sales growth, cost of sales and gross margin percentage, operating expenses in absolute dollars and as a percent of revenues and operating and net income (loss).

Management and employees spend a significant amount of time traveling to Latin America and Asia Pacific with the purpose of spending time with our key customers, suppliers and other contractors and employees. We believe that these relationships are vital to our success and we will continue to dedicate a significant amount of time to this area.

Critical Accounting Policies and Estimates

Critical accounting policies are those policies that, in management's view, are most important in the portrayal of our financial condition and results of operations. The notes to our Consolidated Audited Financial Statements also include disclosure of significant accounting policies. The methods, estimates and judgments that we use in applying our accounting policies have a significant impact on the condition and results that we report in our financial statements. These critical accounting policies require us to make difficult and subjective judgments, often as a result of the need to make estimates and assumptions regarding matters that are inherently uncertain. Our critical accounting policies and estimates and assumptions that require the most significant judgment are discussed further below.

Revenue Recognition and Allowance for Returns

Revenues for wireless handset and accessory sales are recognized when (i) shipment of the products to customers has occurred and title has passed, (ii) collection of the outstanding receivables is probable and (iii) the final price of the products is determined, which occurs at the time of shipment or delivery, depending on terms of sale. Sales are recorded net of discounts, rebates, cooperative marketing arrangements, returns and allowances. On select sales, we may agree to cooperative arrangements wherein we agree to fund future marketing programs related to the products purchased by the customer. Such arrangements are usually agreed to in advance. The amount of the co-op allowance is recorded as a reduction of the sale and added to accrued expenses as a current liability. Subsequent expenditures made pursuant to the arrangements reduce this liability. To the extent we incur costs in excess of the established cooperative fund, we recognize the amount as a selling or marketing expense. As part of the sales process, we may perform certain value-added services such as programming, software loading and quality assurance testing. These value-added services are considered an ancillary component of the sales process and amounts attributable to these processes are included in the unit cost to the customer. Furthermore, these value-added services are related to services prior to the shipment of the products, and no value-added services are provided after delivery of the products. We recognize as a reserve against the related receivables estimates for product returns based on historical experience and other judgmental factors, evaluate these estimates on an ongoing basis and adjust our estimates each period based on actual product return activity. We recognize freight costs billed to our customers in sales and actual freight costs incurred as a component of cost of sales.

Allowance for Doubtful Accounts

We provide for the possible inability to collect accounts receivable by recording an allowance for doubtful accounts. We evaluate the collectability of our accounts receivable on an ongoing basis. In circumstances where we are aware of a specific customer's inability to meet its financial obligations, we record a specific allowance against amounts due in order to reduce the net recognized receivable to the amount we reasonably believe will be collected. For all other customers, we recognize allowances for doubtful accounts based on the length of time the receivables are past due, the current business environment and our historical experience.

Inventory Reserves

We regularly monitor inventory quantities on hand and record a provision for excess, slow moving and obsolete inventories based primarily on historical usage rates and our estimated forecast of product demand and expected pricing. We attempt to tightly control our inventory levels and use a build-to-order model on substantially all of our carrier business. However, for our open market business, because we need to place non-cancelable orders with our suppliers with lead times of 30 to 60 days, and because a substantial portion of this business is dependent on having available inventory in stock, we are required to take a measured amount of inventory risk. As our products get closer to end-of-life status, we are more strict about our inventory levels and minimizing orders to limit our exposure on older product.

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Results of Operations:

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

	2017	2016	2015
Net sales	100.0%	100.0%	100.0%
Cost of sales	91.5 %	88.3 %	84.5 %
Gross profit	8.5 %	11.7 %	15.5 %
Operating expenses	27.6 %	17.7 %	17.4 %
Operating loss	(19.1)%	(6.0)%	(1.9)%
Other expense:			
Interest expense, net	(0.8)%	(0.9)%	(0.7)%
Other expense, net	(0.1)%	(0.6)%	—
Loss before benefit (provision) for income taxes	(20.0)%	(7.5)%	(2.6)%
Benefit (provision) for income taxes	0.0 %	0.3 %	(0.0)%
Net loss	(20.0)%	(7.2)%	(2.6)%

We do not believe that inflation had a significant impact on our results of operations for the periods reported in our Consolidated Financial Statements.

Year Ended December 31, 2017 Compared With Year Ended December 31, 2016

Net Sales

For the year ended December 31, 2017, our total net sales of $23.4 million declined by $15.7 million, or 40%, compared to net sales of $39.1 million in 2016. Sales to customers in Central America declined by $7.9 million, or 81%, due to reduced sales to carrier customers in Guatemala and El Salvador. Sales to big box retail customers in Mexico declined by $7.0 million, or 46%, primarily due to reduced sales in the second half of the year when customers struggled with bloated inventories and a soft market. Sales to customers in South America declined by $1.9 million, or 55%, due to the loss of a carrier customer in Chile. Sales to U.S. customers declined by $1.3 million, reflecting the Company's decision to exit the U.S. market as of September 30, 2016. These declines were partially offset by a $1.8 million, or 33%, increase in sales to Miami-based distributors selling to Latin America and $0.5 million in sales to a new customer in South Africa. On a volume basis, shipments in 2017 declined 37% from 1.15 million units in 2016 to 725,000 units in 2017. Our average selling price per unit decreased 6% from $34.04 in 2016 to $32.01 in 2017.

Cost of Sales, Gross Profit and Gross Margin

For the Year Ended December 31,		
2017	2016	Increase (Decrease)

(Dollar amounts in thousands)			
Net sales	$23,386	$39,140	(40.3)%
Cost of sales	21,397	34,547	(38.1)%
Gross profit	$1,989	$4,593	(56.7)%
Gross margin	8.5 %	11.7 %	(27.5)%

For the year ended December 31, 2017, cost of sales was $21.4 million, 91.5% of net sales, and gross margin was 8.5%, compared to cost of sales of $34.5 million, 88.3% of net sales, and an 11.7% gross margin for the year ended December 31, 2016. In 2017, our gross profit amounted to $2.0 million, a decrease of $2.6 million, or 56.7%, from $4.6 million in 2016. The reduction in gross profit and margin in 2017 were primarily the result of continued severe price competition in our markets and under-absorption of fixed costs due to lower sales volume.

Operating Expenses and Operating Loss

For the year ended December 31, 2017, operating expenses of $6.4 million declined by $0.5 million, or 6.9%, from $6.9 million in 2016. Cost reduction efforts throughout 2017 resulted in operating expense declines of approximately $1.8 million across all areas of our operations including, wages and benefits, product certification and homologation, marketing and insurance. In addition, professional fees declined significantly compared to 2016 as a result of the settlement and resolution of all outstanding patent litigation in the fourth quarter of 2016. These decreases were significantly offset by $1.3 million of expenses related to the Cooltech merger.

For the year ended December 31, 2017, we incurred an operating loss of $4.5 million, compared to an operating loss of $2.4 million for the year ended December 31, 2016. The $2.1 million difference resulted from the $2.6 million decrease in gross profit, partially offset by the $0.5 million reduction in operating expenses.

Interest and Other Expense

For the year ended December 31, 2017, interest expense on our interest bearing vendor credit lines amounted to $182,000, a 25.4% reduction from combined interest in 2016 of $244,000 on both borrowings against our bank line of credit and our vendor credit lines. Although other expense in 2017 was nominal, other expense in 2016 of $334,000 consisted primarily of losses on forward exchange contracts used to hedge currency exposure against the Mexican peso.

Net Loss

For the year ended December 31, 2017, our net loss was $4,670,000 after a tax provision of $3,000. For the year ended December 31, 2016, our net loss was $2,835,000, after a tax benefit of $93,000 resulting primarily from a $96,000 tax credit from the closure of one of our inactive foreign subsidiaries. Because of our prior operating losses and lack of carry-back ability, absent isolated events, our provision for income taxes are generally nominal.

Comprehensive Loss

For the year ended December 31, 2017, we had a small foreign currency translation gain of $100,000 related to our subsidiary in Mexico as a result of the minor strengthening of the peso at year end, which resulted in a comprehensive loss of $4,570,000 for the year. For the year ended December 31, 2016, we had a foreign currency translation loss of $1,103,000 due to the significant strength of the U.S. dollar during the year which resulted in a comprehensive loss of $3,938,000 for the year.

Year Ended December 31, 2016 Compared With Year Ended December 31, 2015

Net Sales

For the year ended December 31, 2016, our total net sales of $39.1 million declined by $8.7 million, or 18%, compared to net sales of $47.8 million in 2015. Sales to customers in South America declined by $5.0 million, or 51%, due to reduced sales to carrier customers. Sales to Miami-based distributors selling to Latin America declined by $4.9 million, or 41%, due to soft sales of our products and increased pricing pressures. Sales to U.S. customers declined by $3.2 million, or 72%, reflecting the Company's decision to exit the U.S. market as of September 30, 2016. These declines were partially offset by a $2.6 million, or 32%, increase in sales to customers in Central America, reflecting increased sales to carrier customers, and a $1.8 million, or 13%, increase in sales to big-box retailers in Mexico. On a volume basis, shipments in 2016 declined 17% from 1.38 million units in 2015 to 1.15 million units in 2016. Our average selling price per unit decreased 1% from $34.39 in 2015 to $34.04 in 2016.

Cost of Sales, Gross Profit and Gross Margin

	For the Year Ended December 31,	Increase

	2016	2015	(Decrease)
	(Dollar amounts in thousands)		
Net sales	$39,140	$47,833	(18.2)%
Cost of sales	34,547	40,414	(14.5)%
Gross profit	$4,593	$7,419	(38.1)%
Gross margin	11.7 %	15.5 %	(24.3)%

For the year ended December 31, 2016, cost of sales was $34.5 million, 88.3% of net sales, and gross margin was 11.7%, compared to cost of sales of $40.4 million, 84.5% of net sales, and a 15.5% gross margin for the year ended December 31, 2015. In 2016, our gross profit amounted to $4.6 million, a decrease of $2.8 million, or 38.1%, from $7.4 million in 2015. The reduction in gross profit and margin in 2016 were primarily the result of more severe price competition in our markets and lower pricing required to liquidate aging inventories.

Operating Expenses and Operating Loss

For the year ended December 31, 2016, operating expenses of $6.9 million declined by $1.4 million, or 16.7%, from $8.3 million in 2015. The reductions were made principally in the areas of marketing, wages and benefits, sales representatives and commissions. In addition, although legal fees for both 2016 and 2015 were relatively unchanged, the settlement and resolution of outstanding litigation in the fourth quarter of 2016 helped to reduce operating expense levels in 2017.

For the year ended December 31, 2016, we incurred an operating loss of $2,350,000 compared to an operating loss of $920,000 for the year ended December 31, 2015. This difference resulted from the $2.8 million decrease in gross profit, partially offset by the $1.4 million reduction in operating expenses.

Other Expense and Interest Expense

For the year ended December 31, 2016, other expense of $334,000 consisted primarily of losses on forward exchange contracts entered into in January 2016 and expiring in June 2016, to hedge currency exposure against the Mexican peso. In 2015, we had no other income items. Interest expense related to interest bearing vendor credit lines and borrowings against our bank line of credit amounted to $244,000 and $320,000 for the years ended December 31, 2016 and 2015, respectively.

Net Loss

For the year ended December 31, 2016, our net loss was $2,835,000 after a tax benefit of $93,000. The tax benefit resulted from a $96,000 credit from the closure of one of our inactive foreign subsidiaries. For the year ended December 31, 2015, our net loss was $1,243,000 after a tax provision of $3,000. Because of our prior operating losses and lack of carry-back ability, absent isolated events, our provision for income taxes are generally nominal.

Comprehensive Loss

For the years ended December 31, 2016 and 2015, foreign currency translation losses related to our subsidiary in Mexico amounted to $1,103,000 and $866,000, respectively. Consequently, we sustained comprehensive losses in 2016 and 2015 of $3,938,000 and $2,109,000, respectively.

Financial Condition, Liquidity and Capital Resources

Historically, we have used cash from sale of products and lines of credit (bank and vendor) to provide the capital needed to support our business. The primary drivers affecting our cash and liquidity are net income (losses) and working capital requirements. Capital equipment is not significant in our business, and at December 31, 2017, we did not have any material commitments for capital expenditures. Our largest working capital requirement is for accounts receivable, and, to a lesser extent, inventory (including prepaid inventory, which is a component of prepaid assets), as we continually strive to minimize inventory levels. We typically bill customers on an open account basis, subject to our credit qualification, with payment terms generally ranging between net 30 and net 60 days. If our net revenue increases, it is likely that our accounts receivable balance will also increase. The majority of our suppliers require a 15% deposit at the time we place a purchase order and then offer us 60 day terms on the balance due from the date of delivery. Under these arrangements, the financed balance bears interest at a stated rate and we also pay a small premium to reimburse them for the cost of credit insurance.

As of December 31, 2017, we had $612,000 of cash and cash equivalents and $6.7 million of working capital compared to $2.2 million of cash and cash equivalents and $10.1 million of working capital as of December 31, 2016.

As of December 31, 2017, we had no outstanding bank debt.

As of December 31, 2017, cash and cash equivalents consisted of cash on hand and in bank accounts.

Operating Activities

Net cash used by operating activities for the year ended December 31, 2017 amounted to $2.6 million compared to $718,000 of net cash generated by operations for the year ended December 31, 2016. The $3.3 million reduction in cash flow was due primarily to a larger net loss in 2017 compared to 2016, as well as a much smaller reduction of working capital.

In 2017, after adjustment for non-cash items, we used $4.1 million of cash to fund our net loss, and $184,000 to decrease accounts payable and accrued expenses. The reduction in revenue during the year resulted in lower working capital requirements, primarily accounts receivable, which generated $1.7 million of cash.

In 2016, we used $2.6 million of cash to fund our net loss, adjusted for non-cash items, and $255,000 to increase other long-term assets. Reductions in working capital requirements, however, generated $3.6 million of cash. Working capital changes included a $1.8 million reduction in trade accounts receivable, reflecting a lower level of sales in the fourth quarter and 78 days of sales outstanding in receivables at December 31, 2016. Inventories declined $2.8 million from the prior year, and prepaid expenses declined $355,000 due primarily to a reduction in inventory deposits. Accounts payable and accrued expenses declined by an aggregate $1.3 million.

Investing Activities

Cash used to purchase property and equipment amounted to $42,000 in 2017, although $340,000 relating to our custom developed Pacific Hub software system was also transferred from other assets to fixed assets during the year. Purchases of property and equipment in 2016 amounted to $62,000.

Financing Activities

In August 2017 in a public offering, we sold 500,000 shares of our common stock at $2.00 per share, together with privately placed warrants to purchase 500,000 shares of common stock at $2.42 per share to investors related to Cooltech. Proceeds from this offering, net of expenses, amounted to $948,000. In 2016, we borrowed $1.8 million against our bank line of credit and repaid the full amount by the end of the year.

We believe that our current cash resources, other working capital and vendor credit arrangements will adequately fund our operations until completion of the Cooltech merger. See Note 12 to our Consolidated Financial Statements for additional information relating to the merger.

Off-Balance Sheet Arrangements

At December 31, 2017, we did not have any off-balance sheet arrangements.

Contractual Obligations

We lease corporate and administrative office facilities and equipment under non-cancelable operating leases. Rent expense under these leases was approximately $398,000, $417,000 and $393,000 for the years ended December 31, 2017, 2016 and 2015, respectively.

The following is a schedule of aggregate future minimum payments required by the above obligations (in thousands):

		Payments due by period			
Contractual Obligations	Total	Less than 1 year	1-3 years	4-5 years	More than 5 years
Operating Lease Obligations	$507	$274	$233	—	—

Item 7A. 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 risks. 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 areas of loss. This forward-looking information provides indicators of how we view and manage our ongoing market risk exposures.

Interest Rates

We are exposed to market risk from changes in interest rates on balances owed to certain of our manufacturing vendors. At December 31, 2017, we owed $3.3 million to these vendors which could be affected by changes in short-term interest rates. The effective annual interest rates range from 6.0% to 8.0%, are negotiated individually with each vendor and are not tied to any particular index. For every 1% increase in the negotiated rate, our annual interest expense would increase by $33,000, assuming the same $3.3 million remained outstanding for the entire year.

Foreign Exchange and Other Risks

At December 31, 2017 and 2016, foreign currency cash accounts in Mexican Pesos amounted to $93,000 and $205,000, respectively. Also at December 31, 2017 and 2016, accounts receivable denominated in Mexican Pesos amounted to $2,924,000 and $3,764,000, respectively. Mexico is the only country in which we price sales in a foreign currency. Product costs and the majority of our operating expenses are denominated in U.S. Dollars.

However, lease expenses and certain other immaterial operating costs of our China quality control team are denominated in Chinese Yuan Renminbi, and payroll and operating expenses of our employees in Mexico are denominated in Mexican Pesos.

We translate the financial statements of our Mexican subsidiary from Pesos into U.S. Dollars at the end of each reporting period. Translation adjustments are Dollar changes that result from the translation process, and these adjustments are included in the cumulative translation account that is a component of other comprehensive income in stockholders' equity on our balance sheet. As a result of the depreciation of the Peso against the Dollar during 2016, our translation loss amounted to $1,103,000. During 2017, the Peso strengthened slightly against the Dollar and we had a translation gain of $100,000. At December 31, 2017, our accumulated comprehensive loss amounted to $2,595,000. This amount will stay in equity unless we sell or liquidate our Mexican subsidiary, at which time the accumulated balance would be reclassified to net income (loss). We have no intention to do so at the current time.

In addition to the Mexican Peso, many other Latin American currencies have depreciated against the U.S. Dollar over the last two years. Regarding the Mexican Peso, we continually monitor the exchange rate and make pricing adjustments when appropriate and tolerable by the market to offset the effect of rate fluctuations. However, this is not always possible and pricing pressure has decreased our gross margins, as it has in other countries where we price our products in U.S. Dollars.

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

Item 8. Financial Statements and Supplementary Data.
The information required by this item is included below in "Item 15. Exhibits and Financial Statement Schedules" and incorporated by reference herein.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.
None.

Item 9A. Controls and Procedures.
(i) Disclosure Controls and Procedures

An evaluation was performed pursuant to Rule 13a-15(b) of the Securities Exchange Act of 1934 (the "Exchange Act") under the supervision and with the participation of our management, including the President and Chief Executive Officer and the 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 annual 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 Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective as of the end of the period covered by this annual report.

(ii) Internal Control Over Financial Reporting.

Management’s Report on Internal Control Over Financial Reporting.

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in the Exchange Act Rule 13a-15(f). Under the supervision and with the participation of our management, including our President and Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting as of December 31, 2017 as required by the Exchange Act Rule 13a-15(c). In making this assessment, we used the criteria set forth in the guidance for small and mid-size entities put forth in the framework in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our evaluation under the framework in Internal Control-Integrated Framework, our management concluded that our internal control over financial reporting was effective as of December 31, 2017. This annual report does not include an attestation report of our independent registered public accounting firm regarding internal control over financial reporting. Management’s report was not subject to attestation by our independent registered public accounting firm pursuant to law, rules and regulations that permit us to provide only management’s report in this annual report.

(iii) Changes in Internal Control over Financial Reporting

There was no change in our internal control over financial reporting during our fourth fiscal quarter ended December 31, 2017, that has materially affected or is reasonably likely to materially affect our internal control over financial reporting.

Item 9B. Other Information.
None.

PART III

Item 10. Directors and Executive Officers and Corporate Governance.
Directors

Information with respect to the Company's current directors is set forth below.

Name	Age as of December 31, 2017	Position with InfoSonics	Initial Date as Director
Joseph Ram	55	President, Chief Executive Officer and Director	1994
Randall P. Marx (1)(2)(3)(4)	65	Director	2003
Robert S. Picow (1)(2)(3)	62	Director	2003
Kirk A. Waldron (1)(2)(3)(5)	54	Director	2005

(1) Member of the Audit Committee of our Board.
(2) Member of the Compensation Committee of our Board.
(3) Member of the Nominating and Corporate Governance Committee of our Board.
(4) Compensation Committee Chairman.
(5) Audit Committee Chairman.

Biographical Information

Joseph Ram, Director, Founder, President and Chief Executive Officer. In 1994, Mr. Ram founded InfoSonics Corporation as a distribution center for telecommunications and business systems. Previously, between 1989 and 1993, as sales director for ProCom Supply, Mr. Ram was in charge of worldwide purchasing and oversaw all international sales. Mr. Ram's position as President and Chief Executive Officer of the Company since the Company's inception provides the Board with unique insight and direct access to strategic and operational information about the Company.

Randall P. Marx, Director. Mr. Marx has served as a Director of InfoSonics since December 2003, and is currently an independent consultant. Mr. Marx served as a Director of ARC Wireless Solutions, Inc., a publicly traded company, a division of which was engaged in antenna and cable design and manufacturing, from February 1990 until November 2008, as Chief Executive Officer from December 1994 until June 2000, as Treasurer and Principal Financial Officer from December 1994 until June 2000, as Director of Acquisitions from July 2000 until February 2001 and as Chairman and Chief Executive Officer from February 2001 until November 2008. From 1983 until 1989, Mr. Marx served as President of THT Lloyd's Inc., Lloyd's Electronics Corp. and Lloyd's Electronics Hong Kong Ltd., international consumer electronics companies. Mr. Marx also served until October 2015 as Director and Chief Executive Officer of International Development Group Ltd., a privately held holding company with holdings of Asia Pacific Materials, Hong Kong Ltd., which was engaged in the design and contract manufacturing of various electronic products, Group Mobile, an eCommerce distributor of ruggedized computer equipment and Flicharge International LTD, which was engaged in the design, manufacturing and marketing of wireless charging equipment. Mr. Marx's background as a director and CEO of companies engaged in the manufacturing and sales of consumer electronics, along with his general experience gained from a career in related industries, provide the Board with financial and operational expertise and analytical skills directly relevant to the Company's industry.

Robert S. Picow, Director. Mr. Picow has served as a Director of InfoSonics since December 2003. Since March 2001, Mr. Picow has served as a Director of SMF Energy Corporation (formerly known as Streicher Mobile Fueling, Inc.), a public company that provides petroleum product distribution services, transportation logistics and emergency response services to the trucking, manufacturing, construction, shipping, utility, energy, chemical, telecommunications and government services industries. From March 2008 through March 2011, Mr. Picow served as Vice Chairman of the Eezinet Corporation, a community aware internet service and communications provider. From May 2005 through September 2007, Mr. Picow served as a Director of Ascendia Brands, Inc., a public company that manufactured, marketed and distributed a portfolio of branded products in the health and beauty care categories. Ascendia Brands was previously known as Cenuco, Inc. prior to a name change in May 2006. From April 2004 to May 2005, Mr. Picow served as Chairman of Cenuco, Inc., a public company engaged in wireless application development and software solutions. From July 2003 to May 2005, Mr. Picow served as a Director of Cenuco. From May 2006 to September 2008, Mr. Picow served as a Director and Audit Committee Member of American Telecom Services, Inc., a public telecommunications services company. From 1996 to 1997, Mr. Picow served as Vice Chairman and a Director of BrightPoint, Inc., a public company that distributes wireless devices and accessories and provides customized logistic services to the wireless industry. From its formation in 1986 until its merger with BrightPoint in 1996, Mr. Picow was Chief Executive Officer of Allied Communications, Inc., a cellular telephone and accessory distribution company. Mr. Picow's extensive board leadership experience with companies in the wireless telecommunications industry, together with his experience in the distribution of wireless devices as a director, owner and executive officer of companies in this line of business, provide the Board with significant expertise and skills relevant to the Company's business.

Kirk A. Waldron, Director. Mr. Waldron has served as a Director of InfoSonics since January 2005. From January 2014 through November 2017, Mr. Waldron served as Chief Financial Officer of Qual-Pro Corporation, a privately held electronics manufacturing services provider offering a wide range of services and expertise from printed circuit board assemblies to full box-builds. From May 2014 to January 2015, Mr. Waldron served as a Director of State Fish Co., Inc., a privately held fish processor that also provides high pressure pasteurization and cold press juicing and bottling services. From October 2012 to December 2013, Mr. Waldron was an independent consultant. From May 2005 to September 2012, Mr. Waldron served as the Chief Financial Officer of Event Rentals, Inc. (doing business as Classic Party Rentals), the largest full-service event rental provider in the United States. From July 2005 to May 2006, Mr. Waldron served as a Director of Reptron Electronics Inc., a public company that provided engineering services, display and systems integration services and electronic manufacturing services. From September 2004 to January 2005, Mr. Waldron served as Interim President of SMTEK International Inc., a public company that provided electronics manufacturing services to original equipment manufacturers in the medical, industrial instrumentation, telecommunications, security, financial services automation and aerospace and defense industries. From April 2001 to January 2005, Mr. Waldron also served as SMTEK's Chief Financial Officer and Treasurer, and from May 2002 to January 2005 as SMTEK's Senior Vice President. From February 1999 to February 2001, Mr. Waldron was a Director, President and Chief Executive Officer of AML Communications, Inc., a public company that designs, manufactures, and markets radio frequency and microwave, low noise, medium and high power amplifiers and subsystems serving primarily the defense electronic warfare market. From 1996 to February 1999, Mr. Waldron served as AML's Chief Financial Officer. From 1994 to 1996, Mr. Waldron was Chief Financial Officer at Dynamotion/ATI Corp., a public company that developed, manufactured, and marketed computer numerical control drilling and routing machines used in the production of high-density, multi-layered printed circuit boards and semiconductor packages. Mr. Waldron is a non-practicing Certified Public Accountant and holds a Bachelor of Science in Business Administration from the University of Southern California. Mr. Waldron's career as a financial executive in the electronics manufacturing and telecommunications industries provides the Board with significant financial and operational experience and analytical skills relating to the Company's business.

Executive Officer

Information for our only other current executive officer not otherwise discussed above as of December 31, 2017 is as follows:

Vernon A. LoForti, Vice President, Chief Financial Officer and Corporate Secretary, 64 years old. Mr. LoForti has served as Vice President and Chief Financial Officer of InfoSonics since July 2010 and Corporate Secretary since April 2011. Prior to InfoSonics, Mr. LoForti served in a number of executive positions at Overland Storage, Inc., a global supplier of data protection appliances. Mr. LoForti joined Overland in 1995 and served as the company's Vice President, Chief Financial Officer and Secretary from 1995 to August 2007, including leading its initial public offering in 1997. From August 2007 to January 2009, LoForti served as President, Chief Executive Officer and a member of Overland's Board of Directors. From February 2009 to September 2009, he served as Overland's President. From August 1992 to December 1995, Mr. LoForti was the Chief Financial Officer for Priority Pharmacy, a privately-held pharmacy company. From 1981 to 1992, Mr. LoForti was Vice President of Finance for Intermark, Inc., a publicly-held conglomerate. Mr. LoForti began his career in public accounting with Price Waterhouse and holds a Bachelor of Science in Accounting from Brigham Young University.

Director Compensation

The following table sets forth information regarding the annual compensation of InfoSonics' nonemployee directors for 2017, which consisted of annual retainer fees, including amounts associated with serving as Chairman of the Audit

Committee. The nonemployee director compensation program is more particularly described below. Mr. Ram, President and Chief Executive Officer of the Company, receives no separate compensation for his Board service.

Name	Fees Earned or Paid in Cash ($)	Option Awards ($)(1)(2)	Total ($)
Kirk A. Waldron	$45,500(3)	–	$45,500
Randall P. Marx	$40,000	–	$40,000
Robert S. Picow	$40,000	–	$40,000

(1) No stock options were granted during 2017.
(2) Our nonemployee directors had the following number of outstanding stock options at 2017 fiscal year end: Mr. Waldron, 15,600 shares; Mr. Marx, 15,600 shares; and Mr. Picow, 15,600 shares.
(3) Includes payment of $3,000 for service as Audit Committee Chairman and $2,500 for consulting services.

Nonemployee Director Compensation Program for 2017. Nonemployee directors were compensated by an annual cash retainer fee of $40,000. The Audit Committee Chairman was paid an additional annual cash retainer of $3,000. Payments are made to directors on a quarterly basis. Board members are also reimbursed for out-of-pocket costs related to their attendance at Board and Committee meetings.

Board Committees and Meetings

The Board of Directors has an Audit Committee, a Compensation Committee and a Nominating and Corporate Governance Committee. The Board of Directors annually reviews the Nasdaq Stock Market Rules' definitions of independence for members of each of the committees and has determined that members of each of the committees are independent pursuant to applicable rules of the Nasdaq Stock Market Rules and the SEC.

Copies of our committee charters may be viewed at the Company's website at http://www.infosonics.com/index.php/investors/ corporate-governance.

Directors serving on our committees are set forth below:

Name	Audit Committee	Compensation Committee	Nominating and Corporate Governance Committee(1)	Nominating and Corporate Governance Committee(2)
Kirk A. Waldron	**	*	*	*
Randall P. Marx	*	**	*	*
Robert S. Picow	*	*	*	

* Member.
** Chairman.
(1) The Nominating and Corporate Governance Committee currently has no chairman.

Audit Committee

Our Audit Committee performs, among other things, the following functions:

- determines the independent registered public accounting firm to be employed;
- discusses the scope of the independent registered public accounting firm's examination;
- reviews the financial statements and the independent registered public accounting firm's report;
- solicits recommendations from the independent registered public accounting firm regarding internal controls and other matters;
- reviews related-party transactions for conflicts of interest;
- makes recommendations to the Board regarding audit-related, accounting and certain other matters; and
- performs other related tasks as requested by the Board.

Messrs. Waldron, Marx and Picow are the members of the Audit Committee. Mr. Waldron is the Chairman of the Audit Committee. Our Board of Directors has determined that Messrs. Marx and Waldron, each an independent director, are Audit Committee financial experts.

Compensation Committee

Our Compensation Committee performs, among other things, the following functions:

- develops executive compensation philosophies and establishes and annually reviews and approves policies regarding executive compensation programs and practices;
- reviews and approves corporate goals and objectives relevant to the Chief Executive Officer's compensation, evaluates the Chief Executive Officer's performance in light of those goals and objectives and sets the Chief Executive Officer's compensation based on this evaluation;
- reviews the Chief Executive Officer's recommendations with respect to, and approves annual compensation for, InfoSonics' other executive officers;
- establishes and administers annual and long-term incentive compensation plans for key executives;

- reviews and approves, if appropriate, or recommends to the Board for its approval and, where appropriate, submission to InfoSonics' stockholders, incentive compensation plans and equity–based plans;
- recommends to the Board for its approval changes to executive compensation policies and programs;
- oversees and annually reviews the non-employee director compensation program; and
- reviews and approves special executive employment, compensation and retirement arrangements.

The members of our Compensation Committee are Messrs. Waldron, Marx and Picow. Mr. Marx is the Chairman of the Compensation Committee.

The Compensation Committee may invite to its meetings any member of management, including the Chief Executive Officer, and such other persons as it deems appropriate to carry out its duties and responsibilities. Our management assists the Compensation Committee by providing various support, including:

- providing the Compensation Committee with perspectives of the business and people needs of the Company;
- having the Chief Executive Officer make compensation recommendations to the Compensation Committee for the other executive officers (although the Compensation Committee ultimately determines compensation for the Chief Executive Officer and the other executive officers); and
- developing recommendations for the design of pay programs applicable to the executive officers.

In addition, the Compensation Committee may from time to time engage an outside compensation consultant to:

- assist the Compensation Committee in reviewing recommendations prepared by management in light of the Company's objectives and market practices; and
- provide the Compensation Committee with an outside perspective regarding compensation.

In June 2015, the Compensation Committee engaged Compensation & Benefit Solutions to review compensation levels for our Named Executive Officers, including a bench marking analysis against the following 13 peer companies:

ADDvantage Technologies Group, Inc.	Ikanos Communications, Inc.
Blonder Tongue Laboratories Inc.	Iteris Inc.
Clearfield, Inc.	RELM Wireless Corp.
ClearOne Incorporated	Westell Technologies, Inc.
Envivio Inc.	Wireless Telecom Group Inc.
Franklin Wireless Corp.	Zhone Technologies, Inc.
ID Systems Inc.	

Based on the report of the consultant, the Compensation Committee accepted the consultant's findings that the compensation of our Named Executive Officers is appropriate. In the future, the Compensation Committee may consider alternative performance recommendations for future cash bonus programs and other long-term incentive programs.

Compensation & Benefit Solutions did not provide any other services to InfoSonics during 2015 and only received fees from InfoSonics on behalf of the Compensation Committee. The Compensation Committee reviewed the independence of the consultant based on the criteria established by the SEC and determined there were no conflicts of interest. The Compensation Committee did not use the services of a compensation consultant during 2016 or 2017.

Special Committee

The Special Committee was formed on April 29, 2017 as our Board of Directors considered various strategic alternatives for the Company, including the Cooltech Merger. The Special Committee was delegated the exclusive power and authority (1) to establish, approve, modify, monitor and direct the process and procedures relating to the review and evaluation by InfoSonics and for its stockholders of any transaction, (2) to review and evaluate the terms and conditions, and determine the advisability of any transaction, (3) to investigate, pursue and negotiate the terms and conditions of any transaction, and if the Special Committee deems appropriate and in its sole discretion, to approve or disapprove any transaction, or, on the other hand, but subject to the limitations of applicable law, to approve the execution and delivery of documents to effect a transaction and/or recommend the same to InfoSonics' stockholders for their approval, (4) to review, analyze, evaluate and monitor all proceedings and activities of InfoSonics related to any transaction, (5) to determine whether any transaction is fair to, and in the best interests of, InfoSonics and its stockholders, and (6) to take any and all other actions it deems necessary and advisable to carry out a transaction.

Nominating and Corporate Governance Committee

We also have a Nominating and Corporate Governance Committee, which, pursuant to its written charter, is responsible for recommending potential directors, for considering nominations for potential directors submitted by our stockholders and for certain matters related to corporate governance. Messrs. Marx, Picow and Waldron serve on this committee.

There have been no material changes to the procedures (as described below) by which security holders may recommend nominees to our Board of Directors in the last fiscal year.

Director Candidates

The Nominating and Corporate Governance Committee believes that candidates for director should have certain minimum qualifications and have a high standard of personal and professional ethics, integrity and values. Candidates for director nominees are reviewed in the context of the current composition of our Board of Directors, our operating requirements and the long-term interests of our stockholders. In conducting this assessment, the Nominating and Corporate Governance Committee considers independence, professional background and experience, other board experience, industry knowledge, skills and expertise, and such other factors as it deems appropriate given the current needs of the Board and InfoSonics, to maintain a balance of knowledge, experience and capabilities. Other factors considered may include diversity (including age, geography, professional and other experience), although the Company does not have a formal policy regarding diversity.

In the case of incumbent directors, the Nominating and Corporate Governance Committee reviews such directors' overall service to us during their term, including the number of meetings attended, level of participation, quality of performance, and any other relevant considerations. In the case of new director candidates, the Nominating and Corporate Governance Committee also determines whether the nominee must be independent for Nasdaq purposes, which determination is based upon applicable Nasdaq listing standards, applicable SEC rules and regulations, and the advice of counsel, if necessary.

The Nominating and Corporate Governance Committee uses its network of contacts to compile a list of potential candidates, but may also engage, if it deems appropriate, a professional search firm. The Nominating and Corporate Governance Committee conducts appropriate and necessary inquiries into the backgrounds and qualifications of possible candidates after considering the function and needs of our Board of Directors. The Nominating and Corporate Governance Committee meets to discuss and consider such candidates' qualifications and then selects nominees for recommendation to the Board by majority vote.

The Nominating and Corporate Governance Committee will consider director candidates recommended by stockholders. The Nominating and Corporate Governance Committee does not intend to alter the manner in which it evaluates candidates, including the minimum criteria set forth above, based on whether or not the candidate was recommended by a stockholder or not. Stockholders who wish to recommend individuals for consideration by the Nominating and Corporate Governance Committee to become nominees for election to the Board at an annual meeting of stockholders must do so by delivering, at least 120 days prior to the anniversary date of the mailing of the proxy statement for our last annual meeting of stockholders, a written recommendation to the Nominating and Corporate Governance Committee at the following address: c/o Corporate Secretary, 4435 Eastgate Mall, Suite 320, San Diego, California 92121. Each submission must set forth, among other things: the name and address of the stockholder on whose behalf the submission is made; the number of our shares that are owned beneficially by such stockholder as of the date of the submission; the full name of the proposed candidate; a description of the proposed candidate's business experience for at least the previous five years; complete biographical information for the proposed candidate; and a description of the proposed candidate's qualifications as a director. For additional information, see our

Director Selection Guidelines attached to the Nominating and Corporate Governance Committee's Charter, which can be found on our website at http://infosonics.com/index.php/investors/corporate-governance/nominating-and-corporate-governance-committee-charter/.

Meetings of the Board of Directors and Committee Member Attendance

During fiscal year 2017, our Board of Directors met nineteen times, our Audit Committee met four times, our Compensation Committee met twice, and our Nominating and Corporate Governance Committee met once and our Special Committee met twenty-nine times. All directors attended at least 75% of the meetings of the Board and of the committees on which they served in fiscal year 2016 that were held while they were a director or committee member.

Board Leadership Structure and Role in Risk Oversight

At the present time, in light of the small size of the Company and its Board of Directors, the Board believes that InfoSonics and its stockholders are best served by not having a Chairman of the Board or lead director. Mr. Ram, InfoSonics' President and Chief Executive Officer, is also a director of the Company. Mr. Ram oversees the management team, which is responsible for identifying, assessing and managing the material risks facing the Company. The other three members of the Board are independent directors, each of whom is a strong, seasoned business executive with expertise in areas critical to the Company, including wireless technology and distribution, China-based manufacturing and financial controls. Each director takes a leadership role in his area of expertise.

The Board of Directors has historically performed an important role in the review and oversight of risks, and generally oversees the Company's risk management practices and processes, including entity level and financial controls. In its risk oversight role, the Board has the responsibility to satisfy itself that the risk management processes designed and implemented by the Company's management are adequate and functioning as designed. The Board also oversees organizational structure, policies and procedures, such as the Code of Conduct and the Code of Ethics and other internal policies and guidelines designed to support the Company's corporate governance and to comply with the laws, rules and regulations that apply to the Company's business operations.

Although the Board of Directors is ultimately responsible for risk oversight at the Company, it has delegated primary oversight of the management of (i) financial reporting, internal controls, accounting and compliance risks to the Audit Committee, (ii) compensation risk to the Compensation Committee, and (iii) corporate governance risk to the Nominating and Corporate Governance Committee. Each of these committees routinely reports to the Board on the management of these specific risk areas.

To permit the Board of Directors and its committees to perform their respective risk oversight roles, members of management report directly to the Board or the relevant committee of the Board responsible for overseeing the management of specific risks, as applicable. The President and Chief Executive Officer reports directly to the Board. The Chief Financial Officer reports to the President and Chief Executive Officer, the Board and the Audit Committee. Members of the management team have a high degree of access and communication with the independent directors of the Board and the various Board committees. Members of the Company's management regularly attend Board and committee meetings and are available to address any questions or concerns raised on matters related to risk management. Because three of the four Board members are independent directors and each committee of the Board consists solely of independent directors, InfoSonics' risk oversight structure conforms to the Company's belief that having a strong, independent group of directors is important for quality governance.

Additional Corporate Governance Information

Stockholder Communications

Stockholders wishing to send communications to the Board may contact Vernon A. LoForti, our Vice President, Chief Financial Officer and Corporate Secretary, at InfoSonics' principal executive offices address. All such communications will be shared with the members of the Board, or if applicable, a specified committee or director.

Code of Business Conduct and Ethics and Reporting of Accounting Concerns

We have adopted a Code of Business Conduct and Ethics (the "Code of Conduct"). We require all employees to adhere to the Code of Conduct in addressing legal and ethical issues encountered in conducting their work. The Code of

Conduct requires that our employees avoid conflicts of interest, comply with all laws and other legal requirements, conduct business in an honest and ethical manner and otherwise act with integrity and in our best interest.

We have also adopted a Code of Ethics (the “Code of Ethics”) for our Chief Executive Officer, our Chief Financial Officer and our Controller. The Code of Ethics supplements our Code of Conduct and is intended to promote honest and ethical conduct, full and accurate reporting, and compliance with laws as well as other matters.

The Code of Conduct and Code of Ethics can be found on our website at http://www.infosonics.com/index.php/investors/corporate-governance.

We have established “whistle-blower procedures” that provide a process for the confidential and anonymous submission, receipt, retention and treatment of complaints regarding accounting, internal accounting controls or auditing matters. These procedures provide protections to employees who report company misconduct.

Section 16(A) Beneficial Ownership Reporting Compliance

Based solely upon a review of Forms 3, 4 and 5 furnished to us, we are not aware of any person who at any time during the fiscal year ended December 31, 2017, was a director, officer or beneficial owner of more than ten percent of our common stock, who failed to file, on a timely basis, reports required by Section 16(a) of the Securities Exchange Act for transactions occurring during such fiscal year.

Item 11. Executive Compensation.
Summary Compensation Table

The following table sets forth for our Chief Executive Officer and our Chief Financial Officer (each of these persons is referred to as a Named Executive Officer) information regarding salary, bonus and other compensation for the years ended December 31, 2017 and 2016.

Name and Principal Position	Year	Salary ($)	Bonus ($)	Option Awards ($)	All Other Compensation ($)	Total ($)
Joseph Ram	2017	$327,500	—	—	$1,961(1)	$329,461
President and Chief Executive Officer	2016	$365,000	—	—	$15,983	$380,983
Vernon A. LoForti	2017	$205,000	—	—	—	$205,000
Vice President, Chief Financial Officer and Corporate Secretary	2016	$205,000	—	—	—	$205,000

(1) Represents Company-paid cell phones for Mr. Ram's family members.

Employment Agreements

Joseph Ram. On April 21, 2016, the Compensation Committee of the Company authorized and approved the extension of the term of the employment agreement between the Company and Mr. Ram which was set to expire on April 8, 2016. The terms of the new agreement are substantially similar to the prior employment agreement. The annual base salary of $365,000 set forth in the employment agreement is subject to periodic review by the Board of Directors or the Compensation Committee. The agreement also provides that Mr. Ram is eligible to receive an annual performance-based bonus in the discretion of the Compensation Committee. No such bonus was paid for 2016 or 2017. Mr. Ram's employment agreement has a term of four years, commencing on April 9, 2016 and expiring on April 8, 2020.

Mr. Ram's employment agreement provides for the payment of severance under certain conditions. If InfoSonics terminates his employment other than for "cause" or if Mr. Ram terminates his employment for "reasonable basis," Mr. Ram is entitled to a severance payment equal to the greater of (i) 18 months of salary and (ii) the salary payable over 50% of the remaining term of the employment agreement, subject to Mr. Ram's execution within 45 days of the termination date of a general release and waiver of claims against InfoSonics. If Mr. Ram voluntarily terminates his employment other than for "reasonable basis," he is not entitled to receive a severance payment. Under the terms of the agreement, Mr. Ram is also subject to confidentiality and non-competition restrictions in favor of InfoSonics.

Under the employment agreement, the term "reasonable basis" generally means a material breach of the employment agreement by the Company that is not timely cured by the Company, a termination without "cause" during the term of the agreement, a reduction in Mr. Ram's salary except to the extent that a majority of the other executive officers of the Company incur similar reductions, or a termination of employment within 12 months after a "change of control."

The term "change of control" generally means any consolidation or merger in which the Company is not the continuing or surviving corporation, except where the holders of Company common stock immediately prior to the merger own a majority of the voting common stock of the surviving corporation immediately after the merger; a sale, lease, exchange or other transfer of all or substantially all the Company's assets; stockholder approval of a liquidation or dissolution of the Company; the acquisition by any person or entity of a majority of the stock entitled to elect a majority of the directors of the Company; or a bankruptcy proceeding.

The term "cause" generally means engaging in or committing willful misconduct, gross negligence, theft, fraud or other illegal conduct; refusal or unwillingness to perform, or materially inadequate performance of the executive's duties; breach of any applicable non-competition, confidentiality or other proprietary information or inventions agreement; inappropriate conflict of interest; insubordination; failure to follow the directions of the Board or any committee thereof; or indictment or conviction of any felony, or any entry of a plea of nolo contendere.

Vernon A. LoForti. On April 21, 2016, the Compensation Committee of the Company authorized and approved the extension of the term of the employment agreement between the Company and Mr. LoForti which was set to expire on April 8, 2016. The terms of the agreement are substantially similar to the prior employment agreement. The annual base salary of $205,000 set in the employment agreement is subject to periodic review by the Board of Directors or the Compensation Committee. The agreement also provides that Mr. LoForti is eligible to receive an annual performance-based bonus of up to 35% of his base salary in the discretion of the Compensation Committee. No such bonus was paid for 2016 or 2017. Mr. LoForti's employment agreement has a term of two years, commencing on April 9, 2016 and expiring on April 8, 2018.

Mr. LoForti’s employment agreement provides for the payment of severance under certain conditions. If InfoSonics terminates his employment other than for “cause” or if Mr. LoForti terminates his employment for “reasonable basis,” he will be entitled to receive severance payments equal to his base salary for 9 months, conditioned upon the execution by Mr. LoForti within 45 days of the termination date of a general release and waiver of claims against the Company. If Mr. LoForti voluntarily terminates his employment other than for “reasonable basis,” he is not entitled to receive a severance payment. Under the terms of the agreement, Mr. LoForti is subject to confidentiality restrictions in favor of InfoSonics.

Under the employment agreement, the terms “reasonable basis”, “change of control” and “cause” generally have the same meanings as under the employment agreement with Mr. Ram described above (except that "reasonable basis" does not include a termination of employment within 12 months of a change of control under Mr. LoForti's employment agreement).

Option Grants to Named Executive Officers

InfoSonics’ Named Executive Officers have been granted stock options under the InfoSonics Corporation 2006 and 2015 Equity Incentive Plans with the terms noted below:

- Stock options under each of the 2006 and 2015 Equity Incentive Plans are granted with an exercise price that is no less than the fair market value of the common stock on the date of grant, defined as the closing price of common stock on the date of grant or if not traded on such date, the closing price on the last preceding date on which the common stock was traded.
- Stock options typically vest over two to four years from the date of grant. Footnotes to the Outstanding Equity Awards at 2016 Fiscal Year-End table describe the vesting schedules applicable to outstanding option grants to the Named Executive Officers.
- The effect of a “change in control” on options granted under the 2006 Equity Incentive Plan is described below under “Change in Control Provisions Under 2006 Equity Incentive Plan.”
- The effect of a “change in control” on options granted under the 2015 Equity Incentive Plan is described below under “Change in Control Provisions Under 2015 Equity Incentive Plan.”

Outstanding Equity Awards at 2017 Fiscal Year-End

The following table provides information regarding outstanding stock options held by the Named Executive Officers at 2017 fiscal year-end.

	b)		Option Awards		
a)	c)				
Name	Grant Date	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Option Exercise Price ($)	Option Expiration Date
Joseph Ram	08/22/2011(1)	15,000	0	$3.25	08/22/2018
d)	12/10/2013(3)	15,000	0	$3.65	12/10/2020
e)	12/10/2014(4)	15,000	0	$6.55	12/10/2021

f)					
g)	12/3/2015(5)	15,000	0	$7.65	12/3/2022
Vernon A. LoForti					
h)	08/22/2011(1)	8,000	0	$3.25	08/22/2018
i)	12/10/2013(3)	10,000	0	$3.65	12/10/2020
j)	12/10/2014(4)	10,000	0	$6.55	12/10/2021
k)					
l)	12/3/2015(5)	10,000	0	$7.65	12/3/2022

(1) 1/24th of the shares subject to the option vested and became exercisable on September 22, 2011 (one month from the date of grant), and 1/24th of the shares subject to the option vested and became exercisable monthly thereafter until fully vested on August 22, 2013.

(2) One-third of the original number of shares subject to the option vested and became exercisable on August 19, 2011 (the first anniversary from the date of grant), and 1/24th of the remaining number of shares subject to the option vested and became exercisable monthly thereafter until fully vested on August 19, 2013.

(3) 1/24th of the shares subject to the option vested and became exercisable on January 10, 2014 (one month from the date of grant), and 1/24th of the shares subject to the option vested and became exercisable monthly thereafter until fully vested on December 10, 2015.
(4) 1/24th of the shares subject to the option vested and became exercisable on January 10, 2015 (one month from the date of grant), and 1/24th of the shares subject to the option vests and becomes exercisable monthly thereafter until fully vested on December 10, 2016, subject in all cases to continued service to the Company.
(5) 1/24th of the shares subject to the option vested and became exercisable on January 3, 2016 (one month from the date of grant), and 1/24th of the shares subject to the option vests and becomes exercisable monthly thereafter until fully vested on December 3, 2017, subject in all cases to continued service to the Company.

Change in Control Provisions Under 2006 Equity Incentive Plan

Under the 2006 Equity Incentive Plan, unless the Compensation Committee determines otherwise at the time of grant with respect to a particular award, or unless otherwise provided in a written employment, services or other agreement with a participant, if a “change in control” or “reorganization event” occurs, outstanding awards will become fully and immediately exercisable, and all applicable deferral and restriction limitations or forfeiture provisions applicable to the awards will lapse, immediately before the change in control or reorganization event. In addition, the Compensation Committee may determine that outstanding awards will be surrendered or terminated in exchange for a cash payment or make any other adjustments it deems appropriate in a change in control or reorganization event, and also may determine that outstanding awards will be cancelled in a reorganization event.

Under the 2006 Equity Incentive Plan “change in control” generally has the same meaning as under the employment agreement with Mr. Ram described above. A “reorganization event” means the merger or consolidation of the Company with another corporation, a person becoming the beneficial owner of all the outstanding equity securities of the Company, the sale of all or substantially all the assets of the Company, or the dissolution, liquidation or reorganization of the Company.

Change in Control Provisions Under 2015 Equity Incentive Plan

Under the 2015 Equity Incentive Plan, unless otherwise provided in the instrument evidencing an award or in a written employment, services or other agreement or policy between a participant and us, in the event of a change in control:

- If awards (other than performance shares, performance units, and other performance-based awards) will be assumed or otherwise continued after a change in control pursuant to the terms of the 2015 Equity Incentive Plan, the awards will not become fully vested and exercisable, and all applicable vesting and forfeiture provisions will continue following the change in control. However, such awards will become fully vested and exercisable, and all applicable restriction limitations or forfeiture provisions will lapse, in the event of a transaction in which such awards are not assumed or continued after the change in control, and the awards will thereafter terminate at the effective time of the change in control.
- All performance shares, performance units and other awards subject to vesting or payout based on the achievement of performance goals will be prorated at the target payout level as of the date of the change in control.
- In the event of certain reorganizations, mergers or consolidations, the Board or the Compensation Committee may, in its discretion, provide that a participant's outstanding awards will be cashed out.

Under the 2015 Equity Incentive Plan “change in control” generally means the occurrence of any of the following events:

- an acquisition by any individual, entity or group of beneficial ownership of 50% or more of either (a) the then outstanding shares of common stock or (b) the combined voting power of the then outstanding voting securities of the Company entitled to vote generally in the election of directors (with certain exclusions, including generally any acquisition directly from the Company, any acquisition by the Company, or any acquisition by any employee benefit plan of the Company or an affiliate);
- a change in the composition of the Board such that, during any two-year period, the incumbent Board members cease to constitute at least a majority of the Board (not including directors whose election, or nomination for election by stockholders, was approved by a majority of the incumbent Board); or
- consummation of a merger or consolidation of the Company or a sale or other disposition of all or substantially all of the assets of the Company, unless (a) after such transaction the beneficial owners of our common stock and voting securities immediately prior to the transaction retain at least 50% of such common stock and voting securities of the company resulting from such transaction in substantially the same proportions as their ownership prior to the transaction, (b) no person or entity beneficially owns 30% or more of the then outstanding common stock or voting securities of the company resulting from such transaction (unless such ownership resulted from ownership of securities prior to the transaction), and (c) at least a majority of the directors following such transaction were incumbent directors.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.
Equity Compensation Plan Information

The following table provides information presented as of December 31, 2017 with respect to our 2006 and 2015 Equity Incentive Plans as described below.

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders	171,300(1)	$5.44(1)	259,817 (2)
Equity compensation plans not approved by security holders	—	$—	—

(1) Includes all options outstanding under our 2006 and 2015 Equity Incentive Plans.
(2) As of December 31, 2017, an aggregate of 259,817 shares remained available for future issuance under the 2015 Equity Incentive Plan, which may be granted in the form of stock options, stock appreciation rights, stock awards, restricted stock, stock units, performance awards and other stock or cash-based awards. No additional awards will be granted under the 2006 Equity Incentive Plan.

Security Ownership of Certain Beneficial Owners and Management

As of March 8, 2018, there were 3,378,280 shares of common stock outstanding. The following table sets forth certain information as of that date with respect to the beneficial ownership of common stock by each (i) Named Executive Officer listed in the Summary Compensation Table above, (ii) director and nominee for director, and (iii) all current executive officers and directors as a group. Other than Mr. Ram, there is no other person known by us to be the beneficial owner of more than 5% of our outstanding shares of common stock.

Name and Address of Beneficial Owner	Number of Shares Beneficially Owned (1)	Percent of Class (1)
Named Executive Officers		
Joseph Ram (also a Director) 4435 Eastgate Mall, Suite 320	782,066(2)	22.75%

San Diego, California 92121		
Vernon A. LoForti 4435 Eastgate Mall, Suite 320 San Diego, California 92121	38,000(3)	1.11%
Directors		
Randall P. Marx 4435 Eastgate Mall, Suite 320 San Diego, California 92121	15,620(4)	*
Robert S. Picow 4435 Eastgate Mall, Suite 320 San Diego, California 92121	17,600(4)	*
Kirk A. Waldron 4435 Eastgate Mall, Suite 320 San Diego, California 92121	15,600(4)	*
All current executive officers and directors as a group (5 persons)	868,886(5)	24.66%

*Less than one percent

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(1) "Beneficial ownership" is defined in the regulations promulgated by the SEC as having or sharing, directly or indirectly: (a) voting power, which includes the power to vote or to direct the voting, or (b) investment power, which includes the power to dispose or to direct the disposition of shares of the common stock of an issuer. Shares of common stock subject to options that are currently exercisable are considered outstanding and beneficially owned by the person holding the options for the purpose of computing the percentage ownership of that person but are not treated as outstanding for the purpose of computing the percentage ownership of any other person.
(2) Includes 60,000 shares underlying all outstanding options that are fully vested and exercisable.
(3) Represents 38,000 shares underlying all outstanding options that are fully vested and exercisable.
(4) Includes 15,600 shares underlying all outstanding options that are fully vested and exercisable.
(5) Includes 144,800 shares underlying all outstanding options that are fully vested and exercisable held by current executive officers and directors and reflects information contained in footnotes (1) through (4).

Item 13. Certain Relationships and Related Transactions, and Director Independence.

Director Independence

NASDAQ Listing Rules require that a majority of our Board of Directors be composed of "independent" directors as defined by such rules. The standards relied upon by our Board of Directors in determining whether a director is "independent" consist of the independence standards of the NASDAQ Listing Rules.

In accordance with the NASDAQ Listing Rules, for a director to be considered "independent," the Board of Directors must affirmatively determine that he or she is not an executive officer or employee of the Company or an individual that has a relationship which, in the opinion of the Board, would interfere with the exercise of independent judgment in carrying out the responsibilities of a director. Additionally, the following persons are not considered "independent":

(a) a director who is or at any time during the past three years was employed by InfoSonics or its subsidiaries;

(b) a director who accepted or has a family member who accepted any compensation from InfoSonics in excess of $120,000 during any period of twelve consecutive months within the three years preceding the determination of independence, other than the following:

(i) compensation for board or board committee service;

(ii) compensation paid to a family member who is an employee (other than an executive officer) of InfoSonics; or

(iii) benefits under a tax-qualified retirement plan or non-discretionary compensation;

(c) a director who is a family member of an individual who is or at any time during the past three years was employed by InfoSonics as an executive officer;

(d) a director who is, or has a family member who is a partner in or a controlling stockholder or an executive officer of, any organization to which InfoSonics has made, or from which InfoSonics received, payments for property or services in the current or any of the past three fiscal years that exceed 5% of the recipient's consolidated gross revenues for that year, or $200,000, whichever is more, other than the following:

(i) payments arising solely from investments in InfoSonics' securities; or

(ii) payments under non-discretionary, charitable contribution matching programs;

(e) a director of InfoSonics who is, or has a family member who is employed as an executive officer of another entity where at any time during the past three years any of the executive officers of InfoSonics serve on the compensation committee of such other entity; or

(f) a director who is or has a family member who is a current partner of InfoSonics' outside auditor or was a partner or employee of InfoSonics' outside auditor who worked on InfoSonics' audit at any time during any of the past three years.

At its January 2018 meeting, the Board undertook its annual review of director independence based on the foregoing standards. During this review, the Board considered, among other things, transactions and relationships between each director or any member of his or her immediate family and InfoSonics and its subsidiaries and affiliates or any entity of which a director or an immediate family member is or was, as applicable, an executive officer, general partner or significant equity holder. As provided in the Director Qualification Standards of the Nominating and Corporate Governance Committee Charter, the purpose of this review was to determine whether any such relationships or transactions existed that were inconsistent with a determination that the director is independent.

As a result of this review, the Board affirmatively determined that the following directors nominated for election at the Annual Meeting were independent of InfoSonics within the meaning of the NASDAQ Listing Rules and the applicable rules promulgated by the SEC:

Randall P. Marx

Robert S. Picow

Kirk A. Waldron

Conflicts of Interest Policies

NASDAQ Listing Rules require that our Audit Committee (or other independent body of our Board of Directors) review and oversee all related-party transactions for potential conflicts of interest on an ongoing basis. Our Board of Directors and our officers also are subject to certain provisions of Maryland law that are designed to eliminate or minimize the effects of certain potential conflicts of interest. Pursuant to these provisions of Maryland law and our articles of incorporation, any transaction between us and an interested party will not be invalidated because it is an interested-party transaction if it is fully disclosed to our Board, and a majority of the directors not otherwise interested in the transaction (including a majority of independent directors) make a determination that the transaction is fair, competitive and commercially reasonable and on terms and conditions not less favorable to us than those available from unaffiliated third parties.

All future transactions between us and any of our officers, directors or 5% stockholders are expected to be on terms no less favorable than could be obtained from independent third parties and to be approved by a majority of our independent, disinterested directors. We believe that by following these procedures, we will be able to mitigate the possible effects of any conflicts of interest. We had no transactions with related persons during 2017 which are required to be disclosed by the rules of the SEC.

Item 14. Principal Accountant Fees and Services.

Our independent registered public accounting firm for 2016 and 2017 was SingerLewak LLP ("SL"). The Audit Committee reviews and determines whether specific projects or expenditures with SL potentially affect its independence. The Audit Committee's policy requires that all services the independent registered public accounting firm may provide to InfoSonics, including audit services and permitted audit-related services, be pre-approved in advance by the Audit Committee. In the event that an audit or non-audit service requires approval prior to the next scheduled meeting of the Audit Committee, the auditor must contact the Chairman of the Audit Committee (who has been delegated by the Audit Committee the authority to act in such circumstances) to obtain such approval. The approval will be reported to the Audit Committee at its next scheduled meeting. All audit and non-audit services provided by SL during 2016 and 2017 were pre-approved by the Audit Committee.

The following sets forth the aggregate fees billed to us by SL for the years ended December 31, 2016 and 2017.

Audit Fees

The aggregate fees billed for professional services rendered by SL for its audit of our annual financial statements and its review of our financial statements included in Forms 10-Q and 10-K in fiscal years 2016 and 2017 and related SEC reporting work were $229,626 and $252,935, respectively.

Audit Related Fees

The aggregate fees billed for audit-related services by SL in fiscal years 2016 and 2017 were $22,722 and $95,975, respectively.

Tax Fees

There were no fees billed by SL in fiscal years 2016 and 2017 for professional services for tax compliance, tax advice or tax planning.

All Other Fees

There were no fees billed by SL in fiscal years 2016 and 2017 for professional services other than the services described above.

PART IV

Item 15. Exhibits and Financial Statement Schedules.
(a) The following documents included elsewhere in this annual report on Form 10-K (see F-pages herein regarding financial statement information) are incorporated herein by reference and filed as part of this report:

(1) Financial statements:

The consolidated balance sheets as of December 31, 2017 and 2016, and the consolidated statements of operations and comprehensive loss, stockholders' equity and cash flows for the years ended December 31, 2017, 2016 and 2015, together with notes thereto.

(2) Financial statement schedule:

Schedule II – Valuation and Qualifying Accounts.

(3) Exhibits required by Item 601 of Regulation S-K:

Number	Description
3.1	Articles of Incorporation (1)
3.2	Amendment to Articles of Incorporation dated as of July 25, 2017 (24)
3.3	Amendment to Articles of Incorporation dated as of October 10, 2017 (25)
3.4	Amended and Restated Bylaws (5)
4.1	Specimen Common Stock Certificate (1)
10.2	2006 Equity Incentive Plan (2)(*)
10.3	Form of Stock Option Grant Notice/Stock Option Agreement—2006 Equity Incentive Plan (3)(*)
10.4	Form of Amended and Restated Stock Option Agreement (Non-Employee Directors' Option) (2)(*)
10.5	Office Space Lease, dated September 10, 2007, by and between UTC Properties LLC and the Company (4)
10.6	FX Trading Master Agreement between HSBC Bank USA, National Association and InfoSonics Corporation dated December 9, 2011 (6)
10.7	Pledge Agreement between HSBC Bank USA, National Association and InfoSonics Corporation dated December 20, 2011 (6)
10.8	First Amendment to Lease, dated May 23, 2012, by and between UTC Properties LLC and the Company (7)
10.9	

	Loan and Security Agreement dated as of March 27, 2014 between Silicon Valley Bank and InfoSonics Corporation (8)
10.10	Intellectual Property Security Agreement dated as of March 27, 2014 between Silicon Valley Bank and InfoSonics Corporation (8)
10.11	First Amendment to Loan and Security Agreement dated as of December 5, 2014 between Silicon Valley Bank and InfoSonics Corporation (9)
10.12	Form of Stock Option Grant Notice/Stock Option Agreement—2015 Equity Incentive Plan (10)
10.13	2015 Equity Incentive Plan (10)(*)
10.14	Second Amendment to Loan and Security Agreement dated as of May 26, 2015 between Silicon Valley Bank and InfoSonics Corporation (11)
10.15	Third Amendment to Loan and Security Agreement dated as of August 4, 2015 between Silicon Valley Bank and InfoSonics Corporation (12)
10.16	Fourth Amendment to Loan and Security Agreement dated as of October 26, 2015 between Silicon Valley Bank and InfoSonics Corporation (13)
10.17	Employment Agreement effective of April 21, 2016 between InfoSonics and Joseph Ram (14)(*)
10.18	Employment Agreement effective of April 21, 2016 between InfoSonics and Vernon A. LoForti (14)(*)

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Number	Description
10.19	Fifth Amendment to Loan and Security Agreement dated as of May 20, 2016 between Silicon Valley Bank and InfoSonics Corporation (15)
10.20	Sixth Amendment to Loan and Security Agreement dated as of August 23, 2016 between Silicon Valley Bank and InfoSonics Corporation (16)
10.21	Seventh Amendment to Loan and Security Agreement dated as of October 6, 2016 between Silicon Valley Bank and InfoSonics Corporation (17)
10.22	Eighth Amendment to Loan and Security Agreement dated as of March 24, 2017 between Silicon Valley Bank and InfoSonics Corporation (18)
10.23	Agreement and Plan of Merger dated as of July 25, 2017 between InfoSonics Corporation, Cooltech Holding Corp. and InfoSonics Acquisition Sub, Inc. (19)
10.24	Voting Agreement dated as of July 25, 2017 between Joseph Ram and Cooltech Holding Corp. (19)
10.25	Securities Purchase Agreement dated as of August 2, 2017 between InfoSonics Corporation and certain of its investors (20)
10.26	Securities Purchase Agreement dated as of August 3, 2017 between InfoSonics Corporation and certain private investors (20)
10.27	Amendment No. 1 to Agreement and Plan of Merger dated as of September 14, 2017 between InfoSonics Corporation, Cooltech Holding Corp. and InfoSonics Acquisition Sub, Inc. (21)
10.30	Amendment No. 2 to Merger Agreement dated as of January 5, 2018 between InfoSonics Corporation, Cooltech Holding Corp. and InfoSonics Acquisition Sub, Inc. (22)
10.31	Amendment No. 1 to Securities Purchase Agreement dated as of December 31, 2017 between InfoSonics Corporation and certain of its investors (22)
10.32	Amendment No. 2 to Securities Purchase Agreement dated as of January 5, 2018 between InfoSonics Corporation and certain of its investors (22)
10.34	Securities Purchase Agreement dated as of January 19, 2018 between InfoSonics Corporation and certain accredited investors affiliated with Cooltech Holding Corp. (23)
21	Subsidiaries of InfoSonics (+)
23	Consent of Independent Registered Public Accounting Firm (+)
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, implementing Section 302 of Sarbanes-Oxley Act of 2002 (+)
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, implementing Section 302 of Sarbanes-Oxley Act of 2002 (+)

32.1	Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of Sarbanes-Oxley Act of 2002 (+)
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

(1) Incorporated by reference to the Company's Registration Statement on Form S-1, filed on January 30, 2004.
(2) Incorporated by reference to the Company's Registration Statement on Form S-8, filed on June 12, 2006.
(3) Incorporated by reference to the Company's Current Report on Form 8-K, filed on June 12, 2006.
(4) Incorporated by reference to the Company's Quarterly Report on Form 10-Q, filed on November 14, 2007.

(5) Incorporated by reference to the Company's Quarterly Report on Form 10-Q, filed on May 14, 2010.
(6) Incorporated by reference to the Company's Annual Report on Form 10-K, filed on March 16, 2012.
(7) Incorporated by reference to the Company's Quarterly Report on Form 10-Q, filed on August 14, 2012.
(8) Incorporated by reference to the Company's Current Report on Form 8-K, filed on April 1, 2014.
(9) Incorporated by reference to the Company's Current Report on Form 8-K, filed on December 8, 2014.
(10) Incorporated by reference to the Company's Annual Report on Form 10-K, filed on March 11, 2016.
(11) Incorporated by reference to the Company's Current Report on Form 8-K, filed on May 28, 2015.
(12) Incorporated by reference to the Company's Current Report on Form 8-K, filed on August 5, 2015.
(13) Incorporated by reference to the Company's Current Report on Form 8-K, filed on October 29, 2015.
(14) Incorporated by reference to the Company's Quarterly Report on Form 10-Q, filed on May 6, 2016.
(15) Incorporated by reference to the Company's Current Report on Form 8-K, filed on May 23, 2016.
(16) Incorporated by reference to the Company's Current Report on Form 8-K, filed on August 25, 2016.
(17) Incorporated by reference to the Company's Current Report on Form 8-K, filed on October 11, 2016.
(18) Incorporated by reference to the Company's Current Report on Form 8-K, filed on March 29, 2017.
(19) Incorporated by reference to the Company's Current Report on Form 8-K, filed on July 26, 2017.
(20) Incorporated by reference to the Company's Current Report on Form 8-K, filed on August 4, 2017.
(21) Incorporated by reference to the Company's Current Report on Form 8-K, filed on September 15, 2017.
(22) Incorporated by reference to the Company's Current Report on Form 8-K, filed on January 5, 2018.
(23) Incorporated by reference to the Company's Current Report on Form 8-K, filed on January 22, 2018.
(24) Incorporated by reference to the Company's Current Report on Form 8-K, filed on July 26, 2017
(25) Incorporated by reference to the Company's Current Report on Form 8-K, filed on October 11, 2017.
(*) Indicates a management contract or compensatory plan or arrangement
(+) Filed herewith

SIGNATURES

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

INFOSONICS CORPORATION

March 8, 2018 By: /s/ Joseph Ram
Joseph Ram,

President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Date:	Signature and Title:
March 8, 2018	/s/ Joseph Ram Joseph Ram, President and Chief Executive Officer and Director (Principal Executive Officer)
March 8, 2018	/s/ Vernon A. Loforti Vernon A. LoForti, Vice President, Chief Financial Officer and Secretary (Principal Financial and Accounting Officer)
March 8, 2018	/s/ Randall P. Marx Randall P. Marx, Director
March 8, 2018	/s/ Robert S. Picow Robert S. Picow, Director
March 8, 2018	/s/ Kirk A. Waldron Kirk A. Waldron,

Director

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INFOSONICS CORPORATION

Consolidated Financial Statements

For the years ended December 31, 2017, 2016 and 2015

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Report of Independent Registered Public Accounting Firm

To the Stockholders and the Board of Directors of InfoSonics Corporation and Subsidiaries

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of InfoSonics Corporation and its subsidiaries (collectively, the "Company") as of December 31, 2017 and 2016, the related consolidated statements of operations and comprehensive loss, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2017, and the related notes to the consolidated financial statements and schedule (collectively, the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2017 and 2016, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

We have served as the Company's auditor since 2003.

/s/ SINGERLEWAK LLP

Irvine, California

March 8, 2018

INFOSONICS CORPORATION

Consolidated Balance Sheets

(Amounts in thousands, except per share data)

	December 31, 2017	December 31, 2016
ASSETS		
Current assets:		
Cash and cash equivalents	$612	$2,200
Trade accounts receivable, net of allowance for doubtful accounts of $114 and $113 as of December 31, 2017 and 2016, respectively	5,706	7,507
Other accounts receivable	—	62
Inventory	3,879	4,071
Prepaid assets	1,782	1,670
Total current assets	11,979	15,510
Property and equipment, net	350	132
Other assets	28	384
Total assets	$12,357	$16,026
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$3,762	$3,839
Accrued expenses	1,490	1,597
Total current liabilities	5,252	5,436
Commitments and Contingencies (Note 8)		
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: 3,378 and 2,878 shares issued and outstanding as of December 31, 2017 and 2016, respectively	3	3
Additional paid-in capital	34,243	33,158
Accumulated other comprehensive loss	(2,595)	(2,695)
Accumulated deficit	(24,546)	(19,876)
Total stockholders' equity	7,105	10,590
Total liabilities and stockholders' equity	$12,357	$16,026

Accompanying notes are an integral part of these financial statements.

INFOSONICS CORPORATION

Consolidated Statements of Operations and Comprehensive Loss

(Amounts in thousands, except per share data)

	For the Year Ended December 31, 2017	2016	2015
Net sales	$ 23,386	$ 39,140	$ 47,833
Cost of sales	21,397	34,547	40,414
Gross profit	1,989	4,593	7,419
Operating expenses	6,461	6,943	8,339
Operating loss	(4,472)	(2,350)	(920)
Other expense:			
Interest expense, net	(182)	(244)	(320)
Other expense, net	(13)	(334)	—
Loss before benefit (provision) for income taxes	(4,667)	(2,928)	(1,240)
Benefit (provision) for income taxes	(3)	93	(3)
Net loss	$ (4,670)	$ (2,835)	$ (1,243)
Net loss per share (basic and diluted)	$ (1.52)	$ (0.99)	$ (0.43)
Basic and diluted weighted-average number of common shares outstanding	3,077	2,878	2,876
Comprehensive loss:			
Net loss	$ (4,670)	$ (2,835)	$ (1,243)
Foreign currency translation adjustments	100	(1,103)	(866)
Comprehensive loss	$ (4,570)	$ (3,938)	$ (2,109)

Accompanying notes are an integral part of these financial statements.

INFOSONICS CORPORATION

Consolidated Statements of Stockholders' Equity

(Amounts in thousands)

	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Accumulated Other Comprehensive Loss	Accumulated Deficit	Total
Balance, December 31, 2014	2,872	$ 3	$ 32,625	$ (726)	$ (15,798)	$16,104
Exercise of stock options	6	—	27			27
Stock-based compensation expense	—	—	218	—	—	218
Foreign currency translation	—	—	—	(866)	—	(866)
Net loss	—	—	—	—	(1,243)	(1,243)
Balance, December 31, 2015	2,878	3	32,870	(1,592)	(17,041)	14,240
Stock-based compensation expense	—	—	288	—	—	288
Foreign currency translation	—	—	—	(1,103)	—	(1,103)
Net loss	—	—	—	—	(2,835)	(2,835)
Balance, December 31, 2016	2,878	3	33,158	(2,695)	(19,876)	10,590
Sale of common stock	500	—	948	—	—	948
Stock-based compensation expense	—	—	137	—	—	137
Foreign currency translation	—	—	—	100	—	100
Net loss	—	—	—	—	(4,670)	(4,670)
Balance, December 31, 2017	3,378	$ 3	$ 34,243	$ (2,595)	$ (24,546)	$7,105

Accompanying notes are an integral part of these financial statements.

INFOSONICS CORPORATION

Consolidated Statements of Cash Flows

(Amounts in thousands)

	For the Year Ended December 31,		
	2017	2016	2015
Cash flows from operating activities:			
Net loss	$(4,670)	$(2,835)	$(1,243)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:			
Depreciation	162	86	92
Loss on disposal of fixed assets	2	—	—
Recovery of bad debts	1	18	—
Provision for obsolete inventory	242	(192)	(63)
Stock-based compensation	137	288	218
(Increase) decrease in:			
Trade accounts receivable	1,801	1,766	6,353
Other accounts receivable	62	34	(26)
Inventory	(50)	2,758	(694)
Prepaids	(113)	355	753
Other assets	16	(255)	(98)
Increase (decrease) in:			
Accounts payable	(77)	(559)	27
Accrued expenses	(107)	(746)	(461)
Net cash provided by (used in) operating activities	(2,594)	718	4,858
Cash flows from investing activities:			
Purchase of property and equipment	(42)	(62)	(111)
Net cash used in investing activities	(42)	(62)	(111)
Cash flows from financing activities:			
Borrowings on line of credit	—	1,848	4,460
Repayments on line of credit	—	(1,848)	(7,185)
Sale of common stock, net of offering expenses	948	—	—
Cash received from exercise of stock options	—	—	27
Net cash provided by (used in) financing activities	948	—	(2,698)
Effect of exchange rate changes on cash	100	(1,103)	(866)
Net increase (decrease) in cash and cash equivalents	(1,588)	(447)	1,183
Cash and cash equivalents, beginning of year	2,200	2,647	1,464
Cash and cash equivalents, end of year	$612	$2,200	$2,647
Cash paid for interest	$207	$229	$350
Cash paid for income taxes	$5	$—	$—
Non-cash investing activities:			
Transfer of other assets to property and equipment	$340	$—	$—

The accompanying notes are an integral part of these financial statements.

NOTE 1—ORGANIZATION AND LINE OF BUSINESS

InfoSonics Corporation ("InfoSonics") was incorporated in February 1994 in the state of California and reincorporated in September 2003 in the state of Maryland. InfoSonics and its subsidiaries, 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., verykool USA, Inc., InfoSonics de Panama, verykool Hong Kong Limited, and verykool Wireless Technology Limited (collectively, the "Company"), define, source and sell wireless telecommunication products and accessories to wireless carriers and distributors. The Company markets its branded products throughout Latin America.

NOTE 2—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The Consolidated Financial Statements include the accounts of InfoSonics and its wholly owned subsidiaries as listed in Note 1. All significant intercompany accounts and transactions are eliminated in consolidation.

Revenue Recognition and Allowance for Returns

Revenues for wireless handset and accessory sales are recognized when (i) shipment of the products to customers has occurred and title has passed, (ii) collection of the outstanding receivables are probable and (iii) the final price of the product is determined, which occurs at the time of shipment or delivery, depending on terms of sale. Sales are recorded net of discounts, rebates, cooperative marketing arrangements, returns and allowances. On select sales, the Company may agree to cooperative arrangements wherein the Company agrees to fund future marketing programs related to the products purchased by the customer. Such arrangements are usually agreed to in advance. The amount of the co-op allowance is recorded as a reduction of the sale and added to accrued expenses as a current liability. Subsequent expenditures made pursuant to the arrangements reduce this liability. To the extent the Company incurs costs in excess of the established cooperative fund, the Company recognizes the amount as a selling or marketing expense. As part of the sales process, the Company may perform certain value-added services such as programming, software loading and quality assurance testing. These value-added services are considered an ancillary component of the sales process and amounts attributable to these processes are included in the unit cost to the customer. Furthermore, these value-added services are related to services prior to the shipment of the products, and no value-added services are provided after delivery of the products. The Company recognizes as a reserve against the related receivables estimates for product returns based on historical experience and other judgmental factors, evaluates these estimates on an ongoing basis and adjusts its estimates each period based on actual product return activity. The Company recognizes freight costs billed to its customers in net sales and actual freight costs incurred as a component of cost of sales.

Foreign Currency Transactions

Certain of the Company's foreign subsidiaries have a functional currency that is not the U.S. Dollar. Assets and liabilities of such subsidiaries are translated to U.S. Dollars using exchange rates in effect at the balance sheet dates. Revenues and expenses are translated at average exchange rates in effect during the period. Translation adjustments are included in stockholders' equity in the accompanying consolidated balance sheets as a component of accumulated other comprehensive loss.

Comprehensive Income (Loss)

Comprehensive income (loss) as defined by U.S. generally accepted accounting principles (GAAP) includes all changes in equity (net assets) during a period from non-owner sources. The Company's comprehensive loss includes foreign currency translation adjustments, which are excluded from net income (loss) and are reported as a separate component of stockholders' equity as accumulated other comprehensive loss.

Cash and Cash Equivalents

For consolidated financial statement purposes, cash equivalents are defined as investments which have an original maturity of ninety days or less from the original date of purchase. Cash and cash equivalents consist of cash on hand and in banks. The Company maintains its cash and cash equivalents balances in banks that from time to time exceed amounts insured by the Federal Deposit Insurance Corporation. As of December 31, 2017 and 2016, the Company maintained deposits totaling $150,000 and $1.9 million, respectively, with certain financial institutions in excess of federally insured amounts. The Company has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash.

Trade Accounts Receivable

The Company provides for the possible inability to collect accounts receivable by recording an allowance for doubtful accounts. The Company writes off an account when it is considered to be uncollectible. The Company evaluates the collectability of its accounts receivable on an ongoing basis. In circumstances where the Company is aware of a specific customer's inability to meet its financial obligations, the Company records a specific allowance against amounts due to reduce the net recognized receivable to the amount the Company reasonably believes will be collected. For all other customers, the Company recognizes allowances for doubtful accounts based on the length of time the receivables are past due, the current business environment and the Company's historical experience. The allowance for doubtful accounts was $114,000 and $113,000 at December 31, 2017 and 2016, respectively.

Inventory

Inventory is stated at the lower of cost (first-in, first-out) or net realizable value and consists primarily of wireless phones and wireless phone accessories. The Company writes down its inventory when it is estimated to be excess or obsolete. As of December 31, 2017 and 2016, the inventory was net of write-downs of $325,000 and $84,000, respectively. From time to time, the Company has prepaid inventory as a result of deposit payments for products which have not been received by the balance sheet date. As of December 31, 2017 and 2016, the prepaid inventory balances included in prepaid assets were $795,000 and $1,112,000, respectively.

Property and Equipment

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

Fair Value of Financial Instruments

The Company measures its financial instruments in its financial statements at fair value or amounts that approximate fair value. The Company maximizes the use of observable inputs and minimizes the use of unobservable inputs when developing fair value measurements. When available, the Company uses quoted market prices to measure fair value. If market prices are not available, fair value measurement is based upon models that use primarily market-based or independently-sourced market parameters. If market observable inputs for model-based valuation techniques are not available, the Company makes judgments about assumptions market participants would use in estimating the fair value of the financial instrument. Carrying values of cash and cash equivalents, accounts receivable, prepaid expenses, accounts payable, and accrued expenses approximate their fair values due to the short-term nature and liquidity of these financial instruments.

Accounting for the Impairment of Long-Lived Assets

The Company records impairment losses on long-lived assets used in operations when indicators of impairment are present and the undiscounted cash flows estimated to be generated by those assets are less than the assets' carrying amount. Management determined that there was no impairment of long-lived assets during the years ended December 31, 2016, 2015 and 2014.

Stock-Based Compensation

The Company's share-based compensation plans are described in Note 9. The Company measures compensation cost for all employee stock-based awards at fair value on the date of grant and recognizes compensation expense, net of estimated forfeitures, over the requisite service period, usually the vesting period. Equity instruments issued to non-employees for goods or services are accounted for at fair value and are marked to market until service is complete or a performance commitment date is reached, whichever is earlier. The fair value of stock options is determined using the Black-Scholes valuation model.

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

Advertising Expense

The Company expenses all advertising costs, including direct response advertising, as they are incurred. Advertising expense for the years ended December 31, 2017, 2016 and 2015 was $96,000, $252,000 and $992,000, respectively.

Income Taxes

The Company recognizes deferred tax assets and liabilities for the future consequences of events that have been recognized in the Company’s financial statements or tax returns. The measurement of the deferred items is based on enacted tax laws. In the event the future consequences of differences between financial reporting bases and the tax bases of the Company’s assets and liabilities result in a deferred tax asset, the Company performs an evaluation of the probability of being able to realize the future benefits indicated by such asset. A valuation allowance related to a deferred tax asset is recorded when it is more likely than not that some portion or the entire deferred tax asset will not be realized.

In addition, the Company recognizes the financial statement impact of a tax position when it is more likely than not that the position will be sustained upon examination. The amount recognized is measured as the largest amount of benefit that is greater than fifty percent likely of being realized upon ultimate settlement. The Company recognizes interest and penalties related to tax uncertainties as operating expenses.

Based on our evaluation, the Company has concluded that there are no significant uncertain tax positions requiring recognition in its financial statements.

The Company is subject to U.S. federal income tax as well as to income tax of multiple state and foreign country jurisdictions. Federal income tax returns of the Company are subject to IRS examination for the 2004 through 2017 tax years. State income tax returns are subject to examination for a period of three to four years after filing.

Earnings (Loss) Per Share

The Company computes basic earnings (loss) per share by dividing income (loss) available to common stockholders by the weighted-average number of common shares outstanding. Diluted earnings (loss) per share is computed similarly to basic earnings (loss) per share except that the denominator is increased to include the number of additional common shares that would be issued assuming exercise of outstanding stock options and warrants. In periods when a net loss is incurred, no additional shares are included in the computation of diluted loss per share because the effect of inclusion would be anti-dilutive.

Common shares from exercise of certain options and warrants are excluded from the computation of diluted earnings per share when their exercise prices are greater than the Company’s weighted-average stock price for the period. For the years ended December 31, 2017, 2016 and 2015, the number of such shares excluded was 671,000, 103,000 and 4,000 respectively. In addition, because their effect would have been anti-dilutive to the loss calculation, common shares from exercise of in-the-money options for the years ended December 31, 2016 and 2015 of 562,000 and 1,237,000, respectively, have also been excluded from the computation of net loss per share. No such shares were excluded for the year ended December 31, 2017.

Geographic Reporting

The Company allocates revenues to geographic areas based on the location to which the product was shipped.

Estimates and Assumptions

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

Major Suppliers

The Company contracts with various suppliers. Although there are a limited number of suppliers that could supply the Company's inventory, management believes any shortfalls from existing suppliers might be absorbed from other suppliers on comparable terms; however, there are no assurances of such other suppliers providing products on acceptable terms. Furthermore, a change in suppliers could cause a delay in sales and adversely affect results.

During the year ended December 31, 2017, the Company's three largest suppliers accounted for 41%, 31% and 12%, respectively, of total cost of sales. During the year ended December 31, 2016, the Company's three largest suppliers accounted for 42%, 19% and 17%, respectively, of total cost of sales. During the year ended December 31, 2015, the Company's three largest suppliers accounted for 16%, 15% and 12%, respectively, of total cost of sales.

Concentrations of Credit Risk, Customers and Suppliers

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash equivalents and accounts receivable. We maintain our cash and cash equivalents with various high-credit-quality financial institutions located primarily in the United States. Currently, the Company's cash balances are kept primarily in demand accounts at these banks, but the Company may periodically invest excess cash in certificates of deposit or money market accounts in order to maintain safety and liquidity. The Company's investment strategy generally results in lower yields on investments but reduces the risk to principal in the short term prior to these funds being used in its business. The Company has not experienced any material losses on financial instruments held at financial institutions.

The Company has historically sold its products primarily to wireless network carriers throughout Latin America, as well as to distributors and value added resellers, or VARs. The Company provides credit to its customers in the normal course of business and generally requires no collateral. Credit risk with respect to accounts receivable is generally concentrated due to the small number of entities comprising the Company's overall customer base. The Company performs ongoing credit evaluations of its customers and maintains reserves for potential credit losses based upon the Company's historical experience related to credit losses and any unusual circumstances that may affect the ability of its customers to meet their obligations. The Company's bad debt expenses have not been significant relative to its total revenues.

In 2017, three customers represented 10% or more of the Company's total net sales. Those top three customers accounted for 21%, 20% and 14%, respectively, of total net sales and represented 33%, 29%, and 3%, respectively, of accounts receivable at December 31, 2017. In 2016, four customers represented 10% or more of the Company's total net sales. Those top four customers accounted for 20%, 19%, 14% and 14%, respectively, of total net sales and represented 32%, 0%, 2% and 30%, respectively, of accounts receivable at December 31, 2016. In 2015, three customers represented 10% or more of the Company's total net sales. Those top three customers accounted for 18%, 15% and 10%, respectively, of total net sales and represented 35%, 16% and 16%, respectively, of accounts receivable at December 31, 2015.

For its verykool® products, the Company contracts with a number of OEM suppliers, design houses and contract manufacturers. In 2017, the Company purchased products from 10 manufacturers, with the top three representing 41%, 31% and 12%, respectively, of cost of sales. Although each may supply a somewhat differentiated product or service, management believes any shortfalls from existing suppliers can be absorbed by other suppliers on comparable terms. However, there are no assurances this can be achieved, and a change in suppliers could cause a delay in product shipments and sales and adversely affect results.

Recently Adopted:

In August 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-15, "Presentation of Financial Statements Going Concern (Subtopic 205-40) -Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern." This ASU requires management to assess an entity's ability to continue as a going concern by incorporating and expanding upon certain principles that are currently in U.S. auditing standards. Specifically, the ASU (1) provides a definition of the term substantial doubt, (2) requires an evaluation every reporting period, including interim periods, (3) provides principles for considering the mitigating effect of management's plans, (4) requires certain disclosures when substantial doubt is alleviated as a result of consideration of management's plans, (5) requires an express statement and other disclosures when substantial doubt is not alleviated, and (6) requires an assessment for a period of one year after the date that the financial statements are issued (or available to be issued). This standard was effective for the fiscal years ending after December 15, 2016, and for annual periods and interim periods thereafter. As discussed in Note 3 below, the Company adopted this guidance effective January 1, 2017, which adoption did not have an impact on the Company's consolidated financial statements.

In March 2016, the FASB issued ASU No. 2016-05, "Derivatives and Hedging (Topic 815)," which clarifies that a change in the counterparty to a derivative instrument that has been designed as a hedging instrument under Topic 815 does not, in and of itself, require dedesignation of that hedging relationship provided that all other hedge accounting criteria continue to be met. ASU 2016-05 was effective for annual and interim reporting periods within those years beginning after December 15, 2016, with application either on a prospective basis or through a modified retrospective basis. The Company adopted this guidance effective January 1, 2017, which adoption did not have an impact on the Company's consolidated financial statements.

In March 2016, the FASB issued ASU No. 2016-09, “Compensation – Stock Compensation (Topic 718),” which simplifies several aspects of the accounting for share-based payments, including immediate recognition of all excess tax benefits and deficiencies in the income statement, changing the threshold to qualify for equity classification up to the employees’ maximum statutory tax rates, allowing an entity-wide accounting policy election to either estimate the number of awards that are expected to vest or account for forfeitures as they occur, and clarifying the classification on the statement of cash flows for the excess tax benefit and employee taxes paid when an employer withholds shares for tax-withholding purposes. ASU 2016-09 was effective for annual and interim reporting periods within those years beginning after December 15, 2016. This update should be applied through the following methods: 1) a modified retrospective transition approach as related to the timing of when tax benefits are recognized, minimum statutory withholding requirements, forfeitures, and intrinsic value, 2) retrospectively as related to the presentation of employee taxes paid on the statement of cash flows when an employer withholds hares to meet the minimum statutory withholding requirement, 3) prospectively as related to the recognition of excess tax benefits and tax deficiencies in the income statement and the practical expedient for estimating expected term and 4) either prospective transition method or a retrospective transition method as related to the presentation of excess tax benefits on the statement of cash flows. The Company adopted this guidance effective January 1, 2017, which adoption did not have an impact on the Company’s consolidated financial statements.

Issued (Not adopted yet):

In May 2014, the FASB issued ASU 2014-09, “Revenue from Contracts with Customers (Topic 606),” which supersedes the revenue recognition requirements in “Revenue Recognition (Topic 605),” and requires entities to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Additionally, this guidance requires that entities disclose the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. In March 2016, the FASB issued ASU 2016-08, “Revenue from Contracts with Customers - Principal versus Agent Considerations (Reporting revenue gross versus net),” which clarifies gross versus net revenue reporting when another party is involved in the transaction. In April 2016, the FASB issued ASU 2016-10, “Revenue from Contracts with Customers - Identifying Performance Obligations and Licensing,” which amends the revenue guidance on identifying performance obligations and accounting for licenses of intellectual property. In May 2016, the FASB issued ASU 2016-12, “Revenue from Contracts with Customers - Narrow-Scope Improvements and Practical Expedients,” which provides narrow-scope improvements to the guidance on collectability, non-cash consideration, and completed contracts at transition. In December 2016, the FASB issued ASU 2016-20, “Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers,” which amended the guidance on performance obligation disclosures and makes technical corrections and improvements to the new revenue standard. The standard is effective for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period, and permits early adoption on a limited basis. The update permits the use of either the retrospective or cumulative effect transition method. The Company believes the preponderance of its contracts with customers are standard ship and bill arrangements where revenue is recognized at the time of shipment. The Company does not believe this ASU will have a significant impact on the Company’s consolidated financial position, results of operations and cash flows, and intends to adopt the standard using the modified retrospective approach in its fiscal year beginning January 1, 2018.

In February 2016, the FASB issued ASU No. 2016-02, “Leases (Topic 842),” which revises the accounting related to lessee accounting. Under the new guidance, lessees will be required to recognize a lease liability and a right-of-use (“ROU”) asset for all leases. For finance leases the lessee would recognize interest expense and amortization of the ROU asset and for operating leases the lessee would recognize a straight-line total lease expense. The new lease guidance also simplified the accounting for sale and leaseback transactions primarily because lessees must recognize lease assets and lease liabilities. ASU 2016-02 is effective for annual and interim reporting periods within those years beginning after December 15, 2018 and early adoption is permitted. This update should be applied through a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. The Company is currently evaluating the new guidance to determine the impact it will have on its consolidated financial statements.

In May 2017, the FASB issued ASU No. 2017-09, “Compensation—Stock Compensation (Topic 718), Scope of Modification Accounting.” ASU 2017-09 clarifies when changes to the terms or conditions of a share-based payment award must be accounted for as modifications. Under the new guidance, modification accounting is required only if the fair value, the vesting conditions or the classification of the award changes as a result of the change in terms or conditions. The guidance is effective prospectively for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years, and early adoption is permitted. The Company does not expect the adoption of this new guidance to have a material impact on the Company’s consolidated financial statements.

Other Accounting Standards Updates not effective until after December 31, 2017 are not expected to have a material effect on the Company’s financial position or results of operations.

NOTE 3—GOING CONCERN CONSIDERATIONS

Effective January 1, 2017, the Company adopted the guidance issued by the FASB under ASU No. 2014-15, Presentation of Financial Statements - Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern. This update provides U.S. GAAP guidance on management’s responsibility in evaluating whether there is substantial doubt about a company’s ability to continue as a going concern and about related footnote disclosures. Under this standard, the Company is required to evaluate whether there is substantial doubt about its ability to continue as a going concern each reporting period, including interim periods.

In evaluating the Company’s ability to continue as a going concern, management considered the conditions and events that could raise substantial doubt about the Company’s ability to continue as a going concern for 12 months following March 8, 2018, the date the Company’s financial statements were issued. Management considered the Company’s current financial condition and liquidity sources, including current funds and available working capital, forecasted future cash flows and the Company’s conditional and unconditional obligations due before March 8, 2019. Although the Company has no outstanding debt and management believes the Company could meet its future obligations, continued losses and lack of working capital would require it to substantially constrain its business. As a consequence, management has substantial doubt that the Company could remain independent and continue as a going concern for the required period of time.

This substantial doubt is alleviated, however, by the impending merger with Cooltech that was approved by the Company’s stockholders on March 7, 2018, the closing of which is imminent. The completion of the merger will result in the closing of the PIPE transaction for the sale of 875,000 shares of the Company’s common stock and a release to the Company of $1.75 million of cash currently held in escrow pending the closing of the merger. Cooltech’s financial projections indicate that it expects to generate significant free cash flow over the next 24 months and raise additional equity capital to fund its post-merger growth. Based on the above factors, management determined that the post-merger Company will be able to continue as a going concern within one year after the date the financial statements are issued.

NOTE 4—PROPERTY AND EQUIPMENT

Property and equipment are primarily located in the United States and China and consisted of the following as of the dates presented (in thousands):

	December 31,	
	2017	2016
Machinery and Equipment	$698	$384
Furniture and Fixtures	79	164
	777	548
Less Accumulated Depreciation	427	416
Total	$350	$132

Depreciation expense was $162,000, $86,000 and $92,000 for the years ended December 31, 2017, 2016 and 2015, respectively.

NOTE 5—FOREIGN EXCHANGE HEDGING FACILITY

On January 14, 2016, the Company entered into an Agreement for Purchase and Sale of Foreign Securities (the "FS Agreement") with Silicon Valley Bank ("SVB"). Under the FS Agreement, the Company and SVB could enter into foreign currency spot contracts, forward contracts, forward window contracts and options to manage the Company's foreign currency risk. On January 20, 2016, the Company entered into forward contracts designated as cash flow hedges to protect against the foreign currency exchange rate risk of the Mexican Peso inherent in its forecasted net sales and cash collections from customers in Mexico. The hedges matured on a monthly basis through June 30, 2016. Changes in the fair value of the hedges were initially recorded in accumulated other comprehensive loss as a separate component of stockholders' equity in the Consolidated Balance Sheet and subsequently reclassified into earnings as other income (expense) on the Consolidated Statement of Operations and Comprehensive Loss in the period in which the hedge matured. During the year ended December 31, 2016, the Company recorded $325,000 of losses on forward contracts that matured during the year. The FS Agreement was terminated in September 2017, and no such contracts were outstanding at December 31, 2017.

NOTE 6—LINE OF CREDIT

The Company was previously party to a Loan and Security Agreement and an attendant Intellectual Property Security Agreement (collectively the “Agreement”) with Silicon Valley Bank (“SVB” or the “Bank”) which was secured by substantially all of the Company’s assets. The Agreement contained representations and warranties, affirmative and restrictive covenants, and events of default which are customary for credit facilities of this type. The Agreement originally provided the Company with the ability to borrow against both its domestic and foreign eligible accounts receivable based on specified advance rates. It was then augmented in October 2016 to provide for a $2 million sublimit that enabled the Company to borrow against its Mexican peso deposits held at the Bank at a 70% advance rate with such borrowings bearing interest at the prime rate. In March 2017, due to the Company’s continuing losses, the Agreement was amended to eliminate the Company’s ability to borrow against its accounts receivable and all related financial covenants were removed. On September 27, 2017, the credit facility matured and was not renewed by the Company. The Bank released its security interest in the Company’s assets, which are now unencumbered.

NOTE 7—ACCRUED EXPENSES

As of December 31, 2017 and 2016, accrued expenses consisted of the following (in thousands):

	December 31,	
	2017	2016
Accrued product costs	$378	$400
Accrued coop advertising	24	44
Accrued vacation pay	177	179
Income taxes payable	1	—
Customer deposits and overpayments	453	568
Other accruals	457	406
Total	$1,490	$1,597

NOTE 8—COMMITMENTS AND CONTINGENCIES

Leases

The Company leases its corporate and administrative offices, quality control office and certain equipment under operating lease agreements which expire through June 2020. Certain of the agreements contain renewal options. Future minimum payments under these operating lease agreements at December 31, 2017 were $507,000. Rent expense was $398,000, $417,000 and $393,000 for the years ended December 31, 2017, 2016 and 2015, respectively.

Litigation

The Company has historically and may become involved in certain legal proceedings and claims which arise in the normal course of business. As of the filing date of this report, the Company did not have any significant litigation outstanding.

Employee Agreements and Compensation

The Company provides a 401(k) retirement savings plan for all full-time employees. Employees are eligible after 90 days of service with the Company. The Company does not currently provide matching contributions.

The Company entered into an employment agreement with its President and Chief Executive Officer in April 2016 that expires in April 2020. The employment agreement provides for an annual salary of $365,000 and a performance-based bonus at the discretion of the Board of Directors. The agreement also provides that the Company may terminate the agreement without cause upon 30 days written notice. The Company's only obligation would be to pay its President and Chief Executive Officer the greater of (a) 18 months' salary or (b) one-half of the salary payable over the remaining term of the agreement.

The Company entered into an employment agreement with its Chief Financial Officer in April 2016 that expires in April 2018. The employment agreement provides for an annual salary of $205,000 and a performance-based bonus at the discretion of the Board of Directors. The agreement also provides that the Company may terminate the agreement upon 30 days written notice if termination was without cause. The Company's only obligation would be to pay its Chief Financial Officer 9 months' salary.

NOTE 9—STOCKHOLDERS' EQUITY

Preferred Stock

The Company has authorized the issuance of 10,000,000 shares of preferred stock, which may be issued from time to time in one or more series by the Board of Directors. In addition, the Board is authorized to set the rights, preferences, privileges and restrictions of these shares, including dividends rights, conversion rights, voting rights and liquidation preferences. These shares may have rights senior to those of the Company's common stock holders. As of December 31, 2017 and 2016, the Company did not have any preferred shares outstanding.

Common Stock and Warrants

The Company has authorized the issuance of 40,000,000 shares of common stock. As of December 31, 2017 and 2016, a total of 3,378,280 and 2,877,746 shares, respectively, were outstanding.

On August 2, 2017, the Company sold 500,000 shares of its common stock at $2.00 per share in a public offering, and concurrently issued privately placed warrants to purchase 500,000 shares of common stock at an exercise price of $2.42 per share to investors related to Cooltech. The closing stock price of the common stock on that date was $2.20 per share. Net proceeds from the offering after expenses amounted to $948,000. The warrants, which have a cashless exercise feature, have a 3 year life and may not be exercised until 6 months from the date of issuance. The fair value of the warrants was estimated on the date of issuance at $364,000 using the Black-Scholes pricing model and assuming a risk-free interest rate of 1.52% based on the U.S. Treasury rate then in effect, a dividend yield of 0%, a 3-year life and an expected volatility of 105% based on the Company's historical stock price fluctuations for a 3-year period.

On August 3, 2017, the Company entered into a stock purchase agreement for the private placement of 875,000 shares of common stock at a purchase price of $2.00 per share and warrants to purchase 875,000 shares of common stock at $2.42 per share with investors related to Cooltech. The aggregate purchase price of $1,750,000 was placed into escrow and the closing of the offering, including the issuance of the shares and warrants, is contingent upon approval of the transaction by the Company's stockholders and the closing of the Merger.

On October 10, 2017, the Company effected a 1-for-5 reverse stock split in order to regain compliance with the minimum bid price requirement of the NASDAQ Stock Market. On October 25, 2017, after 10 consecutive days of trading, the Company received notification from NASDAQ that it had regained compliance. All references in this Annual Report on Form 10-K to shares and per share amounts have been restated to give effect to this reverse split.

Stock Options

The Company has two stock-based compensation plans: the 2006 Equity Incentive Plan ("2006 Plan") and the 2015 Equity Incentive Plan ("2015 Plan"), both of which were approved by our stockholders. As of December 31, 2017, options to purchase 124,000 and 47,000 shares were outstanding under the 2006 Plan and the 2015 Plan, respectively, and a total of 260,000 shares were available for grant under the 2015 Plan. No options or other equity awards are available for grant under the 2006 Plan.

The 2015 Plan was approved by stockholders in June 2015, with 241,150 shares of the Company's common stock authorized for issuance thereunder. Shares subject to outstanding options under the 2006 Plan that cease to be subject to such options, such as by expiration or forfeiture, also become available for issuance under the 2015 Plan, up to an aggregate maximum of 191,734 shares. The 2015 Plan is intended to provide incentives to key employees, officers, directors and consultants who provide significant services to the Company. The exercise price is determined by the

Compensation Committee, but must be at least equal to the fair market value of the common stock on the date of grant of such option. The Compensation Committee also establishes the vesting schedule for each option granted and the term of each option, which cannot exceed 10 years from the date of grant. In the event of termination, vested options generally must be exercised within three months. In a change of control, if outstanding awards under the 2015 Plan are assumed or substituted by a successor company, such awards do not automatically fully vest but may become fully vested in the event of a qualifying termination following such change of control. Outstanding options granted under the 2006 Plan provide 100% vesting upon a change of control of the Company.

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. Options granted generally vest over a two-year or three-year period. 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. Under current U.S. federal tax law, we would 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 which results in a deferred tax asset and a corresponding deferred tax benefit in the income statement.

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 2015: risk-free interest rate of 1.94% 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 4 to 6 years based upon the historical life of the Company's options. The expected volatility used ranged from 93.41% to 96.65% based on the Company's historical stock price fluctuations for a period matching the expected life of the options. No stock options were granted during 2016 or 2017.

A summary of stock option activity for the year ended December 31, 2017 is as follows (shares and aggregate intrinsic value in thousands):

	Shares	Wtd. Avg. Exercise Price	Wtd. Avg. Remaining Contractual Life	Aggregate Intrinsic Value
Outstanding at December 31, 2016	215	$ 5.21		
Granted	—	$ —		
Expired	(28)	$ 3.40		
Forfeited	(16)	$ 5.87		
Outstanding at December 31, 2017	171	$ 5.44	3.26 years	$ —
Vested and expected to vest	171	$ 5.44	3.26 years	$ —
Exercisable at December 31, 2017	171	$ 5.44	3.26 years	$ —

There was no aggregate intrinsic value in the outstanding stock options at December 31, 2017 because the closing price of our stock at that date was $1.44 per share, which price was below the exercise price of all outstanding options.

A summary of the status of the Company's non-vested options at December 31, 2017, and changes during the year then ended are presented below (shares in thousands):

	Shares	Weighted -average grant-date fair value
Non-vested at December 31, 2016	27	$ 5.97
Granted	—	$ —
Vested	(25)	$ 5.97

Forfeited	(2)	$ 5.97
Non-vested at December 31, 2017	—	$ —

No options were granted or exercised during 2017 or 2016. The weighted-average per share grant-date fair values of options granted during 2015 was $1.25. During the year ended December 31, 2015, a total of 6,000 option shares were exercised and the Company received $27,000 in cash, or an average of $4.45 per share, from these exercises. There was no unrecognized stock-based compensation expense for future periods as of December 31, 2017, as all outstanding options were fully-vested on that date. The total fair value of options that vested during 2017, 2016 and 2015 was $147,000, $302,000 and $205,000, respectively.

The following table summarizes share-based compensation expense for the years ended December 31 (in thousands):

	2017	2016	2015
Selling, general and administrative:			
Non-employee directors	$33	$62	$47
Officers	70	130	97
Others	34	96	74
Total SG&A	137	288	218
Related deferred income tax benefits	—	—	—
Share-based compensation expense	$137	$288	$218

NOTE 10—INCOME TAXES

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 2004 through 2017 remain open to examination by the taxing authorities due to the carryforward of unutilized net operating losses. As of December 31, 2017, the Company does not expect any material changes to unrecognized tax positions within the next twelve months.

Components of the income tax provision are as follows for the years ended December 31 (in thousands):

	2017	2016	2015
Current tax benefit (provision):			
Federal	$—	$—	$—
State	(3)	(2)	(3)
Foreign	—	95	—
Total	(3)	93	(3)
Deferred tax benefit (provision):			
Federal	(1,090)	838	(31)
State	72	52	12
Total	(1,018)	890	(19)
Change in valuation allowance	1,018	(890)	19
Total benefit (provision) for income taxes	$(3)	$93	$(3)

A reconciliation of income taxes computed by applying the federal statutory income tax rate of 34.0% to income (loss) before income taxes to the recognized income tax provision reported in the accompanying consolidated statements of operations is as follows for the years ended December 31 (in thousands):

	2017	2016	2015
U.S. federal income tax at statutory rate	$1,587	$996	$422
State taxes, net of federal benefit	46	32	6
Non-deductible expenses	(441)	(8)	(10)
Foreign income tax rate differential	(103)	(9)	(443)
Valuation allowance	1,018	(890)	19
Tax Reform	(2,067)	—	—
Other	(43)	(28)	3
Total benefit (provision) for income taxes	$(3)	$93	$(3)

Deferred income taxes reflect the net effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The Company has recorded a full valuation allowance against its deferred tax assets, as realization of such assets is uncertain based on the Company's history of operating losses. Significant components of deferred tax assets and liabilities are shown below (in thousands):

	December 31,	
	2017	2016
Current deferred tax assets:		
Allowance for bad debts	$22	$34
Share-based payment expense	162	321
Allowance for obsolete inventory	75	30
Accrued compensation	41	63
Other accruals	22	66
Total	322	514
Non-current deferred tax assets:		
Depreciation	—	16
Capital loss	—	179
Net operating loss	4,116	3,991
Credit carryover	51	51
Total	4,167	4,237
Valuation allowance	(4,489)	(4,751)
Net deferred tax assets	$—	$—

At December 31, 2017, the Company had federal and state net operating loss carryforwards of approximately $15,590,000 and $15,822,000, respectively. The federal loss carryforwards do not expire. The state loss carryforwards expire in 2037.

Pursuant to Internal Revenue Code Section 382, use of the Company's net operating loss carryforwards will be limited if a cumulative change in ownership of more than 50% occurs within a three-year period.

Following the Company's adoption on January 1, 2007 of ASC 740-10 regarding accounting for uncertainty in income taxes, the Company made a comprehensive review of its portfolio of uncertain tax positions in accordance with the guidance. 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 that review, the Company concluded there were no uncertain tax positions and no cumulative effect on retained earnings at the time of adoption. Subsequent to that date of adoption through December 31, 2016, the Company has continued to evaluate its tax positions and concluded that it has not had any material uncertain tax positions.

NOTE 11—SEGMENT AND GEOGRAPHIC INFORMATION

The Company reports segment data based on the management approach, which designates the internal reporting that is used by management for making operating and investment decisions and evaluating performance as the source of the Company's reportable segments. The Company uses one measurement of profitability and does not disaggregate its business for internal reporting. The Company has determined that it has operated in one segment and has provided wireless handsets and accessories to carriers, distributors and OEM customers in Latin America, Asia Pacific, Europe, Africa and the United States for the years covered in the table below. The table summarizes the Company's net sales by geographic area for the years ended December 31, 2017, 2016 and 2015 (in thousands):

	2017	2016	2015
Central America	$3,028	$10,883	$8,223
South America	2,906	4,849	9,879
Mexico	8,126	15,128	13,339
U.S.-based distributors selling to Latin America	8,782	6,992	11,853
United States	—	1,276	4,511
South Africa	544	—	—
Asia Pacific	—	12	28
Total	$23,386	$39,140	$47,833

During the year ended December 31, 2017, sales to customers in Mexico represented 35% of the Company's consolidated net revenue. Also in 2017, sales to two U.S.-based distributors who sell into the open market in Latin America represented 20% and 12%, respectively, of net revenue, and sales to customers in Central America and South America represented 13% and 12%, respectively of net revenue. During the year ended December 31, 2016, sales to customers in Mexico and Guatemala represented 39% and 19%, respectively, of the Company's consolidated net revenue. Also in 2016, sales to a U.S.-based distributor who sells into the open market in Latin America represented 14% of net revenue. In 2015, sales to customers in Mexico, Peru, Guatemala and the same U.S.-based distributor represented 28%, 10%, 10% and 18%, respectively, of net revenue. Sales in no other individual country amounted to 10% or more of the Company's consolidated net revenue in any of the three years covered above.

Fixed assets, which represent approximately 5% of the Company's net assets, are principally located in the Company's offices in the United States or in China at the Company's quality and production control office or contract manufacturing facilities.

NOTE 12—MERGER AND SUBSEQUENT EVENT

On July 25, 2017, the Company entered into an Agreement and Plan of Merger (as amended "Merger Agreement") by and among the Company, Cooltech Holding Corp. ("Cooltech"), and the Company's wholly-owned subsidiary, InfoSonics Acquisition Sub, Inc. ("Merger Sub"), pursuant to which Cooltech will merge with and into the Merger Sub (the "Merger"), with Cooltech surviving as a wholly-owned subsidiary of InfoSonics. The Merger Agreement provides that the Company will issue an aggregate of 9,375,000 shares of its common stock in exchange for all of the outstanding capital stock of Cooltech. The Merger and the transactions contemplated thereby were approved by the Company's stockholders at a Special Meeting held on March 7, 2017. Closing, which is subject to a number of customary conditions, is imminent.

On January 19, 2018, the Company sold $1 million of 0% convertible notes and warrants to purchase 571,427 shares of its common stock at $1.83 per share in a private placement to investors related to Cooltech. The warrants, which have a cashless exercise feature, have a 3 year life and may not be exercised until 6 months from the date of issuance. The funds from this sale are intended to be used by the Company to pay merger expenses and for other general corporate purposes.

NOTE 13—QUARTERLY FINANCIAL INFORMATION (Unaudited)

The following table presents unaudited selected quarterly financial information (in thousands, except per share data) for the periods indicated. This information has been derived from the Company's unaudited quarterly consolidated financial statements, which in the opinion of management include adjustments, consisting only of normal recurring adjustments, necessary for a fair statement of such information. These operating results are not necessarily indicative of results for any future period.

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Year Ended December 31, 2017				
Net sales	$6,221	$5,297	$6,008	$5,860
Gross profit	322	605	606	456

Net loss	(1,104)	(812)	(1,761)	(993)
Basic and diluted net loss per share	(0.38)	(0.28)	(0.56)	(0.29)
Year Ended December 31, 2016				
Net sales	$9,410	$12,126	$8,989	$8,615
Gross profit	1,178	1,157	884	1,374
Net income (loss)	(903)	(1,035)	(945)	48
Basic and diluted net income (loss) per share	(0.31)	(0.36)	(0.33)	0.02

SUPPLEMENTAL INFORMATION

Valuation and Qualifying Accounts—Schedule II

	(Amounts in thousands)			
	Balance, beginning of year	Additions charged to operations	Deletions from Reserve	Balance, end of year
Allowance for doubtful accounts:				
Year ended December 31, 2017	$113	$ 1	$ —	$ 114
Year ended December 31, 2016	95	18	—	113
Year ended December 31, 2015	95	—	—	95