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, 2007

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 number: 0-30907

Mobility Electronics, Inc.
(Exact Name of Registrant as Specified in its Charter)

Delaware	**86-0843914**
(State or Other Jurisdiction of Incorporation)	*(IRS Employer Identification No.)*
17800 N. Perimeter Dr., Suite 200, Scottsdale, Arizona	**85255**
(Address of Principal Executive Offices)	*(Zip Code)*

(Registrant’s telephone number, including area code):
(480) 596-0061

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	
Common Stock, $0.01 par value	The NASDAQ Global Market

Securities registered pursuant to Section 12(g) of the Act:

Title of Each Class	
Series G Junior Participating Preferred Stock, $0.01 par value	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 ☑

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant’s knowledge, in definitive proxy or information statements incorporated by reference in part III of this Form 10-K or any amendment to this Form 10-K. ☐

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

Large Accelerated Filer ☐
Non-Accelerated Filer ☐ (Do not check if a smaller reporting company)
Accelerated Filer ☑
Smaller reporting company ☐

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

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 (June 29, 2007) was approximately $69 million.

There were 31,556,765 shares of the registrant’s common stock issued and outstanding as of March 4, 2008.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant’s definitive Proxy Statement relating to its 2008 Annual Meeting of Stockholders to be filed with the Securities and Exchange Commission are incorporated by reference into Part II and Part III of this Form 10-K.

MOBILITY ELECTRONICS, INC.
FORM 10-K

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DISCLOSURE CONCERNING FORWARD-LOOKING STATEMENTS

This report contains statements that constitute "forward-looking statements" within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended. The words "believe," "expect," "anticipate," "estimate" and other similar statements of expectations identify forward-looking statements. Forward-looking statements in this report can be found in the "Business" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" sections as well as other sections of this report and include, without limitation, expectations regarding our anticipated revenue, gross margin, and related expenses for 2008; the anticipated penetration of the wireless carrier, dealer/agent, and distributor markets; the expected growth in sales of power products for high-power mobile electronic devices and expanded international distribution; expectations regarding future customer product orders, including the impact resulting from the loss of Lenovo as a customer in 2008; our reliance on distributors and resellers for the distribution and sale of our products; beliefs relating to our competitive advantages and the market need for our products; the belief that our present vendors have sufficient capacity to meet our supply requirements; the expected availability of cash and liquidity; expected market and industry trends; beliefs relating to our distribution capabilities and brand identity; expectations regarding the success of new product introductions; the anticipated strength, and ability to protect, our intellectual property portfolio; and our expectations regarding the outcome and anticipated impact of various legal proceedings in which we are involved. These forward-looking statements are based largely on our management's expectations and involve known and unknown risks, uncertainties and other factors, which may cause our actual results, performance, achievements, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Factors that could cause or contribute to such differences include those discussed herein under the heading "Risk Factors" and those set forth in other sections of this report and in other reports that we file with the Securities and Exchange Commission. Additional factors that could cause actual results to differ materially from those expressed in these forward-looking statements include, among others, the following:

- the loss of, and failure to replace, any significant customers such as Dell in 2007 and Lenovo in 2008;
- the inability to timely and successfully complete product development efforts and introduce new products;
- the ineffectiveness of our sales and marketing strategy;
- the inability to create broad consumer awareness and acceptance for our products and technology;
- the timing and success of competitive product development efforts, new product introductions and pricing;
- the ability to expand and protect our proprietary rights and intellectual property;
- the timing of substantial customer orders;
- the lack of available qualified personnel;
- the inability to successfully resolve pending and unanticipated legal matters;
- the lack of available qualified suppliers and subcontractors and/or their inability to meet our specification, performance, and quality requirements;
- a decline in market demand for our products; and
- a downturn in industry and general economic or business conditions.

In light of these risks and uncertainties, there can be no assurance that the forward-looking statements contained in this report will prove to be accurate. We undertake no obligation to publicly update or revise any forward-looking statements, or any facts, events, or circumstances after the date hereof that may bear upon forward-looking statements.

*Mobility Electronics®, iGo®, iGo dualpower®, iGo powerXtender*tm *and Juice® are trademarks or registered trademarks of Mobility Electronics, Inc. or its subsidiaries in the United States and other countries. Other names and brands may be claimed as the property of others.*

PART I

Item 1. *Business*

Our Company

We are a leading provider of innovative products and solutions for the mobile electronics industry. We utilize our proprietary technology to design and develop products that make mobile electronic devices more efficient and cost effective, thus enabling professionals and consumers higher utilization of their mobile devices. We believe our competitive advantages include our extensive intellectual property portfolio, the innovative designs and multi-function capabilities of our products, and our private-label reseller, distribution, wireless carrier, and retail relationships.

We have created a broad base of branded and private-label products that focus primarily on providing accessories for mobile electronic devices. In the past, these products have primarily included power accessories, foldable keyboards and connectivity solutions. We have primarily sold our products through original equipment manufacturers, or OEMs, such as Lenovo; private-label resellers, such as Targus Group International; resellers, such as Ingram Micro Inc.; retailers, such as RadioShack Corporation; wireless carriers, such as AT&T; and directly to end users through our iGo brand website, www.igo.com. During 2007, we divested our handheld hardware and docking and expansion product lines, and we have made the decision to no longer manufacture and market our foldable keyboard products and we intend to sell the remaining inventory of our foldable keyboard products in the ordinary course of business. In addition, two of our OEM customers who purchased high-power adapters from us for use with notebook computers have opted for different solutions which are now being provided to them by other suppliers. As a result, in 2008, our primary focus will be on sales of our power solutions for mobile electronic device users.

Our power products, marketed either under a private-label or our iGo brand, include our range of AC, DC, combination AC/DC, and battery-powered universal power adapters. Our combination AC/DC power adapters allow users to charge a variety of their mobile electronic devices from AC power sources located in a home, office or hotel room as well as DC power sources located in automobiles, planes and trains. Our battery-powered universal power adapters, such as the iGo powerXtender, allow users to charge a variety of their mobile electronic devices when they do not have access to an AC or DC power source. Each of these adapters utilizes our patented intelligent tip technology, which allows the use of a single power adapter with interchangeable tips to charge a variety of mobile electronic devices, including portable computers, mobile phones, MP3 players, smartphones, PDAs, portable gaming consoles and other handheld devices. When our power adapters are combined with a multiple output connector accessory, such as the iGo dualpower or iGo power splitter, the user can also simultaneously charge multiple mobile electronic devices.

Our Industry

Over the past two decades, technological advancements in the electronics industry have greatly expanded mobile device capabilities. Mobile electronic devices, many of which can be used for both business and personal purposes, include portable computers, mobile phones, smartphones, PDAs, handheld devices, digital cameras, portable DVD players, MP3 players, and portable game consoles. The popularity of these devices is benefiting from reductions in size, weight and cost and improvements in functionality, storage capacity and reliability. In addition, advances in wireless connectivity technologies, such as *Bluetooth®* wireless technology and Wi-Fi, have enabled remote access to data networks and the Internet.

Increased functionality and the ability to access and manage information remotely are driving the proliferation of mobile electronic devices and applications. As the work force becomes more mobile and spends more time away from traditional work settings, users have sought out and become reliant on tools that provide management of critical information and access to wireless voice and data networks. Each of these mobile electronic devices needs to be powered and connected when in the home, the office, or on the road, and can be accessorized, representing an opportunity for one or more of our products.

Market for Our Products. Our products support mobile electronic devices in several market categories.

- *Portable Computer Market.* According to IDC, a subsidiary of International Data Group, a technology media and research company, the worldwide market for portable computers is expected to grow at a compounded annual growth rate, or CAGR, of about 20.4% from approximately 82 million units in 2006 to about 209 million units in 2011. The U.S. market is expected to grow at a CAGR of about 15.4% from approximately 26 million units in 2006 to about 53 million units in 2011.
- *Low Power Mobile Electronic Devices.* According to IDC, the worldwide market for low power mobile electronic devices, which includes mobile phones, converged mobile devices, portable digital assistants (PDAs), portable media players, digital cameras, portable game consoles and Bluetooth headsets, is expected to grow at a CAGR of about 7.6% from approximately 1.4 billion units in 2006 to about 1.9 billion units in 2011. The U.S. market is expected to grow at a CAGR of about 5.7% from approximately 263 million units in 2006 to about 347 million units in 2011.
- *Handheld and Converged Mobile Device Market.* According to IDC, the worldwide market for converged mobile devices, which includes smartphones and other handheld devices with telephony and data capabilities, is expected to grow at a CAGR of about 30.9% from approximately 81 million units in 2006 to about 312 million units in 2011. The U.S. market for converged mobile devices is expected to grow at a CAGR of about 56% from approximately 8.4 million units in 2006 to about 78 million units in 2011.

Industry Challenges. As mobile electronic devices gain widespread acceptance, users will continue to confront limitations on their use, driven by such things as battery life, charging flexibility, compatibility issues, data input challenges and performance requirements. Furthermore, as users seek to manage multiple devices in their daily routine, the limitations of any one of these functions will tend to be exacerbated.

Mobile electronic device users, by definition, largely require the use of their devices while away from their home or office. Many mobile electronic devices offer designs and form factors that support portability and travel comfort; however, these mobile devices have limited battery life, which results in the need to frequently connect to a power source to operate the device or recharge the battery. A number of factors limit the efficient use and charging of these devices:

- Most power adapters are compatible with either AC-only power sources located in places such as a home, office or hotel room, or DC-only power sources such as those located in automobiles, planes, and trains;
- The majority of power adapters are model-specific requiring a mobile user to carry a dedicated power adapter for each device;
- Mobile electronic devices are generally packaged with only one power adapter, forcing many users to purchase additional power adapters for convenience and ease of use; and
- Mobile electronic device users tend to carry multiple devices and at times only one power source is available, such as an automobile's cigarette lighter, limiting a user's ability to recharge multiple devices.

Mobile electronic device users, who usually have limited available space in their briefcase or luggage, desire solutions that make their mobile experience more convenient. We believe this creates the need for universal power adapters that have the ability to simultaneously charge multiple mobile electronic devices.

Our Solutions

Our innovative power solutions eliminate the need for mobile electronic device users to carry multiple power adapters to operate and charge their devices. Our AC/DC combination power adapters work with any available power source, including the AC wall outlet in a home, office or hotel room, or the DC cigarette lighter plug in an automobile, airplane, or train. Our battery-powered universal power adapters allow users to charge a variety of their mobile electronic devices when they do not have access to an AC or DC power source. Our patented intelligent tip technology allows a user to carry a few lightweight interchangeable tips in combination with a single adapter to charge a variety of devices, including a substantial portion of the portable computers, mobile phones, smartphones, PDAs, and other mobile electronic devices currently in the market. Further, device users can simultaneously charge

multiple devices by using a single adapter and the appropriate intelligent tips with our optional iGo dualpower or iGo power splitter accessories.

Our Strategy

We intend to capitalize on our current strategic position in the mobile electronic device market by continuing to introduce innovative high-technology products that suit the needs of a broad range of users of these devices. It is our goal to be a market leader in providing unique, innovative power solutions to mobile users. Elements of our strategy include:

Continue To Develop Innovative Products. We have a history of designing and developing highly differentiated products to serve the needs and enhance the experience of mobile electronic device users. We intend to continue to develop and market a broad range of highly differentiated power products that address additional markets in which we choose to compete. We also intend to protect our intellectual property position in these markets by aggressively filing for additional patents on an ongoing basis and, as necessary, pursuing infringers of our intellectual property.

Establish iGo Tip Standard. Our patented intelligent tip technology allows a user to carry a few lightweight interchangeable tips in combination with a single adapter to charge a variety of mobile electronic devices. Our strategy is to establish a standard based on this technology in combination with our proprietary tip architecture under the brand name "iGo." We intend to continue to recruit a broad base of wireless carriers, retailers, and distributors to proliferate this universal tip standard.

Broaden Distribution of iGo Branded Product. We intend to develop relationships with a broader set of retailers and wireless carriers, some of whom may be served through distribution partners, to expand the market availability of our iGo branded products. We expect that these relationships will allow us to diversify our customer base, add stability and decrease our traditional reliance upon a limited number of OEMs and private label resellers. We also expect that these relationships will significantly increase the availability and exposure of our products, particularly among large national and international retailers and wireless carriers.

Our Products

We provide a broad range of power products designed to satisfy the needs of the mobile electronic device user while traveling, at home or in the office. The following is a description of our primary products by category, which are sold both under our iGo brand and the brands of our private-label reseller, distribution and retail customers.

We offer a range of universal AC, DC, combination AC/DC and battery-powered adapters that are designed for use with portable computers, as well as a variety of other low power mobile electronic devices, including mobile phones, smartphones, PDAs, digital cameras, MP3 players, and portable game consoles.

- *Power Products for High-Power Mobile Electronic Devices*. Since inception, we have sold a variety of power products designed for use with portable computers. In early 2003, we introduced our first combination AC/DC universal power adapter, which is designed to power portable computers and works with any available power source, including the AC wall outlet in a home, office or hotel room, or the DC cigarette lighter plug in an automobile, airplane or train. In addition, we offer a range of DC-only power adapters, more commonly known as auto/air adapters, and a range of AC-only power adapters. This family of portable computer power adapters utilizes our patented intelligent and interchangeable tip technology which allows a single power adapter to plug into a substantial portion of the portable computers in the market. When our portable computer power adapters are combined with our optional iGo dualpower accessory, the user can simultaneously charge multiple mobile electronic devices, including mobile phones, smartphones, PDAs, digital cameras, MP3 players, and portable game consoles, eliminating the need to carry multiple charging adapters. Sales of our portable computer power products represented approximately 62%, 60% and 63% of our total revenue for the years ended December 31, 2007, 2006 and 2005, respectively.
- *Power Products for Low-Power Mobile Electronic Devices.* During 2004, we introduced our first power adapters designed for use with mobile electronic products with power requirements lower than those of portable computers, such as mobile phones, smartphones, PDAs, digital cameras, MP3 players, and portable

game consoles. These products include a range of DC cigarette lighter adapters, mobile AC adapters, combination AC/DC adapters, and battery-powered adapters. This family of power adapters also utilizes our patented intelligent and interchangeable tip technology which allows a single power adapter to plug into a substantial number of mobile electronic devices other than portable computers. When combined with our optional iGo dualpower or iGo power splitter accessories, the user of these power adapters can simultaneously charge multiple mobile electronic devices. Sales of these power adapters represented approximately 25%, 16%, and 12% of our total revenue for the years ended December 31, 2007, 2006 and 2005, respectively.

Accessories. In the past we have also marketed a number of mobile device accessories such as monitor stands, portable computer stands and foldable keyboards. Sales of these products represented approximately 4%, 4%, and 3% of our total revenue for the years ended December 31, 2007, 2006, and 2005, respectively. We expect to discontinue sales of these products during 2008.

Expansion and Docking Products. In April 2007, we sold the expansion and docking business to Mission Technology Group. Mission Technology Group's results of operations are consolidated with ours because Mission Technology Group is obligated to repay the promissory notes it issued to us in connection with this sale, and we have determined that we are the primary beneficiary of this variable interest entity. Mission Technology Group offers a variety of PCI slot expansion products for portable computers, desktop computers and servers. For more information, see Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations — Recent Developments, and — Critical Accounting Policies and Estimates, Variable Interest Entities." Sales of expansion and docking products represented approximately 9%, 6%, and 7% of our total revenue for the years ended December 31, 2007, 2006 and 2005, respectively.

Sales and Marketing

We market and sell our products on a worldwide basis to OEMs and private-label resellers, distributors, resellers, retailers, wireless carriers and directly to end users through our iGo.com website. Our sales organization is primarily aligned along our core retail and distribution channels and geographies throughout North America, Europe and Asia Pacific. During 2007, approximately 52% of our sales were through OEMs and private label resellers, and approximately 37% of our sales were through retailers and distributors.

Our total global revenue consisted of the following regional results: North American sales of $64.1 million, or 82% of our consolidated revenue; Asia Pacific sales of $10.0 million, or 13% of our consolidated revenue; and European sales of $3.6 million, or 5% of our consolidated revenue. For additional information regarding revenue, operating results and assets by business segment, see Note 17 to the Consolidated Financial Statements contained in Part II, Item 8 of this Annual Report on Form 10-K.

We have implemented a variety of marketing activities to market our family of products including participation in major trade shows, key distribution catalogs, distribution promotions, reseller and information technology manager advertising, on-line advertising and banner ads, direct mail and bundle advertisements with retail and distribution channel partners and cooperative advertising with our retail partners. In addition, we pursue a public relations program to educate the market regarding our products.

Customers

We sell to OEMs, private-label resellers, distributors, resellers, retailers and directly to end users through our iGo website. Our largest customers for 2007 included:

OEM/Private Label Resellers
Dell
Lenovo
Targus

Retailers/Distributors

Amazon.com
Brookstone
D & H Distributing
Ingram Micro
Inmotion Pictures
Microcel
RadioShack
Superior Communications
Wynit

As a group, the OEMs/Private Label Resellers and Retailers/Distributors listed in the table above accounted for 49% and 34%, respectively, of revenue for the year ended December 31, 2007, compared to 51% and 26% for the year ended December 31, 2006. Our distributors sell a wide range of our products to value-added resellers, system integrators, cataloguers, major retail outlets and certain OEM fulfillment outlets worldwide.

Targus, which is a private-label reseller of accessories for mobile electronic devices, accounted for 36% of our revenue for the year ended December 31, 2007. RadioShack, a retailer of consumer electronic devices, accounted for 27% of our revenue for the year ended December 31, 2007. Lenovo, which is an OEM of mobile computers and other mobile electronic devices, accounted for 10% of our revenue for the year ended December 31, 2007. Our relationship with Dell, which accounted for 4% of our revenue for the year ended December 31, 2007, was discontinued during 2007. We do not expect to receive additional orders for our power products from Lenovo beyond the first quarter of 2008, as Lenovo has selected a different sourcing solution. The loss of any one or more of Targus, RadioShack or any of our remaining other major customers would likely have a material adverse effect on our business. No customer other than Targus, RadioShack or Lenovo accounted for greater than 10% of sales for the year ended December 31, 2007.

For our private-label reseller, distribution, and retail customers, we build product and maintain inventory at various third-party warehouses that are under our control until these customers place, and we fulfill, purchase orders for this product. For OEM customers, we build product and maintain inventory at various third-party warehouses controlled by our OEM customers. We retain ownership of this inventory until our OEM customers withdraw these products from our inventory for sale to their customers.

As is generally the practice in our industry, a portion of our sales to distributors and retailers is generally under terms that provide for stock balancing return privileges and price protection. Accordingly, we make a provision for estimated sales returns and other allowances related to those sales. Returns, which are netted against our reported revenue, were approximately 1% of revenue for the years ended December 31, 2007 and 2006. Also, as is generally the practice in our industry, our OEM and private-label reseller customers only have return rights in the event that our product is defective. Accordingly, we make a provision for estimated defective product warranty claims for these customers. Defective product warranty claims were less than 1% of revenue for the years ended December 31, 2007 and 2006.

Backlog

Our backlog at February 21, 2008 was approximately $10.4 million, compared with backlog of approximately $6.8 million at February 28, 2007. Backlog includes orders confirmed with a purchase order for products scheduled to be shipped within 90 days to customers with approved credit status. Because of the generally short cycle between order and shipment and occasional customer changes in delivery schedules or cancellation of orders (which are made without significant penalty), we do not believe that our backlog, as of any particular date, is necessarily indicative of actual net sales for any future period.

Research and Development

Our research and development efforts focus primarily on enhancing our current products and developing innovative new products to address a variety of mobile electronic device needs and requirements. We work with customers, prospective customers and outsource partners to identify and implement new solutions intended to meet the current and future needs of the markets we serve.

As of December 31, 2007, our research and development group consisted of 13 people who are responsible for hardware and software design, product testing and quality assurance. Electrical design services are provided to us by several of our outsource partners under the supervision of our in-house research and development group. Amounts spent on research and development for the years ended December 31, 2007, 2006, and 2005 were $5.2 million, $7.8 million, and $6.6 million, respectively.

Manufacturing and Logistics

In order to manufacture our products cost-effectively, we have implemented a strategy to outsource substantially all of the manufacturing services for our products. Our internal activities are focused on design, low-volume manufacturing and quality testing and our outsourced manufacturing providers are focused on high-volume manufacturing and logistics.

We currently have relationships for the manufacture of our family of universal power products with various manufacturing entities primarily located in China. In addition to providing manufacturing services, a number of these companies also provide us with some level of design and development services.

We purchase the principal components of our products from outside vendors. The terms of supply contracts are negotiated by us or our manufacturing partners with each vendor. We believe that our present vendors have sufficient capacity to meet our supply requirements and that alternative production sources for most components are generally available without interruption, however, several vendors are sole sourced. In order to ensure timely delivery of products to customers, from time to time, we issue letters of authorization to our suppliers that authorize them to secure long lead components in advance of purchase orders for products.

The majority of our OEM and private-label products are shipped by our outsource manufacturers to our OEM and private-label reseller customers or their fulfillment hubs. We employ the services of an outsource logistics company to efficiently manage the packaging and shipment of our iGo branded products to our various retail and distribution channels.

Competition

The market for our products is intensely competitive, subject to rapid change and sensitive to new product introductions or enhancements and marketing efforts by industry participants. The principal competitive factors affecting the markets for our product offerings include corporate and product reputation, innovation with frequent product enhancement, breadth of integrated product line, product design, functionality and features, product quality, performance, ease-of-use, support and price.

Although we believe that our products compete favorably with respect to such factors, there can be no assurance that we can maintain our competitive position against current or potential competitors, especially those with greater financial, marketing, service, support, technical or other competitive resources. However, we believe that our innovative products, coupled with our strategic relationships with private-label resellers, distributors, resellers, retailers and wireless carriers provide us with a competitive advantage in the marketplace.

Our power products primarily compete with products offered by low-cost manufacturers of model-specific adapters and specialized third party mobile computing accessory companies, including American Power Conversion, Belkin, Comarco, Lind, and RRC Power Solutions. In addition, we compete with the internal design efforts of some of our customers.

Proprietary Rights

We seek to establish and maintain our proprietary rights in our technology and products through the use of patents, copyrights, trademarks, and trade secret laws. We have a program to file applications for and obtain patents, copyrights, and trademarks in the United States and in selected foreign countries where we believe filing for such protection is appropriate. We also seek to maintain our trade secrets and confidential information by nondisclosure policies and through the use of appropriate confidentiality agreements. As of March 4, 2008, we held approximately 209 patents and patents pending worldwide relating to our power technology. There can be no assurance, however, that the rights we have obtained can be successfully enforced against infringing products in every jurisdiction. Although we believe the protection afforded by our patents, copyrights, trademarks, and trade secrets has value, the rapidly changing technology in our industry and uncertainties in the legal process make our future success dependent primarily on the innovative skills, technological expertise, and management abilities of our employees rather than on the protection afforded by patent, copyright, trademark, and trade secret laws.

Some of our products are also designed to include software or other intellectual property licensed from third parties. While it may be necessary in the future to seek or renew licenses relating to various aspects of our products, we believe, based upon past experience and standard industry practice, that such licenses generally could be obtained on commercially reasonable terms. Nonetheless, there can be no assurance that the necessary licenses would be available on acceptable terms, if at all. Our inability to obtain certain licenses or other rights or to obtain such licenses or rights on favorable terms, or the need to engage in litigation regarding these matters, could have a material adverse effect on our business, operating results, and financial condition. Moreover, inclusion in our products of software or other intellectual property licensed from third parties on a nonexclusive basis can limit our ability to protect our proprietary rights in our products.

There can be no assurance that our patents and other proprietary rights will not be challenged, invalidated, or circumvented; that others will not assert intellectual property rights to technologies that are relevant to us; or that our rights will give us a competitive advantage. In addition, the laws of some foreign countries may not protect our proprietary rights to the same extent as the laws of the United States.

Employees

As of December 31, 2007, excluding Mission Technology Group, we had 60 full-time employees, 50 located in the United States, 6 located in Asia and 4 located in Europe, including 11 employed in operations, 13 in engineering, 19 in sales and marketing and 17 in administration. We engage temporary employees from time to time to augment our full time employees, generally in operations. None of our employees are covered by a collective bargaining agreement. We believe we have good relationships with our employees.

Available Information

We file annual, quarterly and current reports, proxy statements and other information with the Securities and Exchange Commission. You may read and copy any document we file with the SEC at the SEC's public reference room at 100 F Street, NE, Room 1580, Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for information on the public reference room. The SEC maintains an internet website that contains annual, quarterly and current reports, proxy statements and other information that issuers (including Mobility) file electronically with the SEC. The SEC's website is www.sec.gov.

Our website is www.mobilityelectronics.com. Through a link on the Investor Relations section of our website, we make available the following filings as soon as reasonably practicable after they are electronically filed with or furnished to the SEC: our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and any amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934. All such filings are available free of charge. Information on our website is not incorporated by reference into this Form 10-K and should not be considered part of this report or any other filing we make with the SEC.

Item 1A. *Risk Factors*

This section highlights specific risks that could affect us and our business. You should carefully consider each of the following risks and all of the other information set forth in this Annual Report on Form 10-K. Based on the information currently known to us, we believe that the following information identifies the most significant risk factors affecting us. However, the risks and uncertainties that we face are not limited to those described below. Additional risks and uncertainties not presently known to us or that we currently believe to be immaterial may also adversely affect our business.

If any of the following risks and uncertainties develops into actual events or the circumstances described in the risks and uncertainties occur, these events or circumstances could have a material adverse effect on our business, financial condition or results of operations. These events could also have a negative effect on the trading price of our securities.

Risks Related To Our Business

If our revenue is not sufficient to absorb our expenses, we will not be profitable in the future.

We have experienced significant operating losses since inception and, as of December 31, 2007, have an accumulated deficit of $131 million. We intend to make expenditures on an ongoing basis to support our operations, primarily from cash generated from operations and, if available, from lines of credit, as we develop and introduce new products and expand into new markets. If we do not achieve revenue growth sufficient to absorb our planned expenses, we will experience additional losses in future periods. In addition, there can be no assurance that we will achieve or sustain profitability.

Our future success is dependent on market acceptance of our power products, particularly in light of the divestiture of our connectivity business and our decision to discontinue the production and marketing of our foldable keyboard products. If acceptance of our power products does not continue to grow, we will not be able to increase or sustain our revenue, and our business will be severely harmed. If we do not achieve widespread market acceptance of our power products and technology, we may not maintain our existing revenue or achieve anticipated revenue. For example, we currently derive a material portion of our revenue from the sale of our power adapter products. These universal power adapters represent a relatively new product category in the mobile electronics industry. We anticipate that a material portion of our revenue in the foreseeable future will be derived from our family of universal power products and similar power products in this relatively new market category that we are currently developing or plan to develop. We can give no assurance that this market category will develop sufficiently to cover our expenses and costs or that we will be able to develop similar power products. Moreover, our power products may not achieve widespread market acceptance if:

- we lose, or fail to replace, any significant retail or distribution partners;
- we fail to expand and protect our proprietary rights and intellectual property;
- we fail to complete development of these products in a timely manner;
- we fail to achieve the performance criteria required of these products by our customers; or
- competitors introduce similar or superior products.

In addition, the retail version of our universal power adapter products includes a feature that allows a single version of these products to be used with almost any mobile electronic device. If mobile electronic device manufacturers choose to design and manufacture their products in such a way as to limit the use of universal devices with their devices, it could reduce the applicability of a universal power adapter product and limit market acceptance of our power products at the retail level.

Our operating results are subject to significant fluctuations, and if our results are worse than expected, our stock price could fall.

Our operating results have fluctuated in the past, and may continue to fluctuate in the future. It is likely that in some future quarter or quarters our operating results will be below the expectations of securities analysts and

investors. If this happens, the market price for our common stock may decline significantly. The factors that may cause our operating results to fall short of expectations include:

- the timing of our new product and technology introductions and product enhancements relative to our competitors or changes in our or our competitors' pricing policies;
- market acceptance of our products;
- the size and timing of customer orders;
- our ability to effectively manage inventory levels;
- delay or failure to fulfill orders for our products on a timely basis;
- distribution of or changes in our revenue among OEMs, private-label resellers, distribution partners, and retailers;
- our inability to accurately forecast our contract manufacturing needs;
- difficulties with new product production implementation or supply chain;
- our suppliers' ability to perform under their contracts with us;
- product defects and other product quality problems which may result from the development of new products;
- the degree and rate of growth of the markets in which we compete and the accompanying demand for our products;
- our ability to expand our internal and external sales forces and build the required infrastructure to meet anticipated growth; and
- seasonality of sales.

Many of these factors are beyond our control. For these reasons, you should not rely on period-to-period comparisons and short-term fluctuations of our financial results to forecast our future long-term performance.

Acquisitions could have negative consequences, which could harm our business.

We have acquired, and intend to continue to pursue opportunities to acquire businesses, products or technologies that complement or expand our current capabilities. For example, in 2006 we acquired substantially all of the assets of Think Outside, Inc., a developer and marketer of foldable keyboards and other accessories for mobile handheld devices and, in 2007, made the determination to no longer develop and market these keyboard products. Additional acquisitions could require significant capital infusions and could involve many risks including, but not limited to, the following:

- difficulty integrating the acquired company's personnel, products, product roadmaps, technologies, systems, processes, and operations, including product delivery, order management, and information systems;
- difficulty in conforming the acquired company's financial policies and practices to our policies and practices and in implementing and maintaining adequate internal systems and controls over the financial reporting and information systems of the acquired company;
- diversion of management's attention and disruption of ongoing business;
- difficulty in combining product and technology offerings and entering into new markets or geographical areas in which we have no or limited direct experience and where our competitors may have stronger market positions;
- loss of management, sales, technical, or other key personnel;
- revenue from the acquired companies not meeting our expectations, and the potential loss of the acquired companies' customers, distributors, resellers, suppliers, or other partners;

- delays or difficulties and the attendant expense in evaluating, coordinating, and combining administrative, manufacturing, research and development and other operations, facilities, and relationships with third parties in accordance with local laws and other obligations while maintaining adequate standards, controls and procedures, including financial controls and controls over information systems;
- difficulty in completing projects associated with acquired in-process research and development;
- incurring amortization expense related to intangible assets and recording goodwill and non-amortizable assets that will be subject to impairment testing and possible impairment charges;
- dilution of existing stockholders as a result of issuing equity securities, including the assumption of any stock options or other equity awards issued by the acquired company;
- overpayment for any acquisition or investment or unanticipated costs or liabilities;
- assumption of liabilities of the acquired company, including any potential intellectual property infringement claims or other litigation; and
- incurring substantial write-offs, restructuring charges, and transactional expenses.

Our failure to manage these risks and challenges could materially harm our business, financial condition, and results of operations. Further, if we do not successfully address these challenges in a timely manner, we may not fully realize all of the anticipated benefits or synergies on which the value of a transaction was based. Future transactions could cause our financial results to differ from expectations of market analysts or investors for any given quarter, which could, in turn, cause a decline in our stock price.

We may not be able to secure additional financing to meet our future capital needs.

We currently rely on cash flow from operations and cash on hand to fund our operating and capital needs. We may, in the future, expend significant capital to further develop our products, increase awareness of our brand names, expand our operating and management infrastructure, and pursue opportunities to acquire businesses, products or technologies that complement or expand our current capabilities. We may also use capital more rapidly than currently anticipated. Additionally, we may incur higher operating expenses and generate lower revenue than currently expected, and we may be required to depend on external financing to satisfy our operating and capital needs. We may be unable to secure financing on terms acceptable to us, or at all, at the time when we need such funding. If we raise funds by issuing additional equity or convertible debt securities, the ownership percentages of existing stockholders would be reduced, and the securities that we issue may have rights, preferences or privileges senior to those of the holders of our common stock or may be issued at a discount to the market price of our common stock which would result in dilution to our existing stockholders. If we raise additional funds by issuing debt, we may be subject to debt covenants, such as the debt covenants under a secured credit facility, which could place limitations on our operations including our ability to declare and pay dividends. For example, as of December 31, 2007, we were not in compliance with the covenants under our secured line of credit and, accordingly, we are currently unable to utilize this credit facility. Our inability to raise additional funds on a timely basis would make it difficult for us to achieve our business objectives and would have a negative impact on our business, financial condition and results of operations.

If we fail to protect our intellectual property, our business and ability to compete could suffer.

Our success and ability to compete are dependent upon our internally developed technology and know-how. We rely primarily on a combination of patent protection, copyright and trademark laws, trade secrets, nondisclosure agreements and technical measures to protect our proprietary rights. While we have certain patents and patents pending, there can be no assurance that patents pending or future patent applications will be issued or that, if issued, those patents will not be challenged, invalidated or circumvented or that rights granted thereunder will provide meaningful protection or other commercial advantage to us. Moreover, there can be no assurance that any patent rights will be upheld in the future or that we will be able to preserve any of our other intellectual property rights.

We typically enter into confidentiality, noncompete or invention assignment agreements with our key employees, distributors, customers and potential customers, and limit access to, and distribution of, our product

design documentation and other proprietary information. There can be no assurance that our confidentiality agreements, confidentiality procedures, noncompetition agreements or other factors will be adequate to deter misappropriation or independent third-party development of our technology or to prevent an unauthorized third party from obtaining or using information that we regard as proprietary. We have aggressively pursued the protection of our intellectual property rights, including our recently settled patent infringement lawsuit against American Power Conversion Corporation and our ongoing patent infringement lawsuit against Comarco, Inc. and Comarco Wireless Technologies, Inc. in the Eastern District of Texas. Litigation efforts such as these have been, and will in the future be, necessary to defend our intellectual property rights, both for our power and expansion technology, and will likely result in substantial cost to, and divisions of efforts by, us.

We may be subject to intellectual property infringement claims that are costly to defend and could limit our ability to use certain technologies in the future.

The laws of some foreign countries do not protect or enforce proprietary rights to the same extent as do the laws of the United States. In addition, under current law, certain patent applications filed with the United States Patent and Trademark Office before November 29, 2000 may be maintained in secrecy until a patent is issued. Patent applications filed with the United States Patent and Trademark Office on or after November 29, 2000, as well as patent applications filed in foreign countries, may be published some time after filing but prior to issuance. The right to a patent in the United States is attributable to the first to invent, not the first to file a patent application. We cannot be sure that our products or technologies do not infringe patents that may be granted in the future pursuant to pending patent applications or that our products do not infringe any patents or proprietary rights of third parties. In the event that any relevant claims of third-party patents are upheld as valid and enforceable, we could be prevented from selling our products or could be required to obtain licenses from the owners of such patents or be required to redesign our products to avoid infringement. There can be no assurance that such licenses would be available or, if available, would be on terms acceptable to us or that we would be successful in any attempts to redesign our products or processes to avoid infringement. Our failure to obtain these licenses or to redesign our products would have a material adverse effect on our business.

There can be no assurance that our competitors will not independently develop technology similar to existing proprietary rights of others. We expect that our products will increasingly be subject to infringement claims as the number of products and competitors in our industry segment grows and the functionality of products in different industry segments overlaps. There can be no assurance that third parties will not assert infringement claims against us in the future or, if infringement claims are asserted, that such claims will be resolved in our favor. Any such claims, with or without merit, could be time-consuming, result in costly litigation, cause product shipment delays or require us to enter into royalty or licensing agreements. Such royalty or licensing agreements, if required, may not be available on terms favorable to us, if at all. In addition, litigation may be necessary in the future to protect our trade secrets or other intellectual property rights, or to determine the validity and scope of the proprietary rights of others. Such litigation could result in substantial costs and diversion of resources. For example, in 2003 we settled a patent infringement lawsuit with Comarco, Inc., in 2006 we settled a patent infringement lawsuit with Formosa Electronics Co. Ltd., and at the beginning of 2008 we settled a patent infringement lawsuit with American Power Conversion Corporation. We incurred significant costs in these lawsuits and many of our executive officers and employees devoted substantial time and effort to these lawsuits.

If we are unable to hire additional qualified personnel as necessary or if we lose key personnel, we may not be able to successfully manage our business or achieve our objectives.

We believe our future success will depend in large part upon our ability to identify, attract and retain highly skilled executive, managerial, engineering, sales and marketing, finance and operations personnel. Competition for personnel in the technology industry is intense, and we compete for personnel against numerous companies, including larger, more established companies with significantly greater financial resources. There can be no assurance we will be successful in identifying, attracting and retaining personnel.

Our success also depends to a significant degree upon the continued contributions of our key executives, management, engineering, sales and marketing, finance and manufacturing personnel, many of whom would be difficult to replace. We do not maintain key person life insurance on any of our executive officers. The loss of the

services of any of our key personnel, the inability to identify, attract or retain qualified personnel in the future or delays in hiring required personnel could make it difficult for us to manage our business and meet key objectives, such as timely product introductions.

If we fail to continue to introduce new products and product enhancements that achieve broad market acceptance on a timely basis, we will not be able to compete effectively, and we will be unable to increase or maintain our revenue.

The market for our products is highly competitive and in general is characterized by rapid technological advances, changing customer needs and evolving industry standards. If we fail to continue to introduce new products and product enhancements that achieve broad market acceptance on a timely basis, we will not be able to compete effectively, and we will be unable to increase or maintain our revenue. Our future success will depend in large part upon our ability to:

- develop, in a timely manner, new products and services that keep pace with developments in technology and customer requirements;
- meet potentially new manufacturing requirements and cover potentially higher manufacturing costs of new products;
- deliver new products and services through appropriate distribution channels; and
- respond effectively to new product announcements by our competitors by quickly introducing competing products.

We may not be successful in developing and marketing, on a timely and cost-effective basis, either enhancements to existing products or new products that respond to technological advances and satisfy increasingly sophisticated customer needs. If we fail to introduce or sell innovative new products, our operating results may suffer. In addition, if new industry standards emerge that we do not anticipate or adapt to, our products could be rendered obsolete and our business could be materially harmed. Alternatively, any delay in the development of technology upon which our products are based could result in our inability to introduce new products as planned. The success and marketability of technology and products developed by others is beyond our control.

We have experienced delays in releasing new products in the past, which resulted in lower quarterly revenue than expected. For example, the introduction in early 2003 of our AC/DC power combination product, Juice, was delayed approximately 13 weeks due to necessary modifications required to meet safety certification and production start up requirements. Further, our efforts to develop new and similar products could be delayed due to unanticipated manufacturing requirements and costs. Delays in product development and introduction could result in:

- loss of or delay in revenue and loss of market share;
- negative publicity and damage to our reputation and brand;
- decline in the average selling price of our products and decline in our overall gross margins; and
- adverse reactions in our sales and distribution channels.

The average selling prices of our products may decrease over their sales cycles, especially upon the introduction of new products, which may negatively affect our gross margins.

Our products may experience a reduction in the average selling prices over their respective sales cycles. Further, as we introduce new or next generation products, sales prices of previous generation products may decline substantially. In order to sell products that have a falling average selling price and maintain margins at the same time, we need to continually reduce product and manufacturing costs. To manage manufacturing costs, we must collaborate with our third-party manufacturers to engineer the most cost-effective design for our products. There can be no assurances we will be successful in our efforts to reduce these costs. In order to do so, we must carefully manage the price paid for components used in our products as well as manage our freight and inventory costs to

reduce overall product costs. If we are unable to reduce the cost of older products as newer products are introduced, our average gross margins may decline.

We depend on large purchases from a small number of significant customers, and any loss, cancellation or delay in purchases by these customers could cause a shortfall in revenue, excess inventory and inventory holding or obsolescence charges.

We have historically derived a substantial portion of our revenue from a relatively small number of customers. Our five largest customers comprised 78% of our revenue for the year ended December 31, 2007. These customers typically do not have minimum purchase requirements and can stop purchasing our products at any time or with very short notice. In addition, most customer agreements are short term and non-exclusive and provide for purchases on a purchase order basis. We expect that a small number of customers will continue to represent a substantial percentage of our sales.

If any of our other major customers reduce, delay or cancel orders with us, and we are not able to sell our products to new customers at comparable levels, our revenue could decline significantly and could result in excess inventory and inventory holding or obsolescence charges. For example, Targus, RadioShack and Lenovo accounted for 36%, 27% and 10% of our revenue, respectively, for the year ended December 31, 2007. We do not expect to receive additional orders for our power products from Lenovo beyond the first quarter of 2008 and Dell, which accounted for 17% of our revenue in 2006, discontinued ordering our power products in 2007. In addition, any difficulty in collecting amounts due from one or more key customers would negatively impact our result of operations.

Our success is dependent in part upon our relationships with a limited number of strategic resellers.

We have entered into relationships with a small number of strategic resellers. Our relationships with strategic resellers, particularly our private-label partner Targus, are critical to our success and the failure of these resellers to purchase, and successfully market and distribute our products will limit our success and the market acceptance of our universal power adapters. For example, during 2004, one of our former private-label reseller partners decided to distribute products manufactured by a competitor in addition to our family of power products. This private-label reseller subsequently discontinued its sales of our family of power products. In the event other resellers discontinue the sale of our power products or are unsuccessful in marketing and distributing our products, our revenue will suffer, which is likely to have a negative impact on the price of our common stock.

In addition, under the terms of our agreement with Targus, our direct access to certain U.S. markets has been limited for the sale of our power products for use with high-power mobile electronic devices, and the agreement also provides that we may not enter into any more than two broad-based, private-label distribution agreements. Accordingly, our success will depend in part upon Targus' ability and willingness to effectively and widely distribute and market our products. For example, because the Targus distribution channel includes large retailers such as Best Buy, we are limited in our ability to distribute our high-power products to similar retailers directly. If Targus does not purchase the volume of products that we anticipate, our results of operations will suffer.

The success of our relationship with strategic resellers, such as Targus, will also depend in part upon their success in marketing and selling our products outside of the United States. The international sales by our strategic resellers are subject to a number of risks that could limit sales of our products. These risks include:

- the impact of possible recessionary environments in foreign economies;
- political and economic instability;
- unexpected changes in regulatory requirements;
- export restriction and availability of export licenses; and
- tariffs and other trade barriers.

We will need to expand sales through distributors and resellers in order to develop our business and increase revenue.

We rely to a large extent on distributors and resellers for the distribution and sale of our products. Our strategy contemplates the expansion of our distributor and reseller network both domestically and internationally, and an increase in the number of customers purchasing our products through these expanded channels. Our future success will depend in part on our ability to attract, train, and motivate new distributors and resellers and expand our relationships with current distributors and resellers. We may not be successful in expanding our distributor and reseller relationships. We will be required to invest significant additional resources in order to expand these relationships, and the cost of this investment may exceed the margins generated from this investment. Conducting business through indirect sales channels presents a number of risks, including:

- difficulties in replacing any lost or terminated distributors or resellers;
- existing or new distributors and resellers may not be able to effectively sell our current or future products;
- potential distributors and resellers deciding not to enter into relationships with us because of our existing relationships with other distributors and resellers with which they compete;
- our ability to provide proper training and technical support to our distributors and resellers;
- distributors and resellers electing to place greater emphasis on products offered by our competitors; and
- the lack of direct control over the business practices, marketing, sales and services offered by distributors and resellers.

As we expand our distribution and reseller channels, we may also need to expand our sales organization and invest substantial resources toward this expansion. We may experience difficulty recruiting, training, and retaining qualified sales personnel, and any failure to obtain, train, and keep qualified personnel could limit our ability to sell products.

In addition, distributors and resellers of our products often have rights of return, and in the future, these returns from our existing or any new distributors and resellers may have a material adverse effect on our business, financial condition, and results of operations. Distributors and resellers are not obligated to purchase products from us and frequently offer products from several different companies, including competitors' products, and distributors and resellers may give higher priority to the sale of our competitors' products. A reduction in sales efforts or efficiency by our distributors or resellers could lead to a reduction in our sales and could materially adversely affect our business, financial condition, and results of operations.

Increased reliance upon distributors and resellers for the sale of our products will subject us to additional risks, and the failure to adequately manage these risks could have a material adverse impact on our operating results.

The inability to accurately forecast the timing and volume of orders for sales of products to resellers and distributors during any given quarter could adversely affect operating results for such quarter and, potentially, for future periods. For example, if we underestimate sales, we will not be able to fill orders on a timely basis, which could cause customer dissatisfaction and loss of future business. Conversely, if we overestimate sales, we will experience increased costs from inventory storage, waste, and obsolescence.

The loss of one or more large reseller and distributor customers would materially harm our business. While we currently have a limited number of reseller and distributor agreements, none of these customers are obligated to purchase products from us. Consequently, any reseller or distributor could cease doing business with us at any time. Our dependence upon a few resellers and distributors could result in a significant concentration of credit risk, thus a substantial portion of our trade receivables outstanding from time to time may be concentrated among a limited number of customers. In addition, many of these customers also have or distribute competing products. If resellers and distributors elect to increase the marketing of competing products or reduce the marketing of our products, our ability to grow our business will be negatively impacted and will impair our revenue.

Additional risks associated with our reseller and distributor business include the following:

- the termination of reseller and distributor agreements or reduced or delayed orders;
- difficulty in predicting sales to reseller and distributors who do not have long-term commitments to purchase from us, which requires us to maintain sufficient inventory levels to satisfy anticipated demand;
- lack of visibility of end user customers and revenue recognition and channel inventory issues related to sales by resellers and distributors;
- resellers and distributors electing to resell, or increase their marketing of, competing products or technologies or reduced marketing of our products; and
- changes in corporate ownership, financial condition, business direction, or sales compensation related to our products, or product mix by the resellers and distributors.

Any of these risks could have a material adverse effect on our business, financial condition, and results of operations.

We outsource the manufacturing and fulfillment of our products, which limits our control of the manufacturing process and may cause a delay in our ability to fill orders.

Most of our products are produced under contract manufacturing arrangements with several manufacturers in China, Taiwan and the United States. Our reliance on third party manufacturers exposes us to risks, which are not in our control, which could negatively impact our results of operations. Any termination of or significant disruption in our relationship with our manufacturers may prevent us from filling customer orders in a timely manner, as we generally do not maintain large inventories of our products, and will negatively impact our revenue.

Our use of contract manufacturers reduces control over product quality and manufacturing yields and costs. We depend upon our contract manufacturers to deliver products that are free from defects, competitive in cost and in compliance with our specifications and delivery schedules. Moreover, although arrangements with such manufacturers may contain provisions for warranty obligations on the part of contract manufacturers, we remain primarily responsible to our customers for warranty obligations. Disruption in supply, a significant increase in the cost of the assembly of our products, failure of a contract manufacturer to remain competitive in price, the failure of a contract manufacturer to comply with any of our procurement needs or the financial failure or bankruptcy of a contract manufacturer could delay or interrupt our ability to manufacture or deliver our products to customers on a timely basis. In addition, regulatory agencies and legislatures in various countries, including the United States, have undertaken reviews of product safety, and various proposals for additional, more stringent laws and regulations are under consideration. Current or future laws or regulations may become effective in various jurisdictions in which we currently operate and may increase our costs and disrupt our business operations.

We have committed, for example, to manufacture various high-power adapter products with Hipro Electronics Company, Ltd., subject to our cost, delivery, quality and other requirements. In addition, Hipro manufactures our products on a purchase order basis and does not dedicate manufacturing capacity to us. Any disruption in our relationship with Hipro and/or the inability of Hipro to meet our manufacturing needs for our high-power adapter products could harm our business. In order to replace Hipro we would have to identify and qualify an alternative supplier. This process could take several months to complete and would significantly impair our ability to fulfill customer orders. Similarly, we may encounter these same issues with respect to other products manufactured for us by Tandy RadioShack, Phihong and others.

We generally provide our third-party contract manufacturers with a rolling forecast of demand which they use to determine our material and component requirements. Lead times for ordering materials and components vary significantly and depend on various factors, such as the specific supplier, contract terms and demand and supply for a component at a given time. Some of our components have long lead times. For example, certain electronic components used in our high-power adapter products have lead times that range from six to ten weeks. If our forecasts are less than our actual requirements, our contract manufacturers may be unable to manufacture products in a timely manner. If our forecasts are too high, our contract manufacturers will be unable to use the components

they have purchased on our behalf, which may require us to purchase the components from them before they are used in the manufacture of our products.

We rely on contract fulfillment providers to warehouse our iGo branded finished goods inventory and to ship our iGo branded products to our customers. We do not have long-term contracts with our fulfillment providers. Any termination of or significant disruption in our relationship with our fulfillment providers may prevent customer orders from being fulfilled in a timely manner, as it would require that we relocate our finished goods inventory to another warehouse facility and arrange for shipment of products to our customers.

Our reliance on sole sources for key components may inhibit our ability to meet customer demand.

The principal components of our products are purchased from outside vendors. Several of these vendors are our sole source of supply. We do not have long term supply agreements with the manufacturers of these components.

We depend upon our suppliers to deliver components that are free from defects, competitive in functionality and cost and in compliance with our specifications and delivery schedules. Disruption in supply, a significant increase in the cost of one or more components, failure of a supplier to remain competitive in functionality or price, the failure of a supplier to comply with any of our procurement needs or the financial failure or bankruptcy of a supplier could delay or interrupt our ability to manufacture or deliver our products to customers on a timely basis.

Any termination of or significant disruption in our relationship with our suppliers may prevent us from filling customer orders in a timely manner as we generally do not maintain large inventories of components or products. In the event that a termination or disruption were to occur, we would have to find and qualify an alternative source. The time it would take to complete this process would vary based upon the size of the supplier base and the complexity of the component or product. Delays could range from as little as a few days to six months, and, in some cases, a suitable alternative may not be available at all.

We may not be able to adequately manage our anticipated growth, which could impair our efficiency and negatively impact operations.

Our success depends on our ability to manage growth effectively. If we do not effectively manage this growth, we may not be able to operate efficiently or maintain the quality of our products. Either outcome could materially and adversely affect our operating results. As we continue to develop new products and bring them to market, we will be required to manage multiple projects, including the design and development of products and their transition to high volume manufacturing. This will place a significant strain on our operational, financial and managerial resources and personnel, our management information systems, and our operational and financial controls. To effectively manage our growth we must:

- effectively utilize our research and development resources;
- install and implement adequate controls and management information systems in an effective, efficient and timely manner;
- increase the managerial skills of our supervisors;
- maintain and strengthen our relationships with our contract manufacturers and fulfillment providers; and
- more effectively manage our supply chain.

Our inventory management is complex and failure to properly manage inventory growth may result in excess or obsolete inventory, the write-down of which may negatively affect our operating results.

Our inventory management is complex as we are required to balance the need to maintain strategic inventory levels to ensure competitive lead times against the risk of inventory overstock and obsolescence because of rapidly changing technology and customer requirements. In addition, the need to carefully manage our inventory is likely to increase as we expect to acquire additional customers who will likely require us to maintain certain minimum levels of inventory on their behalf, as well as provide them with inventory return privileges. Our customers may also increase orders during periods of product shortages, cancel orders if their inventory is too high, or delay orders in

anticipation of new products. They may adjust their orders in response to the supply of our products and the products of our competitors that are available to them and in response to seasonal fluctuations in end-user demand. If we ultimately determine that we have excess or obsolete inventory, we may have to reduce our prices and write-down inventory, which in turn could result in reduced operating results.

We have experienced returns of our products, which could in the future harm our reputation and negatively impact our operating results.

In the past, some of our customers have returned products to us because the product did not meet their expectations, specifications or requirements. These returns were less than 1% of revenue for each of the years ended December 31, 2007 and 2006. It is likely that we will experience some level of returns in the future and, as our business grows, this level may be more difficult to estimate. A portion of our sales to distributors is generally under terms that provide for certain stock balancing privileges. Under the stock balancing programs, some distributors are permitted to return up to 15% of their prior quarter's purchases, provided that they place a new order for equal or greater dollar value of the amount returned. We have not historically experienced significant stock balance returns.

Also, returns may adversely affect our relationship with those customers and may harm our reputation. This could cause us to lose potential customers and business in the future. We record a reserve for future returns at the time revenue is recognized. We believe the reserve is adequate given our historical level of returns. If returns increase, however, our reserve may not be sufficient and operating results could be negatively affected.

We may have design quality and performance issues with our products that may adversely affect our reputation and our operating results.

A number of our products are based on new technology and the designs are complex. As such, they may contain undetected errors or performance problems, particularly during new or enhanced product launches. Despite product testing prior to introduction, our products have in the past, on occasion, contained errors that were discovered after commercial introduction. For example, in 2004, after the commercial introduction of a power adapter that we manufactured for Dell, we encountered a design defect that required us to complete a field rework of previously produced units, provide proper usage guidelines and make permanent changes for future production. Errors or performance problems such as this may also be discovered in the future. Any future defects discovered after shipment of our products could result in loss of sales, delays in market acceptance or product returns and warranty costs. We attempt to make adequate allowance in our new product release schedule for testing of product performance. Because of the complexity of our products, however, our release of new products may be postponed should test results indicate the need for redesign and retesting, or should we elect to add product enhancements in response to customer feedback. In addition, third-party products, upon which our products are dependent, may contain defects which could reduce or undermine the performance of our products and adversely affect our operating results.

We may incur product liability claims which could be costly and could harm our reputation.

The sale of our products involves risk of product liability claims against us. We currently maintain product liability insurance, but our product liability insurance coverage is subject to various coverage exclusions and limits and may not be obtainable in the future on terms acceptable to us, or at all. We do not know whether claims against us with respect to our products, if any, would be successfully defended or whether our insurance would be sufficient to cover liabilities resulting from such claims. Any claims successfully brought against us could harm our business.

Risks Related To Our Industry

Intense competition in the market for mobile electronic devices could adversely affect our revenue and operating results.

The market for mobile electronic devices in general is intensely competitive, subject to rapid changes and sensitive to new product introductions or enhancements and marketing efforts by industry participants. We expect to experience significant and increasing levels of competition in the future. There can be no assurance that we can maintain our competitive position against current or potential competitors, especially those with greater financial,

marketing, service, support, technical or other competitive resources. In 2003, we settled a patent infringement suit with Comarco, one of our competitors in power products, that resulted in a cross license, which does not include the right to sub-license, relating to our respective power product technology. As a result, Comarco may be positioned to develop and market power products that are substantially similar to our products.

We currently compete with the internal design efforts of various OEMs. These OEMs have larger technical staffs, more established and larger marketing and sales organizations and significantly greater financial resources than we do. There can be no assurance that such competitors will be unable to respond as quickly to new or emerging technologies and changes in customer requirements, devote greater resources to the development, sale and promotion of their products better than we do or develop products that are superior to our products or that achieve greater market acceptance.

Our future success will depend, in part, upon our ability to increase sales in our targeted markets. There can be no assurance that we will be able to compete successfully with our competitors or that the competitive pressures we face will not have a material adverse effect on our business. Our future success will depend in large part upon our ability to increase our share of our target market and to sell additional products and product enhancements to existing customers. Future competition may result in price reductions, reduced margins or decreased sales.

Should the market demand for mobile electronic devices decrease, we may not achieve anticipated revenue.

The demand for the majority of our products and technology is primarily driven by the underlying market demand for mobile electronic devices. Should the growth in demand for mobile electronic devices be inhibited, we may not be able to increase or sustain revenue. Industry growth depends in part on the following factors:

- increased demand by consumers and businesses for mobile electronic devices; and
- the number and quality of mobile electronic devices in the market.

The market for our products and services depends on economic conditions affecting the broader information technology market. Prolonged weakness in this market has caused in the past and may cause in the future customers to reduce their overall information technology budgets or reduce or cancel orders for our products. In this environment, our customers may experience financial difficulty, cease operations and fail to budget or reduce budgets for the purchase of our products and services. This, in turn, may lead to longer sales cycles, delays in purchase decisions, payment and collection, and may also result in downward price pressures, causing us to realize lower revenue and operating margins. In addition, general economic uncertainty and the recent general decline in capital spending in the information technology sector make it difficult to predict changes in the purchasing requirements of our customers and the markets we serve. We believe that, in light of these events, some businesses have and may continue to curtail or suspend capital spending on information technology. These factors may cause our revenue and operating margins to decline.

If our products fail to comply with domestic and international government regulations, or if these regulations result in a barrier to our business, our revenue could be negatively impacted.

Our products must comply with various domestic and international laws, regulations and standards. For example, the shipment of our products from the countries in which they are manufactured to other international or domestic locations requires us to obtain export licenses and to comply with possible import restrictions of the countries in which we sell our products. In the event that we are unable or unwilling to comply with any such laws, regulations or standards, we may decide not to conduct business in certain markets. Particularly in international markets, we may experience difficulty in securing required licenses or permits on commercially reasonable terms, or at all. In addition, we are generally required to obtain both domestic and foreign regulatory and safety approvals and certifications for our products. Failure to comply with existing or evolving laws or regulations, including export and import restrictions and barriers, or to obtain timely domestic or foreign regulatory approvals or certificates could negatively impact our revenue.

Risks Related To Our Common Stock

Our common stock price has been volatile, which could result in substantial losses for stockholders.

Our common stock is currently traded on The NASDAQ Global Market. We have in the past experienced, and may in the future experience, limited daily trading volume. The trading price of our common stock has been and may continue to be volatile. The market for technology companies, in particular, has at various times experienced extreme volatility that often has been unrelated to the operating performance of particular companies. These broad market and industry fluctuations may significantly affect the trading price of our common stock, regardless of our actual operating performance. The trading price of our common stock could be affected by a number of factors, including, but not limited to, changes in expectations of our future performance, changes in estimates by securities analysts (or failure to meet such estimates), quarterly fluctuations in our sales and financial results and a variety of risk factors, including the ones described elsewhere in this report. Periods of volatility in the market price of a company's securities sometimes result in securities class action litigation. In 2004, for example, we incurred significant expenses as a result of a securities class action lawsuit that was filed against us. This lawsuit has since been dismissed, but other similar lawsuits could be filed against us in the future and, regardless of the merit of these claims, such lawsuits can be time-consuming, costly and divert management's attention. In addition, if we needed to raise equity funds under adverse conditions, it would be difficult to sell a significant amount of our stock without causing a significant decline in the trading price of our stock.

Our stock price may decline if additional shares are sold in the market.

As of March 4, 2008, we had 31,556,765 shares of common stock outstanding. All of our outstanding shares are currently available for sale in the public market, some of which are subject to volume and other limitations under the securities laws. Future sales of substantial amounts of shares of our common stock by our existing stockholders in the public market, or the perception that these sales could occur, may cause the market price of our common stock to decline. We may be required to issue additional shares upon exercise of previously granted options and warrants that are currently outstanding.

As of March 4, 2008, we had 384,175 shares of common stock issuable upon exercise of stock options under our long-term incentive plans, of which 384,175 options were exercisable as of March 4, 2008; as of March 4, 2008, we had 1,255,414 shares of common stock issuable upon the vesting of restricted stock units under our long term incentive plans; 336,723 shares were available for future issuance under our 1996 stock option plan, 960,620 shares were available for future issuance under our Mobility Electronics, Inc. Omnibus Long-Term Incentive Plan, and 61,984 shares were available for future issuance under our Mobility Electronics, Inc. Non-Employee Director Long-Term Incentive Plan; 1,768,222 shares of common stock were available for purchase under our Employee Stock Purchase Plan; and we had warrants outstanding to purchase 600,238 shares of common stock, of which 5,000 were exercisable as of March 4, 2008. Increased sales of our common stock in the market after exercise of currently outstanding options could exert significant downward pressure on our stock price. These sales also might make it more difficult for us to sell equity or equity-related securities in the future at a time and price we deem appropriate.

Our executive officers, directors and principal stockholders have substantial influence over us.

As of March 4, 2008, our executive officers, directors and principal stockholders owning greater than 5% of our outstanding common stock together beneficially owned approximately 42% of the outstanding shares of common stock. As a result, these stockholders, acting together, may be able to exercise substantial influence over all matters requiring approval by our stockholders, including the election of directors and approval of significant corporate transactions. The concentration of ownership may also have the effect of delaying or preventing a change in our control that may be viewed as beneficial by the other stockholders.

In addition, our certificate of incorporation does not provide for cumulative voting with respect to the election of directors. Consequently, our present directors, executive officers, principal stockholders and our respective affiliates may be able to control the election of the members of the board of directors. Such a concentration of ownership could have an adverse effect on the price of the common stock, and may have the effect of delaying or preventing a change in control, including transactions in which stockholders might otherwise receive a premium for their shares over then current market prices.

Provisions of our certificate of incorporation and bylaws could make a proposed acquisition that is not approved by our board of directors more difficult.

Some provisions of our certificate of incorporation and bylaws could make it more difficult for a third party to acquire us even if a change of control would be beneficial to our stockholders. These provisions include:

- authorizing the issuance of preferred stock, with rights senior to those of the common stockholders, without common stockholder approval;
- prohibiting cumulative voting in the election of directors;
- a staggered board of directors, so that no more than two of our six directors are elected each year; and
- limiting the persons who may call special meetings of stockholders.

Our stockholder rights plan may make it more difficult for others to obtain control over us, even if it would be beneficial to our stockholders.

In June 2003, our board of directors adopted a stockholders rights plan. Pursuant to its terms, we have distributed a dividend of one right for each outstanding share of common stock. These rights cause substantial dilution to the ownership of a person or group that attempts to acquire us on terms not approved by our board of directors and may have the effect of deterring hostile takeover attempts. These provisions could discourage a future takeover attempt which individual stockholders might deem to be in their best interests or in which shareholders would receive a premium for their shares over current prices.

Delaware law may delay or prevent a change in control.

We are subject to the provisions of Section 203 of the Delaware General Corporation Law. These provisions prohibit large stockholders, in particular a stockholder owning 15% or more of the outstanding voting stock, from consummating a merger or combination with a corporation unless this stockholder receives board approval for the transaction or 6 $6^{2}/_{3}$% of the shares of voting stock not owned by the stockholder approve the merger or transaction. These provisions could discourage a future takeover attempt which individual stockholders might deem to be in their best interests or in which shareholders would receive a premium for their shares over current prices.

Item 1B. ***Unresolved Staff Comments***

None.

Item 2. ***Properties***

Our corporate offices are located in Scottsdale, Arizona. This facility consists of approximately 25,000 square feet of leased space pursuant to a lease for which the current term expires on September 30, 2008. We also lease offices in Swindon, UK, Taipei, Taiwan and Dong Guan, China. Each of these offices supports our selling, research and development, and general administrative activities. Our warehouse and product fulfillment operations are conducted at various third-party locations throughout the world. We believe our facilities are suitable and adequate for our current business activities for the remainder of the lease terms.

Item 3. ***Legal Proceedings***

On August 26, 2004, the Company and iGo Direct Corporation, the Company's wholly-owned subsidiary, filed a complaint against Twin City Fire Insurance Co. in the United States District Court for the District of Nevada, Case No. CV-N-04-0460-HDM-RAM. The complaint alleged several causes of action in connection with Twin City's refusal to cover, under director and liability insurance policies issued to iGo by Twin City, fees and expenses incurred in connection with the defense of certain former officers of iGo relating to an SEC matter that arose prior to the Company's acquisition of iGo Corporation in September 2002. On February 15, 2008, the parties to this litigation entered into a mutual settlement and release agreement pursuant to which Twin City agreed to pay iGo Direct Corporation $1.5 million under the director and liability insurance policy issued to iGo and the parties

mutually agreed to dismiss the litigation and release each other from further claims relating to the matters disputed in the litigation.

On May 30, 2007, American Power Conversion (“APC”) filed a complaint for declaratory relief against the Company in the United States District Court for the District of Massachusetts, Case No. 07 CA 11012 RWZ. On May 31, 2007, the Company filed a complaint for patent infringement against APC in the United States District Court for the Eastern District of Texas, Case No. 5:07cv83. Effective January 14, 2008, the Company and APC entered into a settlement agreement pursuant to which the parties mutually agreed to dismiss both of the above cases, release each other from further claims relating to the matters disputed in the litigation, and the procedural manner in which further litigation regarding similar matters would be conducted.

On June 8, 2007, the Company filed a complaint for patent infringement against Comarco, Inc. and Comarco Wireless Technologies, Inc. (“Comarco”) in the United States District Court for the Eastern District of Texas, Case No. 5:07cv84. The Company asserts in the complaint that Comarco’s line of universal power adapters for mobile electronic devices infringe upon the Company’s patented intelligent tip architecture. Specifically, the Company alleges that Comarco’s products infringe U.S. Patent Nos. 6,976,885 and 7,153,169. The Company, in its complaint, is seeking to enjoin Comarco from further infringement of the patents as well as compensatory and treble damages and reimbursement of attorneys’ fees and expenses associated with this action. On August 1, 2007, Comarco filed an answer denying the Company’s claims and asserting counterclaims against the Company for breach of contract under a settlement agreement executed between the parties in July 2003 and infringement of Comarco’s U.S. Patent No. 6,172,884. Comarco, in its answer and counterclaim, is seeking a declaration that it has not infringed the Company’s patents, a declaration that such patents are invalid and unenforceable, a declaration that the Company has breached the terms of the parties settlement agreement, and injunctive relief against the Company from further infringement of Comarco’s patent, as well as compensatory and treble damages and reimbursement of attorneys’ fees and expenses associated with this action. The parties have each since filed amended complaints, answers and counterclaims asserting substantially similar claims as those set forth in their original filings.

We are from time to time involved in various legal proceedings other than those set forth above incidental to the conduct of our business. We believe that the outcome of all such pending legal proceedings will not in the aggregate have a material adverse effect on our business, financial condition, results of operations or liquidity.

Item 4. *Submission of Matters to a Vote of Security Holders*

No matter was submitted to a vote of stockholders during the fourth quarter of 2007.

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PART II

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

Our common stock has been traded on The NASDAQ Global Market under the symbol "MOBE" since our initial public offering on June 30, 2000. Prior to that time, there was no public market for our common stock. The following sets forth, for the period indicated, the high and low bid prices for our common stock as reported by The NASDAQ Global Market.

	High	Low
Year Ended December 31, 2006		
Quarter Ended March 31, 2006	$11.09	$ 7.47
Quarter Ended June 30, 2006	$ 8.72	$6.12
Quarter Ended September 30, 2006	$ 7.64	$ 4.35
Quarter Ended December 31, 2006	$ 5.57	$2.58
Year Ended December 31, 2007		
Quarter Ended March 31, 2007	$ 4.48	$ 2.87
Quarter Ended June 30, 2007	$ 4.03	$ 2.77
Quarter Ended September 30, 2007	$ 3.93	$2.68
Quarter Ended December 31, 2007	$ 3.75	$ 1.48

As of March 4, 2008, there were approximately 31,556,765 shares of our common stock outstanding held by approximately 281 holders of record and the last reported sale price of our common stock on The NASDAQ Global Market on March 4, 2008 was $1.35 per share.

Dividend Policy

We have never paid cash dividends on our common stock, and it is the current intention of management to retain earnings to finance the growth of our business. We are currently restricted from paying dividends in accordance with the terms of our bank line of credit. Future payment of cash dividends will depend upon financial condition, results of operations, cash requirements, tax treatment, and certain corporate law requirements, loan covenant requirements, as well as other factors deemed relevant by our Board of Directors.

Issuer Purchases of Equity Securities

During the fourth quarter of 2007, there were no repurchases made by us or on our behalf, or by any "affiliated purchasers," of shares of our common stock.

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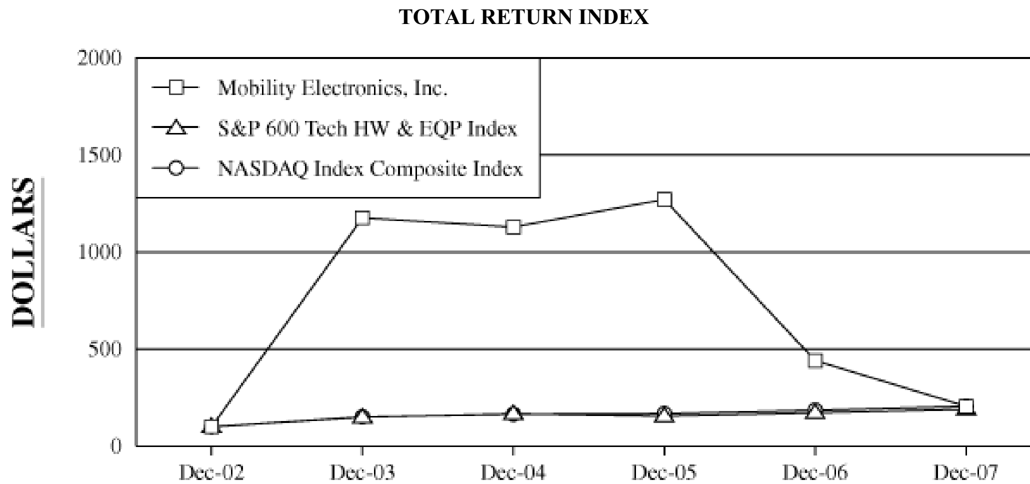
Stock Performance Graph

The following chart compares the yearly percentage change in the cumulative total stockholder return on our common stock from the fiscal year ending December 31, 2002 through the fiscal year ending December 31, 2007 with the cumulative total return of (1) the S&P 600 Technology Hardware & Equipment Index, and (2) the NASDAQ Composite Market Index. The comparison assumes $100 was invested on December 31, 2002 in our common stock and in each of the other indices, and assumes reinvestment of dividends. We paid no dividends during the period. The stock price performance on the following graph is not necessarily indicative of future stock price performance.

COMPARISON OF 5-YEAR CUMULATIVE TOTAL RETURN
AMONG MOBILITY ELECTRONICS, INC.,
NASDAQ COMPOSITE MARKET INDEX, AND
S&P 600 TECHNOLOGY HARDWARE & EQUIPMENT INDEX

TOTAL RETURN INDEX



Source: Bloomberg **Base date = 100**

Company Name	Dec-02	Dec-03	Dec-04	Dec-05	Dec-06	Dec-07
Mobility Electronics, Inc.	100.00	1176.45	1128.95	1271.05	440.79	205.26
S&P 600 Tech HW & EQP Index	100.00	149.15	166.85	154.83	172.27	190.58
NASDAQ Index Composite Index	100.00	150.77	164.56	168.05	185.50	205.27

ASSUMES $100 INVESTED ON DECEMBER 31, 2002
ASSUMES DIVIDENDS REINVESTED

The information contained above under the caption “Stock Performance Graph” is being “furnished” to the Securities and Exchange Commission and shall not be deemed to be “soliciting material” or to be “filed” with the Securities and Exchange Commission, nor shall such information be incorporated by reference into any future filing under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, except to the extent that we specifically incorporate it by reference into such filing.

Item 6. ***Selected Consolidated Financial Data***

The following selected consolidated financial data should be read together with our consolidated financial statements and notes thereto, "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the other information contained in this Form 10-K. The selected financial data presented below under the captions "Consolidated Statements of Operations Data" and "Consolidated Balance Sheet Data" as of and for each of the years in the five-year period ended December 31, 2007 are derived from our consolidated financial statements, which consolidated financial statements have been audited by KPMG LLP, an independent registered public accounting firm. The consolidated balance sheet data as of December 31, 2007 and 2006 and consolidated statement of operations data for each of the years in the three-year period ended December 31, 2007, are derived from our consolidated financial statements, included elsewhere in this Form 10-K.

	Years Ended December 31,				
	2007	2006	2005	2004	2003
	(In thousands, except per share data)				
CONSOLIDATED STATEMENTS OF OPERATIONS DATA:					
Revenue	$ 77,719	$ 92,464	$ 85,501	$ 70,213	$50,750
Cost of revenue	58,473	69,349	59,653	49,294	33,610
Gross profit	19,246	23,115	25,848	20,919	17,140
Total operating expenses	34,866	41,039	28,712	22,617	20,787
Loss from operations	(15,620)	(17,924)	(2,864)	(1,698)	(3,647)
Interest, net	1,156	1,203	813	(72)	(27)
Gain (loss) on disposal of assets	1,891	—	11,639	(15)	(55)
Litigation settlement expense	—	(250)	(4,284)	—	—
Other, net	393	129	(12)	51	59
Income (loss) from continuing operations before minority interest and income taxes	(12,180)	(16,842)	5,292	(1,734)	(3,670)
Minority interest	384	—	—	—	—
Provision for income tax	—	—	285	—	—
Income (loss) from continuing operations	(12,564)	(16,842)	5,007	(1,734)	(3,670)
Loss from discontinued operations of handheld software product line	—	—	—	(466)	(329)
Net income (loss)	(12,564)	(16,842)	5,007	(2,200)	(3,999)
Beneficial conversion cost of preferred stock	—	—	—	—	(445)
Preferred stock dividend	—	—	—	—	(20)
Net income (loss) attributable to common stockholders	$(12,564)	$(16,842)	$ 5,007	$ (2,200)	$ (4,464)
Net income (loss) per share — diluted:					
Diluted income (loss) per share from continuing operations	$ (0.40)	$ (0.54)	$ 0.16	$ (0.06)	$ (0.16)
Loss per share from discontinued operations	—	—	—	$ (0.02)	$ (0.01)
Diluted income (loss) per share	$ (0.40)	$ (0.54)	$ 0.16	$ (0.08)	$ (0.17)
Diluted income (loss) per share attributable to common stockholders	$ (0.40)	$ (0.54)	$ 0.16	$ (0.08)	$ (0.19)
Weighted average common shares outstanding:					
Basic	31,534	31,392	30,004	28,027	23,440
Diluted	31,534	31,392	32,003	28,027	23,440
CONSOLIDATED BALANCE SHEET DATA:					
Cash, cash equivalents and short-term investments	$ 24,934	$ 17,343	$ 33,923	$12,768	$ 11,024
Working capital	33,400	34,495	42,902	23,376	22,348
Total assets	54,150	65,864	83,910	55,417	49,833
Long-term debt and other non-current liabilities, less current portion	—	—	824	463	526
Total stockholders' equity	37,456	49,405	59,349	40,701	40,642

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

The following discussion and analysis of our financial condition and results of operations should be read together with our selected consolidated financial data and the consolidated financial statements and notes thereto contained in this report. The following discussion contains forward-looking statements. Our actual results may differ significantly from the results discussed in these forward-looking statements. Please see the "Disclosure Concerning Forward-Looking Statements" and "Risk Factors" above for a discussion of factors that may affect our future results.

Overview

Increased functionality and the ability to access and manage information remotely are driving the proliferation of mobile electronic devices and applications. The popularity of these devices is benefiting from reductions in size, weight and cost and improvements in functionality, storage capacity and reliability. Each of these devices needs to be powered and connected when in the home, the office, or on the road, and can be accessorized, representing opportunities for one or more of our products.

We use our proprietary technology to design and develop products that make computers and mobile electronic devices more efficient and cost effective, thus enabling professionals and consumers higher utilization of their mobile devices and the ability to access information more readily. Our products include power products for high-power mobile electronic devices, such as portable computers; power products for low-power mobile electronic devices, such as mobile phones, PDAs, and MP3 players; foldable keyboards; and accessory products. We are organized in three business segments, which consist of the High-Power Group, the Low-Power Group and the Connectivity Group. In February 2007, we sold substantially all of the assets, which consisted primarily of inventory, of our handheld hardware product line. The operating results of the handheld hardware product line were historically included in the results of the Connectivity Group, which were related to the expansion and docking product line. In April 2007, we sold substantially all of the remaining assets of our Connectivity Group. The operating results of Mission Technology Group, which purchased substantially all of the assets of our expansion and docking product line, are consolidated with our operating results pursuant to FIN 46R and are included in the Connectivity Group.

High-Power Group. Our High-Power Group is focused on the development, marketing and sales of power products and accessories for mobile electronic devices with high power requirements, which consist primarily of portable computers. These devices also allow users to simultaneously charge one or more low-power mobile electronic devices with our optional iGo dualpower and power splitter accessories. We sell these products to OEMs, private-label resellers, distributors, resellers and retailers. We supplied OEM — specific, high-power adapter products to Dell through the first quarter of 2007 and we currently supply Lenovo, although we do not expect that sales to Lenovo will continue after the first quarter of 2008. We have entered into a strategic reseller agreement with Targus to market and distribute high-power adapter products on a private-label basis. We sell to retailers such as RadioShack and through distributors such as Ingram Micro. Prior to January 1, 2006, High-Power Group revenue included sales of low-power products to RadioShack. High-Power Group revenue accounted for approximately 62% of revenue for the years ended December 31, 2007 and 2006.

Low-Power Group. In April 2005, we formed the Low-Power Group, which is focused on the development, marketing and sales of power products for low-power mobile electronic devices, such as mobile phones, smartphones, PDAs, MP3 players and portable gaming consoles. These products include cigarette lighter adapters, mobile AC adapters, low-power universal AC/DC adapters, and low-power universal battery products. Each of these power devices are designed to incorporate our patented tip technology. The combination AC/DC adapter also allows users to simultaneously charge a second device with our optional iGo dualpower or iGo power splitter accessories. Low-Power Group revenue accounted for approximately 29% of revenue for the year ended December 31, 2007 and 18% of revenue for the year ended December 31, 2006. There were no Low-Power Group sales prior to April 1, 2005.

We account for our foldable keyboard business as part of our Low-Power Group. Sales of these foldable keyboard products represented approximately 4% of our total revenue for the year ended December 31, 2007 and 2% of our total revenue for the year ended December 31, 2006. During 2007, the market for foldable keyboards

decreased significantly and we made the decision to discontinue the production and marketing of foldable keyboard products. Accordingly, we expect revenue from this product line to decrease significantly in 2008.

Sales to OEMs and private-label resellers accounted for approximately 52% of revenue for the year ended December 31, 2007 and approximately 62% of revenue for the year ended December 31, 2006. Sales through retailers and distributors accounted for approximately 37% of revenue for the year ended December 31, 2007 and approximately 31% of revenue for the year ended December 31, 2006. The balance of our revenue during these periods was derived from direct sales to end-users. In the future, we expect that we will be dependent upon a relatively small number of customers for a significant portion of our revenue, including most notably RadioShack and Targus. We intend to develop relationships with a broader set of retailers and wireless carriers to expand the market availability of our iGo branded products. We expect that these relationships will allow us to diversify our customer base, add stability and decrease our traditional reliance upon a limited number of OEMs and private label resellers. We also expect that these relationships will significantly increase the availability and exposure of our products, particularly among large national and international retailers and wireless carriers.

Our continued focus is on proliferating power products that incorporate our tip technology for both high- and low-power mobile electronic devices and on developing complementary products. Our long-term goal is to establish an industry standard for all mobile electronic device power products based on our patented tip technology.

Our ability to execute successfully on our near and long-term objectives depends largely upon the general market acceptance of our tip technology which allows users to charge multiple devices with a single power product and our ability to protect our proprietary rights to this technology. Additionally, we must execute on the customer relationships that we have developed and continue to design, develop, manufacture and market new and innovative technology and products that are embraced by these customers and the overall market in general.

Recent Developments

In the fourth quarter of 2007, due to a decline in the market for foldable keyboards, we made the decision to discontinue production and marketing of our foldable keyboard product line. Accordingly, we expect revenue from this product line to decrease significantly in 2008. We are currently engaged in marketing a portfolio of patents and patents pending associated with this product line.

In July 2007, we terminated the sales representative and distribution agreements that we had previously entered into with Motorola, Inc. in March 2005. As a result of the termination of these agreements, Motorola will forgo its right to receive a 24.5% share of the net profit generated from our sale of power products for low-power mobile electronic devices.

In the first quarter of 2007 we sold, or entered into agreements to sell, substantially all of the assets of our handheld connectivity and expansion and docking businesses, all of which we included in our Connectivity Group, in three separate transactions.

The first transaction, which was completed in February 2007, involved the sale of substantially all of the assets of our handheld connectivity business, which consisted primarily of inventory, to CradlePoint for $1.8 million plus potential additional consideration based on future performance. At the closing, we received $50,000 in cash and a promissory note for $1.5 million, bearing interest at the rate of 6% annually, to be paid within two years as CradlePoint sells the inventory acquired in the transaction. We received a cash payment of $250,000 in August 2007. We will also receive (1) 5% of CradlePoint's revenues for five years, with a minimum payment of $300,000 due within three years, and (2) 100% of the first $200,000, and 50% thereafter, of any sales beyond the first $1.8 million of inventory purchased by CradlePoint at the closing.

The second and third transactions involved the sale of substantially all of the assets of our expansion and docking business. The agreements for these transactions were executed in February 2007 and the transactions were completed in April 2007. In one transaction, we sold a portfolio of patents and patents pending relating to our PCI expansion and docking technology to A.H. Cresant Group LLC. In the other transaction, we sold substantially all of the assets related to our expansion and docking business to Mission Technology Group, an entity that is owned by Randy Jones, our former Senior Vice President and General Manager, Connectivity. As a result of these two transactions, the Company received total net proceeds of approximately $4.8 million consisting of $925,000 in cash

and two promissory notes totaling approximately $3.9 million. At the closing, we also received a 15% fully-diluted equity interest in Mission Technology Group. Given the related party nature of this transaction, we retained an independent, third party financial advisor to assist us. In determining the sales price for these assets and liabilities, we evaluated past performance and expected future performance, and received an opinion from our financial advisor that the consideration to be received was fair from a financial point of view. Our Board of Directors approved these transactions following a separate review and recommended approval of the Mission Technology Group transaction by our Audit Committee. We include the assets, liabilities and operating results of Mission Technology Group in our consolidated financial statements pursuant to FIN 46R.

Our Connectivity Group was historically focused on the development, marketing and sales of connectivity and expansion and docking products. Our early focus was on the development of remote peripheral component interface, or PCI, bus technology and products based on proprietary Split Bridge® technology. We invested heavily in Split Bridge technology and while we had some success with Split Bridge in the corporate portable computer market with sales of universal docking stations, it became clear in early 2002 that this would not be the substantial opportunity we originally envisioned. In May 2005, we sold substantially all of our intellectual property relating to Split Bridge technology which resulted in a gain on the sale of these assets of $11.6 million. Connectivity Group revenue accounted for approximately 9% of revenue for the year ended December 31, 2007 and approximately 20% of revenue for the year ended December 31, 2006.

Critical Accounting Policies and Estimates

Our discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires management to make a number of estimates and judgments that affect the reported amounts of assets, liabilities, revenue and expenses and related disclosure of contingent assets and liabilities.

On an on-going basis, we evaluate our estimates, including those related to bad debt expense, warranty obligations, sales returns, and contingencies and litigation. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

We believe the following critical accounting policies affect our more significant judgments and estimates used in the preparation of our consolidated financial statements:

Revenue Recognition. Revenue from product sales is generally recognized upon shipments and transfers of ownership from us or our contract manufacturers to the customers. Allowances for sales returns and credits are provided for in the same period the related sales are recorded. Should the actual return or sales credit rates differ from our estimates, revisions to the estimated allowance for sales returns and credits may be required.

Our recognition of revenue from product sales to distributors, resellers and retailers, or the “retail and distribution channel,” is affected by agreements giving certain customers rights to return up to 15% of their prior quarter’s purchases, provided that they place a new order for an equal or greater dollar value of the amount returned. We also have agreements with certain customers that allow them to receive credit for subsequent price reductions, or “price protection.” At the time we recognize revenue related to these agreements, we reduce revenue for the gross sales value of estimated future returns, as well as our estimate of future price protection. We also reduce cost of revenue for the gross product cost of estimated future returns. We record an allowance for sales returns in the amount of the difference between the gross sales value and the cost of revenue as a reduction of accounts receivable. We also have agreements with certain customers that provide them with full right of return prior to the ultimate sale to an end user of the product. Accordingly, we have recorded deferred revenue of $936,000 and $1.4 million as of December 31, 2007 and 2006, respectively, which we will recognize as revenue when the product is sold to the end user. Gross sales to the retail and distribution channel accounted for approximately 37% of revenue for the year ended December 31, 2007 and 31% of revenue for the year ended December 31, 2006.

For our products, a historical correlation exists between the amount of retail and distribution channel inventory and the amount of returns that actually occur. The greater the inventory held by our distributors, the more product returns we expect. For each of our products, we monitor levels of product sales and inventory at our distributors' warehouses and at retailers as part of our effort to reach an appropriate accounting estimate for returns. In estimating returns, we analyze historical returns, current inventory in the retail and distribution channel, current economic trends, changes in consumer demand, introduction of new competing products and acceptance of our products.

In recent years, as a result of a combination of the factors described above, we have reduced our gross sales to reflect our estimated amounts of returns and price protection. It is also possible that returns could increase rapidly and significantly in the future. Accordingly, estimating product returns requires significant management judgment. In addition, different return estimates that we reasonably could have used would have had a material impact on our reported sales and thus have had a material impact on the presentation of the results of operations. For those reasons, we believe that the accounting estimate related to product returns and price protection is a critical accounting estimate.

Inventory Valuation. Inventories consist of finished goods and component parts purchased both partially and fully assembled. We have all normal risks and rewards of our inventory held by contract manufacturers. Inventories are stated at the lower of cost (first-in, first-out method) or market. Inventories include material, labor and overhead costs. Labor and overhead costs are allocated to inventory based on a percentage of material costs. We monitor usage reports to determine if the carrying value of any items should be adjusted due to lack of demand for the items. We make a downward adjustment to the value of our inventory for estimated obsolescence or unmarketable inventory equal to the difference between the cost of inventory and the estimated market value based upon assumptions about future demand and market conditions. We recorded downward adjustments to inventory of $4.0 million during the year ended December 31, 2007 and $5.6 million during the year ended December 31, 2006. If actual market conditions are less favorable than those projected by management, additional inventory write-downs may be required.

Goodwill and Long-Lived Asset Valuation. Under Statement of Financial Accounting Standard No. 142, Goodwill and Other Intangible Assets ("SFAS 142"), we are required to evaluate recorded goodwill annually, or when events indicate the goodwill may be impaired. The impairment evaluation process is based on both a discounted future cash flows approach and a market comparable approach. The discounted cash flows approach uses our estimates of future market growth rates, market share, revenue and costs, as well as appropriate discount rates. We test goodwill for impairment on an annual basis as of December 31. We evaluated goodwill for impairment as of December 31, 2007 and determined that recorded goodwill of $3.9 million was fully impaired at that time. During the quarter ended September 30, 2006, we determined a triggering event had occurred due to a significant downturn in handheld hardware product sales to Symbol during the third quarter of 2006 that led us to believe that goodwill attributable to the Connectivity Group segment may have been impaired as of September 30, 2006. Accordingly, we performed the impairment evaluation procedures described above and based on the results of our evaluation, we determined that $6.9 million of our recorded goodwill was impaired as of September 30, 2006. As of December 31, 2007, we have no remaining recorded goodwill.

Under Statement of Financial Accounting Standard No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets ("SFAS 144"), we test our recorded long-lived assets whenever events indicate the recorded intangible assets may be impaired. Our long-lived asset impairment approach is based on an undiscounted cash flows approach using assumptions noted above. We determined that intangible assets related to our foldable keyboard product line, which is included in the Low-Power Group segment, with a net value of $573,000 were impaired as of December 31, 2007. We also determined that property and equipment related to our foldable keyboard product line, with a net value of $564,000, was impaired as of December 31, 2007. We determined that intangible assets related to our Connectivity Group segment with a net value of $690,000 were impaired as of September 30, 2006. We also determined that property and equipment related to our Connectivity Group segment, with a net value of $488,000, was impaired as of September 30, 2006.

If we fail to achieve our assumed growth rates or assumed gross margin, we may incur additional charges for impairment in the future. For these reasons, we believe that the accounting estimates related to long-lived assets are critical accounting estimates.

Deferred Tax Valuation Allowance. We record a valuation allowance to reduce our deferred tax assets to the amount that is more likely than not to be realized. In determining the amount of the valuation allowance, we consider estimated future taxable income as well as feasible tax planning strategies in each taxing jurisdiction in which we operate. Historically, we have recorded a deferred tax valuation allowance in an amount equal to our net deferred tax assets. If we determine that we will ultimately be able to utilize all or a portion of deferred tax assets for which a valuation allowance has been provided, the related portion of the valuation allowance will be released to income as a credit to income tax expense.

Variable Interest Entities. Financial Accounting Standards Board Interpretation No. 46R, "Consolidation of Variable Interest Entities" ("FIN 46R") requires the "primary beneficiary" of a variable interest entity ("VIE") to include the VIE's assets, liabilities and operating results in its consolidated financial statements. In general, a VIE is a corporation, partnership, limited-liability corporation, trust or any other legal structure used to conduct activities or hold assets that either (i) has an insufficient amount of equity to carry out its principal activities without additional subordinated financial support, (ii) has a group of equity owners that are unable to make significant decisions about its activities, or (iii) has a group of equity owners that do not have the obligation to absorb losses or the right to receive returns generated by its operations.

In April 2007, we completed a sale of the assets of our expansion and docking business to Mission Technology Group, an entity that was formed by a former officer of the Company, in exchange for $3.9 million of notes receivable and a 15% common equity interest. There was no cash equity contributed to Mission Technology Group at its formation and Mission Technology Group's equity consists solely of its operating profit. Accordingly, we have determined that Mission Technology Group does not have sufficient equity to carry out its principal operating activities without subordinated financial support, and that Mission Technology Group qualifies as a VIE under FIN 46R. We have also determined that our 15% equity interest and our $3.9 million notes receivable qualify as variable interests under FIN 46R. Furthermore, as Mission Technology Group is obligated to repay the promissory notes it issued to us, we have determined that we are the primary beneficiary of the VIE, and accordingly, must include the assets, liabilities and operating results of Mission Technology Group in our consolidated financial statements. We consider the consolidation of variable interest entities to be a critical accounting policy.

Results of Operations

The following table sets forth certain consolidated financial data for the periods indicated expressed as a percentage of total revenue for the periods indicated:

	Year Ended December 31,		
	2007	2006	2005
Revenue	100.0%	100.0%	100.0%
Cost of revenue	75.2%	75.0%	69.8%
Gross profit	24.8%	25.0%	30.2%
Operating expenses:			
Sales and marketing	12.6%	12.3%	9.1%
Research and development	6.7%	8.4%	7.7%
General and administrative	19.1%	14.9%	16.7%
Asset impairment	6.5%	8.7%	0.0%
Total operating expenses	44.9%	44.3%	33.5%
Loss from operations	(20.1)%	(19.3)%	(3.3)%
Other income (expense):			
Interest income, net	1.5%	1.3%	1.0%
Litigation settlement expense	—	(0.3)%	(5.0)%
Gain on disposal of assets and other income (expense), net	2.9%	0.1%	13.6%
Income (loss) before minority interest and provision for income tax	(15.7)%	(18.2)%	6.2%
Minority interest	(0.5)%	0.0%	0.0%
Provision for income tax	0.0%	0.0%	(0.3)%
Net income (loss)	(16.2)%	(18.2)%	5.9%

Comparison of Years Ended December 31, 2007, 2006, and 2005

Revenue. Revenue generally consists of sales of products, net of returns and allowances. To date, our revenues have come predominantly from power adapters, handheld products, expansion and docking products, and accessories. The following table summarizes the year-over-year comparison of our consolidated revenue for the periods indicated:

Year	Annual Amount (Thousands)	Increase/(Decrease) from Prior Year	Percentage Change from Prior Year
2007	$ 77,719	$ (14,745)	(15.9)%
2006	92,464	6,963	8.1%
2005	85,501	—	—

Following is a discussion of revenue by business segment.

High-Power Group. High-Power Group revenue is derived from sales of power products and accessories for mobile electronic devices with high power requirements, which consist primarily of portable computers. The following table summarizes the year-over-year comparison of our High-Power Group revenue for the periods indicated:

Year	Annual Amount	Increase/(Decrease) from Prior Year	Percentage Change from Prior Year
	(Thousands)		
2007	$ 48,074	$ (9,072)	(15.9)%
2006	57,146	(5,972)	(9.5)%
2005	63,118	—	—

The 2007 decrease in High-Power Group revenue was primarily due to the loss of revenue from sales to Dell. Revenue from sales to Dell decreased by $12.9 million, or 81.5% to $2.9 million for the year ended December 31, 2007 compared to $15.8 million for the year ended December 31, 2006. The decrease in revenue resulting from the loss of sales to Dell was partially offset by an increase in revenue from sales to Targus. Revenue from sales to Targus increased by $3.6 million, or 15.3% to $27.1 million for the year ended December 31, 2007 compared to $23.6 million for the year ended December 31, 2006. We do not expect to receive additional orders for our power products from Lenovo beyond the first quarter of 2008, as Lenovo has selected a different sourcing solution. Revenue from sales to Lenovo were $8.0 million and $7.0 million for the years ended December 31, 2007 and 2006, respectively. As a result of the loss of Dell and Lenovo as customers for our High-Power Group products, we expect 2008 High-Power Group revenue to further decline.

The 2006 decrease in High-Power Group revenue was primarily due to the fact that for the year ended December 31, 2005, all sales of low-power products to RadioShack, which totaled $3.4 million, were included in the revenue of the High-Power Group. Excluding these sales, High-Power Group revenue decreased by $2.6 million, or 4.1%. The remaining decrease in High-Power Group revenue in 2006 was primarily due to a decrease in high-power product sales to RadioShack of approximately $3 million, which were offset by slight increases in high-power product revenue from sales to other customers. Dell accounted for $15.8 million of our High-Power Group revenue for the year ended December 31, 2006.

Low-Power Group. The Low-Power Group was formed on March 31, 2005 and its revenue is derived from the sales of low-power adapter products and foldable keyboard products. The following table summarizes the year-over-year comparison of our Low-Power Group revenue for the periods indicated:

Year	Annual Amount	Increase from Prior Year	Percentage Change from Prior Year
	(Thousands)		
2007	$ 22,413	$ 5,338	31.3%
2006	17,075	13,051	324.3%
2005	4,024	—	—

The 2007 increase in Low-Power Group revenue was primarily due to continued sales growth of our family of low-power products as a result of what we believe to be increased consumer awareness and further market penetration of our products and technology. The increase was primarily attributable to revenue from sales of low-power product sales to RadioShack, which increased by $3.7 million, or 32.1% to $15.4 million for the year ended December 31, 2007 compared to $11.7 million for the year ended December 31, 2006. Revenue from sales of low-power products to other customers increased by approximately $632,000 for the year ended December 31, 2007 compared to the year ended December 31, 2006. Revenue from sales of foldable keyboard products, a product line that was acquired in May 2006, increased by approximately $1.0 million for the year ended December 31, 2007 compared to the year ended December 31, 2006. In the fourth quarter of 2007, we made the decision to discontinue the production and marketing of our foldable keyboard products. We intend to sell the remaining inventory of our foldable keyboard products in the ordinary course of business. Nevertheless, we expect Low-Power Group revenue to increase in 2008 as a result of anticipated further gains in market penetration into mobile wireless carriers, distributors and retailers largely through our own sales efforts.

The 2006 increase in Low-Power Group revenue was primarily due to continued sales growth of our family of low-power products as a result of what we believe to be increased consumer awareness and further market penetration of our products and technology. As noted above, approximately $3.4 million of sales of low-power products to RadioShack were included in the revenue of the High-Power Group for 2005. When considering the 2005 RadioShack low-power product revenue, Low-Power Group Revenue increased by $9.6 million in 2006 compared to 2005. This increase was primarily attributable to the continued growth of low-power product sales to RadioShack of $5.3 million in 2006 compared to 2005. Sales of low-power products to other customers increased by approximately $1.7 million for the year ended December 31, 2006 compared to the year ended December 31, 2005. Sales of foldable keyboard products, a product line that was acquired in May 2006, contributed $2.1 million to Low-Power Group revenue for the year ended December 31, 2006.

For the year ended December 31, 2005, Low-Power Group revenue consisted primarily of sales of low-power products to various retailers and distributors, as well as sales to end-users through our iGo.com website.

Connectivity Group. Connectivity Group revenue was derived from sales of expansion and docking products and handheld products. In the first quarter of 2007, we divested the handheld hardware product line. In the second quarter of 2007, we sold the assets of the expansion and docking product line to Mission Technology Group. We consolidate the operating results of Mission Technology Group in accordance with FIN 46R and those results are included in the Connectivity Group. See "— Recent Developments" for more information. The following table summarizes the year-over-year comparison of our Connectivity Group revenue for the periods indicated:

Year	Annual Amount	Increase/(Decrease) from Prior Year	Percentage Change from Prior Year
	(Thousands)		
2007	$ 7,232	$ (11,011)	(60.4)%
2006	18,243	(116)	(0.6)%
2005	18,359	—	—

The 2007 decrease in Connectivity Group revenue was due primarily to the divestiture of the handheld hardware product line in the first quarter of 2007. As a result of this divestiture, revenue from sales of handheld hardware products declined by $12.4 million, or 99.7%, to $44,000 for the year ended December 31, 2007 compared to $12.4 million for the year ended December 31, 2006. This decline was partially offset by revenue from sales of expansion and docking products, which increased by $1.3 million, or 23.0% to $7.2 million for the year ended December 31, 2007 compared to $5.9 million for the year ended December 31, 2006. We expect to continue to consolidate the operating results of Mission Technology Group into the Connectivity Group until such time as we are no longer considered the primary beneficiary of this variable interest entity. Furthermore, we anticipate 2008 Connectivity Group revenue will be consistent with 2007 revenue.

The 2006 Connectivity Group revenue was consistent with 2005 revenue. During 2006, we experienced a significant decrease in business from our primary customer of handheld hardware products. As a result of this decline in business and in order to allow us to focus our limited resources on strategic growth of our Low-Power Group and High-Power Group business segments, subsequent to December 31, 2006, we entered into three separate transactions to divest of the expansion and docking products and handheld hardware products that comprise the Connectivity Group. See "— Recent Developments" for more information.

Cost of revenue, gross profit and gross margin. Cost of revenue generally consists of costs associated with components, outsourced manufacturing and in-house labor associated with assembly, testing, packaging, shipping and quality assurance, depreciation of equipment and indirect manufacturing costs. Gross profit is the difference between revenue and cost of revenue. Gross margin is gross profit stated as a percentage of revenue. The following tables summarize the year-over-year comparison of our cost of revenue, gross profit and gross margin for the periods indicated:

Cost of revenue:

Year	Annual Amount (Thousands)	Increase/(Decrease) From Prior Year	Percentage Change from Prior Year
2007	$ 58,473	$ (10,876)	(15.7)%
2006	69,349	9,696	16.3%
2005	59,653	—	—

Gross profit and gross margin:

Year	Annual Amount (Thousands)	Gross Margin	Decrease in gross profit from Prior Year	Percentage Change From Prior Year
2007	$ 19,246	24.8%	$ 3,869	(16.7)%
2006	23,115	25.0%	2,733	(10.6)%
2005	25,848	30.2%	—	—

The 2007 decrease in cost of revenue was due primarily to the 15.9% volume decrease in revenue as compared to the year ended December 31, 2006. During the year ended December 31, 2007, average direct margin, which excludes labor and overhead costs, on high-power products declined to 35% compared to 38% for the year ended December 31, 2006, primarily as a result of the decline in sales to Dell and reduced direct margin on sales to Lenovo and Targus during 2007. Also, during the year ended December 31, 2007, average direct margin on foldable keyboard products declined to 25% compared to 45% for the year ended December 31, 2006, as a result of our decision to no longer develop and market these products. During the year ended December 31, 2007, we recorded an adjustment to cost of revenue in the amount of $4.0 million, compared to an adjustment of $5.6 million during the year ended December 31, 2006, as a result of reduced marketability of certain of our inventory. As a result of these factors, cost of revenue as a percentage of revenue increased to 75.2% for the year ended December 31, 2007 from 75.0% for the year ended December 31, 2006, resulting in reduced gross margin.

The 2006 increase in cost of revenue was due primarily to the 8.1% volume increase in revenue as compared to the year ended December 31, 2005. During the year ended December 31, 2006, we recorded an adjustment to cost of revenue in the amount of $5.6 million, compared to an adjustment of $553,000 during the year ended December 31, 2005, as a result of reduced marketability of certain of our inventory. Included in the $5.6 million adjustment recorded during the year ended December 31, 2006 was a $3.5 million impairment charge based the estimated fair value of expansion, docking and handheld cradle inventory as indicated by the terms of the transactions entered into during the first quarter of 2007. As a result of these factors, cost of revenue as a percentage of revenue increased to 75.0% for the year ended December 31, 2006 from 69.8% for the year ended December 31, 2005, resulting in reduced gross margin.

Sales and marketing. Sales and marketing expenses generally consist of salaries, commissions and other personnel related costs of our sales, marketing and support personnel, advertising, public relations, promotions, printed media and travel. The following table summarizes the year-over-year comparison of our sales and marketing expenses for the periods indicated:

Year	Annual Amount (Thousands)	Increase/(Decrease) from Prior Year	Percentage Change from Prior Year
2007	$ 9,764	$ (1,630)	(14.3)%
2006	11,394	3,582	45.9%
2005	7,812	—	—

The 2007 decrease in sales and marketing expenses primarily resulted from reduced investment in nationwide newspaper and radio advertising campaigns in the United States. Specifically, advertising expense decreased by $1.0 million, or 51.6%, to $932,000 for the year ended December 31, 2007 compared to $1.9 million for the year ended December 31, 2006. Also, the Company reduced sales and marketing expense during 2007 as a result of the divestiture of its handheld hardware product line. As a percentage of revenue, sales and marketing expenses increased to 12.6% for the year ended December 31, 2007 from 12.3% for the year ended December 31, 2006.

The 2006 increase in sales and marketing expenses primarily resulted from increased investment in marketing programs to drive revenue growth. Specifically, during 2006 we launched a nationwide newspaper and radio advertising campaign in the United States and incurred expenses of $1.9 million in connection with that campaign. As a percentage of revenue, sales and marketing expenses increased to 12.3% for the year ended December 31, 2006 from 9.1% for the year ended December 31, 2005.

Research and development. Research and development expenses consist primarily of salaries and personnel-related costs, outside consulting, lab costs and travel related costs of our product development group. The following table summarizes the year-over-year comparison of our research and development expenses for the periods indicated:

Year	Annual Amount (Thousands)	Increase/(Decrease) from Prior Year	Percentage Change from Prior Year
2007	$ 5,201	$ (2,610)	(33.4)%
2006	7,811	1,215	18.4%
2005	6,596	—	—

The 2007 decrease in research and development expenses primarily resulted from reduced investment in development of handheld hardware and docking and expansion products in connection with our disposition of those product lines as well as reduced investment in development of our foldable keyboard product line. Specifically, during the year ended December 31, 2007, we reduced our engineering staff from 56 employees at December 31, 2006 to 13 employees at December 31, 2007. As a percentage of revenue, research and development expenses decreased to 6.7% for the year ended December 31, 2007 from 8.4% for the year ended December 31, 2006.

The 2006 increase in research and development expenses primarily resulted from the continued development of our family of power products and our acquisition of the foldable keyboard product line. Specifically, during the year ended December 31, 2006, we increased our engineering staff from 49 employees at December 31, 2005 to 56 employees at December 31, 2006 to support our continuing investment in research and development on our line of power products designed for use with both low-power and high-power mobile electronics devices and foldable keyboard products. As a percentage of revenue, research and development expenses increased to 8.4% for the year ended December 31, 2006 from 7.7% for the year ended December 31, 2005.

General and administrative. General and administrative expenses consist primarily of salaries and other personnel-related expenses of our finance, human resources, information systems, corporate development and other administrative personnel, as well as facilities, legal and other professional fees, depreciation and amortization and related expenses. The following table summarizes the year-over-year comparison of our general and administrative expenses for the periods indicated:

Year	Annual Amount (Thousands)	Increase/(Decrease) From Prior Year	Percentage Change from Prior Year
2007	$ 14,853	$ 1,092	7.9%
2006	13,761	(543)	(3.8)%
2005	14,304	—	—

The 2007 increase in general and administrative expenses primarily resulted from $1.3 million in separation and non-cash equity compensation charges in connection with the retirement of our former Chief Executive Officer, and a $394,000 charge related to a reduction in workforce. These increases were offset, in part, by decreases in outside legal expenses of approximately $500,000. General and administrative expenses as a percentage of revenue increased to 19.1% for the year ended December 31, 2007 from 14.9% for the year ended December 31, 2006.

The 2006 decrease in general and administrative expenses primarily resulted from reduced external legal fees of approximately $2.0 million during the year ended December 31, 2006 compared to the year ended December 31, 2005, which was partially offset by an increase in amortization of deferred compensation expense of approximately $1.1 million associated with time vesting of restricted stock units and compensation expense associated with the implementation of SFAS No. 123R during the year ended December 31, 2006. General and administrative expenses as a percentage of revenue decreased to 14.9% for the year ended December 31, 2006 from 16.7% for the year ended December 31, 2005.

Asset impairment. Asset impairment expense consists of expenses associated with impairment write-downs of goodwill, amortizable intangible assets, and property and equipment.

At December 31, 2007, we determined that $3.7 million of goodwill associated with the High-Power Group and $237,000 of goodwill associated with the Low-Power Group was fully impaired. Accordingly, we recorded a goodwill impairment charge of $3.9 million during the year ended December 31, 2007. Also, during the fourth quarter of 2007, as a result of our decision to discontinue production and marketing of foldable keyboard products, we determined a triggering event had occurred resulting in an asset impairment charge of $1.1 million related to amortizable intangible assets and property and equipment associated with our Low-Power Group. As a result of these factors, we recorded total asset impairment charges of $5.0 million during the year ended December 31, 2007.

During the year ended December 31, 2006, as a result of a significant downturn in handheld hardware product sales, we determined a triggering event had occurred, specifically as a result of a significant downturn in business with Symbol for sales of handheld cradle products during the third quarter of 2006, that resulted in an asset impairment charge of $8.1 million related to the impairment of goodwill, amortizable intangible assets and property and equipment associated with our Connectivity Group business segment.

Interest income, net. Interest income, net consists primarily of interest earned on our cash balances and short-term investments. Interest expense relates to our revolving line of credit with a bank. The following table summarizes the year-over-year comparison of interest income, net for the periods indicated:

Year	Annual Amount (Thousands)	Increase/(Decrease) from Prior Year	Percentage Change from Prior Year
2007	$ 1,156	$ (47)	(3.9)%
2006	1,203	390	48.0%
2005	813	—	—

The 2007 decrease was primarily due to generally declining interest rates during 2007. At December 31, 2007, the average yield on our cash and short-term investments was approximately 4.7%.

The 2006 increase was primarily due to generally rising interest rates during 2006. At December 31, 2006, the average yield on our cash, short-term investments and long-term investments was approximately 5.25%.

Gain on disposal of assets. Gain on disposal of assets consists of the net proceeds received from the disposal of assets, less the remaining net book value of the disposed assets. The following table summarizes the year-over-year comparison of gain on disposal of assets for the periods indicated:

Year	Annual Amount	Increase/(Decrease) from Prior Year	Percentage Change from Prior Year
	(Thousands)		
2007	$ 1,891	$ 1,891	—
2006	—	(11,639)	—
2005	11,639	—	—

The 2007 gain on disposal of assets was primarily due to our sale of a portfolio of 13 patents and patents pending relating to our Split Bridge and serialized PCI intellectual property with a net book value of $28,000 for net proceeds of approximately $1.8 million, which resulted in a gain of approximately $1.8 million.

We recorded no gain on disposal of assets during 2006.

The 2005 gain on disposal of assets was primarily due to our sale of a portfolio of 46 patents and patents pending relating to our Split Bridge and serialized PCI intellectual property with a net book value of $53,000 for net proceeds of approximately $11.7 million, which resulted in a gain of approximately $11.6 million.

Litigation settlement. Litigation settlement consists of expenses incurred in connection with the settlement of litigation. The following table summarizes the year-over-year comparison of litigation settlement expense for the periods indicated:

Year	Annual Amount	Increase/(Decrease) from Prior Year	Percentage Change from Prior Year
	(Thousands)		
2007	$ —	$ (250)	—
2006	250	(4,034)	(94.2)%
2005	4,284	—	—

We incurred no litigation settlement expense during 2007.

The 2006 litigation settlement expense consisted of a $250,000 expense incurred as a result of our settlement of litigation with Tom de Jong, who was a former officer of iGo Corporation. Mr. de Jong had sought indemnification from us for his legal expenses incurred in connection with an SEC investigation. Pursuant to the terms of the settlement, we agreed to pay Mr. de Jong $250,000 as full satisfaction of any indemnification claims against our wholly-owned subsidiary, iGo Direct Corporation.

The 2005 litigation settlement expense consisted of a $4.3 million expense incurred as a result of our settlement of litigation resulting from our 2002 acquisition of Portsmith. Pursuant to the terms of the settlement, we agreed to pay the plaintiffs in this litigation the aggregate sum of $3 million in cash, released one plaintiff from the repayment of a $484,000 obligation, and agreed to issue 82,538 shares of our common stock, valued at $9.68 per share, to one plaintiff that were earned pursuant to the earn-out provisions of the acquisition agreement, but not previously issued.

Income taxes. We have incurred losses from inception through the end of 2007; therefore, no provision for income taxes was required for the years ended December 31, 2007 and December 31, 2006. In 2005, we recorded a provision for income tax of $285,000 as a result of a corporate alternative minimum tax liability incurred in connection with our 2005 taxable income. Based on historical operating losses and projections for future taxable income, it is more likely than not that we will not fully realize the benefits of the net operating loss carry-forwards. Thus, we have not recorded a tax benefit from our net operating loss carry-forwards for the years ended December 31, 2007, 2006 and 2005.

Operating Outlook

From a long-term perspective, we believe there are a number of major catalysts that will drive future growth and profitability:

- The continued penetration of both the domestic and international wireless carrier, dealer/agent, and distributor markets for our low-power products;
- Continued growth in sales of power products for high-power mobile electronic devices driven by further growth in private label reseller accounts and expanded international distribution;
- Continued investment in enhancements to grow direct online sales through igo.com and retail partner web sites;
- A strong new product pipeline that will provide consumers with innovative power products offering a broad range of features and price points;
- An emphasis on development marketing of products that are environmentally friendly; and
- Improvements in operational execution.

We expect gross margin to increase for 2008 from our 24.8% gross margin for 2007, as we expect to increase Low-Power Group sales to retailers and distributors, and we expect to reduce overhead as a result of improvements in operational execution.

We expect operating expenses related to our power businesses to decrease significantly in 2008 compared to 2007, as we do not anticipate further material asset impairment charges and we expect reduced general and administrative expenses, partially offset by increased spending in sales and marketing.

We expect the operating results of Mission Technology Group, which are included in our Connectivity Business Segment, in 2008 will approximate the 2007 operating results.

We do not expect to record any income tax expense in 2008. We anticipate reversing the previously recorded valuation allowance when we no longer have cumulative losses in recent years, coupled with a forecast of continued profitability. Subsequent to the reversal of the deferred tax asset valuation allowance, we will recognize income tax expense as we utilize our net operating loss carry-forwards.

We are currently a party to various legal proceedings. We do not believe that the ultimate outcome of these legal proceedings will have a material adverse effect on our financial position or overall trends in results of operations. However, litigation is subject to inherent uncertainties and unfavorable rulings could occur. An unfavorable ruling could include money damages or the issuance of additional securities which would further dilute our existing stockholders. If an unfavorable ruling were to occur in any specific period, such a ruling could have a material adverse impact on the results of operations of that period, or future periods.

As a result of our planned research and development efforts, we expect to further expand our intellectual property position by aggressively filing for additional patents on an ongoing basis. A portion of these costs are recorded as research and development expense as incurred and a portion are amortized as general and administrative expense. We may also incur additional legal and related expenses associated with the defense and enforcement of our intellectual property portfolio, which could increase our general and administrative expenses beyond those currently planned.

Liquidity and Capital Resources

The following table sets forth for the period presented certain consolidated cash flow information (in thousands):

	Year Ended December 31,		
	2007	2006	2005
Net cash provided by (used in) operating activities	$ 3,443	$ (11,137)	$ (941)
Net cash provided by (used in) investing activities	5,148	6,036	(10,032)
Net cash provided by (used in) financing activities	(1,919)	615	11,915
Foreign currency exchange impact on cash flow	35	50	(73)
Increase (decrease) in cash and cash equivalents	$ 6,707	$ (4,436)	$ 869
Cash and cash equivalents at beginning of year	$ 9,201	$ 13,637	$ 12,768
Cash and cash equivalents at end of year	$15,908	$ 9,201	$ 13,637

Cash and Cash Flow. Our cash balances are held in the United States and the United Kingdom. Our intent is that the cash balances will remain in these countries for future growth and investments and we will meet any liquidity requirements in the United States through ongoing cash flows, external financing, or both. Our primary use of cash has been to fund our operating losses, working capital requirements, acquisitions and capital expenditures necessitated by our growth. The growth of our business has required, and will continue to require, investments in accounts receivable and inventories. Our primary sources of liquidity have been funds provided by issuances of equity securities and proceeds from the sale of intellectual property assets.

- *Net cash provided by (used in) operating activities.* Cash was provided by operating activities for the year ended December 31, 2007 as operating losses were more than offset by non-cash expenses and decreases to accounts receivable and inventories as a result of our reduced revenue base in 2007. In 2008, we expect to continue to generate cash from operating activities as we expect operating losses to decline and non-cash items to more than offset any operating losses that may be incurred. Our consolidated cash flow operating metrics are as follows:

	Year Ended December 31,		
	2007	2006	2005
Days outstanding in ending accounts receivable (“DSOs”)	79	82	80
Inventory turns	6	6	6

The decrease in DSOs at December 31, 2007 compared to December 31, 2006 is primarily due to the timing of payments received from our large private-label reseller customer, Targus. The increase in DSOs at December 31, 2006 compared to December 31, 2005, is also primarily due to the timing of payments received from Targus. We expect DSOs to remain consistent with 2007 during 2008. We expect to manage inventory growth during 2008 and we expect inventory turns to remain consistent with 2007 or improve slightly as we focus on our strategy to grow low-power and high-power revenues in 2008.

- *Net cash provided by (used in) investing activities.* For the year ended December 31, 2007, net cash was provided by investing activities as we generated proceeds from the sale of long-term investments of $4.6 million and proceeds from the sale of intellectual property assets of $1.9 million, partially offset by the purchase of short-term investments and property and equipment. We anticipate future investment in capital equipment, primarily for tooling equipment to be used in the production of new products.

- *Net cash provided by (used in) financing activities.* Net cash used in financing activities for the year ended December 31, 2007 was primarily from our purchase of treasury stock of $2.1 million during 2007, which was immediately retired. Although we expect to generate cash flows from operations sufficient to support our operations, we may issue additional shares of stock in the future to generate cash for growth opportunities.

As of December 31, 2007, we had approximately $114 million of federal, foreign and state net operating loss carry-forwards which expire at various dates. We anticipate that the sale of common stock in our initial public offering and in subsequent private offerings, as well as the issuance of our common stock for acquisitions, coupled with prior sales of common stock will cause an annual limitation on the use of our net operating loss carry-forwards pursuant to the change in ownership provisions of Section 382 of the Internal Revenue Code of 1986, as amended. This limitation is expected to have a material effect on the timing of our ability to use the net operating loss carry-forward in the future. Additionally, our ability to use the net operating loss carry-forwards is dependent upon our level of future profitability, which cannot be determined.

Financing Facilities. In July 2006, we entered into a $10.0 million bank line of credit. The line bears interest at prime or LIBOR plus 2%, and requires monthly interest only payments, with final payment of interest and principal due on July 27, 2008. In addition, we pay a quarterly facility fee of 12.5 basis points on any unused portion of the revolving loan commitment. The line of credit is secured by all of our assets and contains customary restrictive and financial covenants, including financial covenants requiring minimum EBITDA levels which are typical of agreements of this type, as well as customary events of default. The obligations of the lender to make advances under the credit agreement are subject to the ongoing accuracy of our representations and warranties under the credit agreement and the absence of any events which would be defaults or constitute a material adverse effect. Under the terms of the line of credit, we can borrow up to 80% of eligible accounts receivable and up to 25% of eligible inventory. At December 31, 2007, we had no borrowings outstanding under this facility. Based on our trailing twelve-month EBITDA, we were not in compliance with the minimum EBITDA covenant as of December 31, 2007. Accordingly, we are unable to borrow against this line of credit as of December 31, 2007.

Contractual Obligations. In our day-to-day business activities, we incur certain commitments to make future payments under contracts such as operating leases and purchase orders. Maturities under these contracts are set forth in the following table as of December 31, 2007 (amounts in thousands):

	Payment due by period					
	2008	2009	2010	2011	2012	More than 5 years
Operating lease obligations	$ 439	$45	$ 8	$ 6	$—	$ —
Inventory Purchase obligations	10,468	—	—	—	—	—
Other long-term obligations	—	—	—	—	—	—
Totals	$10,907	$45	$ 8	$ 6	$—	$ —

The preceding table does not include Mission Technology Group's contractual obligations.

Off-Balance Sheet Arrangements. We have no off-balance sheet financing arrangements.

Acquisitions and dispositions. In the past we have made acquisitions of other companies to complement our product offerings and expand our revenue base.

In May 2006, we acquired the assets of the foldable keyboard business from Think Outside, Inc. for $2.5 million, which consideration was paid entirely by the issuance of 362,740 shares of our common stock.

In February 2007, we entered into three separate transactions to sell the assets of our Connectivity Group. We entered into an agreement to sell intellectual property assets for $1.85 million. We entered into an agreement to sell substantially all of the assets of the docking and expansion product line, including cash of $925,000, for approximately $3.9 million in notes receivable and a 15% fully-diluted equity interest in the acquirer. We sold the assets of the handheld hardware product line for $50,000 in cash, $250,000 in a short-term receivable, $1.5 million in notes receivable, 5% of the acquirer's revenues for five years, with a minimum payment of $300,000 due within three years, and 100% of the first $200,000, and 50% thereafter, of any sales beyond the first $1.8 million of inventory purchased by the acquirer at the closing. For more information, please see "Recent Developments."

Our future strategy includes the possible acquisition of other businesses to continue to expand or complement our operations. The magnitude, timing and nature of any future acquisitions will depend on a number of factors, including the availability of suitable acquisition candidates, the negotiation of acceptable terms, our financial capabilities and general economic and business conditions. Financing of future acquisitions would result in the

utilization of cash, incurrence of additional debt, issuance of additional equity securities or a combination of all of these. Our future strategy may also include the possible disposition of assets that are not considered integral to our business, which would likely result in the generation of cash.

Liquidity Outlook. Based on our projections for 2008, we believe that our existing cash, cash equivalents and our cash flow from operations will be sufficient to meet our working capital and capital expenditure requirements for at least the next 12 months. If we require additional capital resources to grow our business internally or to acquire complementary technologies and businesses at any time in the future, we may use our line of credit, if in compliance with the covenants thereunder, or seek to sell additional equity or debt securities. The sale of additional equity or convertible debt securities would result in more dilution to our stockholders. In addition, additional capital resources may not be available to us in amounts or on terms that are acceptable to us.

Recent Accounting Pronouncements

See Note 2 to our consolidated financial statements for a summary of recently issued accounting pronouncements.

Item 7A. *Quantitative and Qualitative Disclosures About Market Risk*

We are exposed to certain market risks in the ordinary course of our business. These risks result primarily from changes in foreign currency exchange rates and interest rates. In addition, our international operations are subject to risks related to differing economic conditions, changes in political climate, differing tax structures and other regulations and restrictions.

To date we have not utilized derivative financial instruments or derivative commodity instruments. We do not expect to employ these or other strategies to hedge market risk in the foreseeable future. We invest our cash in money market funds, which are subject to minimal credit and market risk. We believe that the market risks associated with these financial instruments are immaterial.

See “Liquidity and Capital Resources” for further discussion of our financing facilities and capital structure. Market risk, calculated as the potential change in fair value of our cash and cash equivalents and line of credit resulting from a hypothetical 1.0% (100 basis point) change in interest rates, was not material at December 31, 2007.

Item 8. ***Financial Statements and Supplementary Data***

MOBILITY ELECTRONICS, INC. AND SUBSIDIARIES

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders
Mobility Electronics, Inc.:

We have audited the accompanying consolidated balance sheets of Mobility Electronics, Inc. and subsidiaries (the Company) as of December 31, 2007 and 2006, and the related consolidated statements of operations, stockholders' equity and comprehensive income (loss), and cash flows for each of the years in the three-year period ended December 31, 2007. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Mobility Electronics, Inc. and subsidiaries as of December 31, 2007 and 2006, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2007, in conformity with U.S. generally accepted accounting principles.

As discussed in Note 2 to the consolidated financial statements, effective January 1, 2007, the Company adopted the provisions of Financial Accounting Standards Board ("FASB") Interpretation No. 48, *Accounting for Uncertainty in Income Taxes — an interpretation of FASB Statement No. 109* and as discussed in Note 2 to the consolidated financial statements, effective January 1, 2006, the Company adopted the provisions of Statement of Financial Accounting Standards No. 123R, *Share-Based Payment.*

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2007, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 12, 2008 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

/s/ KPMG LLP

Phoenix, Arizona
March 12, 2008

MOBILITY ELECTRONICS, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	December 31,	
	2007	2006
	(In thousands, except share amounts)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 15,908	$ 9,201
Short-term investments	9,026	8,142
Accounts receivable, net	16,924	20,855
Inventories	7,406	12,350
Prepaid expenses and other current assets	446	406
Total current assets	49,710	50,954
Property and equipment, net	1,553	2,980
Goodwill	—	3,912
Intangible assets, net	1,926	3,095
Long-term investments	—	4,636
Notes receivable and other assets	961	287
Total assets	$ 54,150	$ 65,864
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 11,694	$ 12,010
Accrued expenses and other current liabilities	3,680	3,067
Deferred revenue	936	1,357
Current portion of other non-current liabilities	—	25
Total current liabilities	16,310	16,459
Minority interest	384	—
Total liabilities	16,694	16,459
Commitments and contingencies (notes 12 and 18)		
Stockholders' equity:		
Common stock, $.01 par value; authorized 90,000,000 Shares; 31,446,184 and 31,722,466 shares issued and outstanding at December 31, 2007 and 2006, respectively	314	317
Additional paid-in capital	168,010	167,436
Accumulated deficit	(131,091)	(118,527)
Accumulated other comprehensive income	223	179
Total stockholders' equity	37,456	49,405
Total liabilities and stockholders' equity	$ 54,150	$ 65,864

See accompanying notes to consolidated financial statements.

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MOBILITY ELECTRONICS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

	Year Ended December 31,		
	2007	2006	2005
	(In thousands, except per share amounts)		
Revenue	$ 77,719	$ 92,464	$ 85,501
Cost of revenue	58,473	69,349	59,653
Gross profit	19,246	23,115	25,848
Operating expenses:			
Sales and marketing	9,764	11,394	7,812
Research and development	5,201	7,811	6,596
General and administrative	14,853	13,761	14,304
Asset impairment	5,048	8,073	—
Total operating expenses	34,866	41,039	28,712
Loss from operations	(15,620)	(17,924)	(2,864)
Other income (expense):			
Interest income, net	1,156	1,203	813
Gain on disposal of assets	1,891	—	11,639
Litigation settlement expense	—	(250)	(4,284)
Other income (expense), net	393	129	(12)
Income (loss) before minority interest and provision for income taxes	(12,180)	(16,842)	5,292
Minority interest	384	—	—
Provision for income taxes	—	—	285
Net income (loss)	$(12,564)	$(16,842)	$ 5,007
Net income (loss) per share:			
Basic	$ (0.40)	$ (0.54)	$ 0.17
Diluted	$ (0.40)	$ (0.54)	$ 0.16
Weighted average common shares outstanding:			
Basic	31,534	31,392	30,004
Diluted	31,534	31,392	32,003

See accompanying notes to consolidated financial statements.

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MOBILITY ELECTRONICS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY AND COMPREHENSIVE INCOME (LOSS)

	Convertible Preferred Stock	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Income(Loss)	Net Stockholders' Equity
			(In thousands, except share amounts)				
Balances at December 31, 2004	$ 3	28,490,373	$ 285	$ 146,901	$ (106,692)	$ 204	$ 40,701
Conversion of Series C preferred stock into common stock	(3)	276,596	3	—	—	—	—
Issuance of common stock for warrants exercised	—	5,529	—	5	—	—	5
Issuance of common stock for options exercised	—	623,955	6	1,817	—	—	1,823
Issuance of common stock under Employee Stock Purchase Plan	—	27,565	—	189	—	—	189
Issuance of common stock for acquisitions	—	15,000	—	170	—	—	170
Issuance of stock awards	—	14,006	—	40	—	—	40
Issuance of common stock for board compensation	—	12,672	—	91	—	—	91
Common stock issued to strategic partners, net of issuance costs of $225,000	—	1,379,312	14	9,761	—	—	9,775
Repayment of stock subscription receivable	—	—	—	150	—	—	150
Amortization of deferred compensation	—	—	—	1,498	—	—	1,498
Retirement of shares	—	(427)	—	—	—	—	—
Comprehensive income (loss):							
Unrealized Loss on Available for Sale Investments	—	—	—	—	—	(27)	(27)
Foreign currency translation adjustment	—	—	—	—	—	(73)	(73)
Net income	—	—	—	—	5,007	—	5,007
Total comprehensive income							4,907
Balances at December 31, 2005	—	30,844,581	$ 308	$ 160,622	$ (101,685)	$ 104	$ 59,349
Issuance of common stock for options exercised	—	356,994	4	602	—	—	606
Issuance of common stock under Employee Stock Purchase Plan	—	4,815	—	34	—	—	34
Issuance of common stock for acquisitions	—	377,740	4	2,666	—	—	2,670
Issuance of stock awards	—	48,388	—	24	—	—	24
Issuance of common stock for board compensation	—	7,410	—	54	—	—	54
Issuance of common stock for legal settlement	—	82,538	1	798	—	—	799
Amortization of deferred compensation	—	—	—	2,636	—	—	2,636
Comprehensive income (loss):							
Unrealized Gain on Available for Sale Investments	—	—	—	—	—	25	25
Foreign currency translation adjustment	—	—	—	—	—	50	50
Net loss	—	—	—	—	(16,842)	—	(16,842)
Total comprehensive loss							(16,767)
Balances at December 31, 2006	—	31,722,466	$ 317	$ 167,436	$ (118,527)	$ 179	$ 49,405
Issuance of common stock for warrants exercised	—	13,823	—	14	—	—	14
Issuance of common stock for options exercised	—	121,673	1	238	—	—	239
Issuance of stock awards	—	264,405	3	(208)	—	—	(205)
Issuance of common stock for board compensation	—	13,473	—	45	—	—	45
Amortization of deferred compensation	—	—	—	2,625	—	—	2,625
Purchase of treasury stock	—	(689,656)	(7)	(2,140)	—	—	(2,147)
Comprehensive income (loss):							
Unrealized Gain on Available for Sale Investments	—	—	—	—	—	8	8
Foreign currency translation adjustment	—	—	—	—	—	36	36
Net loss	—	—	—	—	(12,564)	—	(12,564)
Total comprehensive loss							(12,520)
Balances at December 31, 2007	—	31,446,184	$ 314	$ 168,010	$ (131,091)	$ 223	$ 37,456

See accompanying notes to consolidated financial statements.

MOBILITY ELECTRONICS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31,		
	2007	2006	2005
	(In thousands, except share amounts)		
Cash flows from operating activities:			
Net income (loss)	$(12,564)	$(16,842)	$ 5,007
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Minority interest	384	—	—
Provisions for doubtful accounts and sales returns and credits	593	736	434
Depreciation and amortization	2,074	2,121	1,978
Amortization of deferred compensation	2,625	2,636	1,498
Gain on disposal of assets	(1,535)	—	(11,639)
Expense for stock to be issued for litigation settlement	—	—	799
Impairment of goodwill	3,912	6,895	—
Impairment of intangible assets	573	690	—
Impairment of property and equipment	564	519	82
Compensation expense settled with stock, options or warrants	45	100	163
Changes in operating assets and liabilities, net of acquisitions:			
Accounts receivable	3,338	(2,027)	(2,307)
Inventories	4,944	1,428	(5,860)
Prepaid expenses and other assets	(1,180)	894	(305)
Accounts payable	(522)	(6,685)	5,162
Accrued expenses and other current liabilities	192	(1,602)	4,047
Net cash provided by (used in) operating activities	3,443	(11,137)	(941)
Cash flows from investing activities:			
Purchase of property and equipment	(464)	(1,496)	(1,411)
Purchase of investments	(883)	(4,636)	(20,313)
Sale of investments	4,645	12,168	—
Proceeds from sale of intangible assets	1,850	—	11,692
Net cash provided by (used in) investing activities	5,148	6,036	(10,032)
Cash flows from financing activities:			
Repayment of stock subscription receivables	—	—	150
Repurchase of common stock	(2,147)	—	—
Repayment of long-term debt and capital lease obligations	(25)	(25)	(25)
Net proceeds from sale of common stock	—	34	9,962
Proceeds from exercise of warrants and options	253	606	1,828
Net cash provided by (used in) financing activities	(1,919)	615	11,915
Effects of exchange rates on cash and cash equivalents	35	50	(73)
Net increase (decrease) in cash and cash equivalents	6,707	(4,436)	869
Cash and cash equivalents, beginning of year	9,201	13,637	12,768
Cash and cash equivalents, end of year	$ 15,908	$ 9,201	$ 13,637
Supplemental disclosure of cash flow information:			
Interest paid	$ —	$ 13	$ 25
Supplemental schedule of noncash investing and financing activities:			
Common stock issued in connection with acquisitions and legal settlement	$ —	$ 3,469	$ 170
Issuance of restricted stock units for deferred compensation to employees and board members during 2007, 2006 and 2005, respectively	$ 2,445	$ 1,594	$ 6,358

See accompanying notes to consolidated financial statements.

MOBILITY ELECTRONICS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Years Ended December 31, 2007, 2006 and 2005

(1) Nature of Business

Mobility Electronics, Inc. and subsidiaries (collectively, "Mobility" or the "Company") formerly known as Electronics Accessory Specialists International, Inc., was formed on May 4, 1995. Mobility was originally formed as a limited liability corporation; however, in August 1996 the Company became a C Corporation incorporated in the State of Delaware.

Mobility designs, develops, manufactures and/or distributes power products for high-power mobile electronic devices, such as portable computers; power products for low-power mobile electronic devices, such as mobile phones, PDAs, and MP3 players; expansion and docking products; and mobile electronic accessory products. Mobility distributes products in North America, Europe and Asia Pacific.

(2) Summary of Significant Accounting Policies

(a) Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make a number of estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an on-going basis, the Company evaluates its estimates, including those related to bad debts, sales returns, inventories, warranty obligations, and contingencies and litigation. The Company bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

The Company believes its critical accounting policies, consisting of revenue recognition, inventory valuation, goodwill and long-lived asset valuation, deferred tax asset valuation, and variable interest entities affect its more significant judgments and estimates used in the preparation of its consolidated financial statements. These policies are discussed below.

(b) Principles of Consolidation

The consolidated financial statements include the accounts of Mobility Electronics, Inc. and its wholly-owned subsidiaries, Mobility California, Inc., Mobility Idaho, Inc., Mobility 2001 Limited, Mobility Texas Inc., and iGo Direct Corporation, and as of April 16, 2007, the accounts of Mission Technology Group, Inc. ("Mission Technology Group"), in which Mobility California, Inc. holds a 15% equity interest (collectively, "Mobility" or the "Company"). The accounts of Mission Technology Group are consolidated pursuant to Financial Accounting Standards Board Interpretation No. 46R, "Consolidation of Variable Interest Entities" ("FIN 46R"). Refer to Note 3 for further discussion of FIN 46R. All significant intercompany balances and transactions have been eliminated in the accompanying consolidated financial statements.

(c) Revenue Recognition

The Company recognizes net revenue when the earnings process is complete, as evidenced by an agreement with the customer, transfer of title and acceptance, if applicable, as well as fixed pricing and probable collectibility. Revenue from product sales is recognized upon shipment and transfer of ownership from the Company or contract manufacturer to the customer, unless the customer has full right of return, in which case revenue is deferred until the product has sold through to the end user. Allowances for sales returns and credits are provided for in the same period the related sales are recorded. Should the actual return or sales credit rates differ from the Company's estimates, revisions to the estimated allowance for sales returns and credits may be required.

MOBILITY ELECTRONICS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Years Ended December 31, 2007, 2006 and 2005 — (Continued)

(d) Cash and Cash Equivalents

All short-term investments purchased with an original maturity of three months or less are considered to be cash equivalents. Cash and cash equivalents include cash on hand and amounts on deposit with financial institutions.

(e) Investments

Short-term investments that have an original maturity between three months and one year and a remaining maturity of less than one year are classified as available-for-sale. Long-term investments that have an original maturity of greater than one year are classified as available-for-sale. Available-for-sale securities are recorded at fair value and are classified as current assets due to the Company's intent and practice to hold these readily marketable investments for less than one year. Any unrealized holding gains and losses related to available-for-sale securities are recorded, net of tax, as a separate component of accumulated other comprehensive income. When a decline in fair value is determined to be other than temporary, unrealized losses on available-for-sale securities are charged against net earnings. Realized gains and losses are accounted for on the specific identification method.

(f) Accounts Receivable

Accounts receivable consist of trade receivables from customers and short-term notes receivable. The Company maintains allowances for doubtful accounts for estimated losses resulting from the inability of the Company's customers to make required payments. The allowance is assessed on a regular basis by management and is based upon management's periodic review of the collectibility of the receivables with respect to historical experience. If the financial condition of the Company's customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required. The Company also maintains an allowance for sales returns and credits in the amount of the difference between the sales price and the cost of goods sold based on management's periodic review and estimate of returns. Should the actual return or sales credit rates differ from the Company's estimates, revisions to the estimated allowance for sales returns and credits may be required.

(g) Inventories

Inventories consist of finished goods and component parts purchased partially and fully assembled for computer accessory items. The Company has all normal risks and rewards of its inventory held by contract manufacturers and outsourced product fulfillment hubs. Inventories are stated at the lower of cost (first-in, first-out method) or market. Inventories include material, labor and overhead costs. Overhead costs are allocated to inventory based on a percentage of material costs. The Company monitors usage reports to determine if the carrying value of any items should be adjusted due to lack of demand for the items. The Company adjusts down the carrying value of inventory for estimated obsolescence or unmarketable inventory equal to the difference between the cost of inventory and the estimated market value based upon assumptions about future demand and market conditions. If actual market conditions are less favorable than those projected by management, additional inventory write-downs may be required.

(h) Property and Equipment

Property and equipment are stated at cost. Depreciation on furniture, fixtures and equipment is provided using the straight-line method over the estimated useful lives of the assets ranging from two to seven years. Leasehold improvements are amortized over the shorter of the lease term or estimated useful life. Tooling is capitalized at cost and is depreciated over a two-year period. We periodically evaluate the recoverability of property and equipment and take into account events or circumstances that warrant revised estimates of useful lives or that indicate that an impairment exists.

MOBILITY ELECTRONICS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Years Ended December 31, 2007, 2006 and 2005 — (Continued)

(i) Goodwill

Goodwill represents the excess of the purchase price over the fair value of net assets acquired. Goodwill is tested for impairment annually, on December 31.

(j) Intangible Assets

Intangible assets include the cost of patents, trademarks and non-compete agreements, as well as identifiable intangible assets acquired through business combinations including trade names, customer lists and software technology. Intangible assets are amortized on a straight-line basis over their estimated economic lives of two to 10 years. We periodically evaluate the recoverability of intangible assets and take into account events or circumstances that warrant revised estimates of useful lives or that indicate that an impairment exists. All of the Company's intangible assets are subject to amortization.

(k) Warranty Costs

The Company provides limited warranties on certain of its products for periods generally not exceeding three years. The Company accrues for the estimated cost of warranties at the time revenue is recognized. The accrual is based on the Company's actual claim experience. Should actual warranty claim rates, or service delivery costs differ from our estimates, revisions to the estimated warranty liability would be required.

(l) Income Taxes

The Company utilizes the asset and liability method of accounting for income taxes. Under the asset and liability method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the year in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

The Company records a valuation allowance to reduce its deferred tax assets to the amount that is more likely than not to be realized. While the Company has considered forecasts of future taxable income and ongoing prudent and feasible tax planning strategies in assessing the need for the valuation allowance, in the event the Company was to determine that it would be able to realize its deferred tax assets in the future in excess of the net recorded amount, an adjustment to the valuation allowance and deferred tax benefit would increase net income in the period such determination was made.

(m) Net Income (Loss) per Common Share

Basic income (loss) per share is computed by dividing income (loss) by the weighted-average number of common shares outstanding for the period. Diluted income (loss) per share reflects the potential dilution that could occur if securities or contracts to issue common stock were exercised or converted to common stock or resulted in the issuance of common stock that then shared in the earnings or loss of the Company. In 2007 and 2006, the assumed exercise of outstanding stock options and warrants and the impact of restricted stock units have been excluded from the calculations of diluted net loss per share as their effect is anti-dilutive.

(n) Stock-based Compensation

Effective January 1, 2006, the Company adopted Statement of Financial Accounting Standards No. 123 (revised 2004), "Share-Based Payment" ("SFAS 123R"), which revises SFAS No. 123, "Accounting for Stock-Based Compensation" and supersedes APB Opinion No. 25, "Accounting for Stock Issued to Employees".

SFAS 123R requires all share-based payments to employees, including grants of employee stock options, be measured at fair value and expensed in the consolidated statement of operations over the requisite service period (generally the vesting period). Upon adoption, the Company transitioned to SFAS 123R using the modified prospective method, whereby compensation cost is only recognized in the consolidated statements of operations beginning with the first period that SFAS 123R is effective and thereafter, with prior periods' stock-based compensation for option and employee stock purchase plan activity still presented on a pro forma basis. The Company continues to use the Black-Scholes option valuation model to value stock options. No tax benefits have been recorded due to the Company's full valuation allowance position.

On March 11, 2005, in response to the issuance of SFAS 123R, the Company's Compensation and Human Resources Committee of the Board of Directors approved accelerating the vesting of all unvested stock options held by current employees, including executive officers and directors, with an exercise price of $6.00 or greater. Unvested options to purchase 540,369 shares became exercisable as a result of the vesting acceleration.

The decision to accelerate vesting of these options was made primarily to avoid recognizing compensation expense in the statement of operations in future financial statements upon the effectiveness of SFAS 123R. The Company estimates that the maximum future compensation expense that was avoided, based on an implementation date for SFAS 123R of January 1, 2006, is approximately $1,772,000, of which approximately $617,000 is related to options held by executive officers and directors of the Company. The acceleration did not generate significant compensation expense, as the majority of options for which vesting was accelerated had exercise prices that exceeded the market price of the Company's common stock on March 11, 2005. The pro-forma results presented in the table below include approximately $1,772,000 of compensation expense for the year ended December 31, 2005, resulting from the vesting acceleration.

Had the Company determined compensation cost based on the fair value at the grant date for its stock options under SFAS 123, the Company's net income (loss) and net income (loss) per share would have changed to the pro forma amount indicated below (amounts in thousands, except per share):

	Year Ended December 31, 2005
Net income (loss):	
As reported	$ 5,007
Total stock-based employee compensation expense determined under fair-value-based method for all rewards, net of tax of $0 for all periods	(1,906)
Pro forma	$ 3,101
Net income (loss) per share — basic:	
As reported	$ 0.17
Pro forma	$ 0.10
Net income (loss) per share — diluted:	
As reported	$ 0.16
Pro forma	$ 0.10

Prior to January 1, 2006, the Company accounted for stock options according to the provisions of APB 25 and related interpretations, and therefore no related compensation expense was recorded for awards granted as it was believed that such awards had no intrinsic value.

During the year ended December 31, 2006, the Company completed a voluntary review of its historical stock option granting practices that was overseen by the Audit Committee of the Company's Board of Directors with the

assistance of legal counsel. The Company determined that it used incorrect measurement dates with respect to the accounting for certain previously granted stock options, primarily during the years 2000 through 2004 as a result of lapses in documentation and deficiencies in option plan administration controls. Accordingly, the Company recorded a pretax cumulative charge of $717,000 in the year ended December 31, 2006 in general and administrative expense related to certain grants dating back to fiscal 2000 based upon the Company's determination that such grants had intrinsic value on the applicable measurement dates of the option grants. The Company determined the effect of the incorrect measurement dates was not material to any prior fiscal year or interim periods in fiscal 2006.

The Company is currently assessing the impact of negative tax consequences that might arise for employees as a result of this matter. During 2007, the Company decided to compensate employees for any such negative tax consequences that may have arisen. The Company has requested a voluntary closing agreement with the Internal Revenue Service in connection with this issue. The Internal Revenue Service has commenced a limited scope audit of the tax consequences of the above discussed stock option grants. The Company has recorded a liability of $325,000 in the accompanying financial statements as its estimate of potential exposure.

(o) Fair Value of Financial Instruments

The Company's financial instruments include cash equivalents, short-term investments, accounts receivable, long-term investments, accounts payable and notes payable. Due to the short-term nature of cash equivalents, accounts receivable and accounts payable, the fair value of these instruments approximates their recorded value. In the opinion of management, based upon current information, the fair value of notes payable approximates market value. The Company does not have material financial instruments with off-balance sheet risk.

(p) Research and Development

The cost of research and development is charged to expense as incurred.

(q) Foreign Currency Translation

The financial statements of the Company's foreign subsidiary are measured using the local currency as the functional currency. Assets and liabilities of this subsidiary are translated at exchange rates as of the balance sheet date. Revenues and expenses are translated at average rates of exchange in effect during the year. The resulting cumulative translation adjustments have been recorded as comprehensive income (loss), a separate component of stockholders' equity.

(r) Segment Reporting

The Company is engaged in the business of selling accessories for computers and mobile electronic devices. Effective March 31, 2005, the Company formed a separate division, specifically for the purpose of developing, marketing and selling its low-power mobile electronic power products, which the Company has named the "Low-Power Group". In conjunction with the formation of the Low-Power Group, the Company's chief operating decision maker (CODM) began separately evaluating the operating results of the Low-Power Group, the High-Power Group and the Connectivity Group. The Company's CODM continues to evaluate revenues and gross profits based on products lines, routes to market and geographies. Prior to April 1, 2005, the CODM only evaluated operating results for the Company taken as a whole. As a result, effective April 1, 2005, in accordance with FASB Statement No. 131, "Disclosures about Segments of an Enterprise and Related Information", the Company has determined it has three reporting business segments, consisting of the High-Power Group, Low-Power Group, and Connectivity Group. As of December 31, 2007, the results of the Connectivity Segment consist of the operating results Mission Technology Group.

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(s) Recently Issued Accounting Pronouncements

In July 2006, the Financial Accounting Standards Board ("FASB") issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" ("FIN 48") an interpretation of FASB Statement No. 109, "Accounting for Income Taxes." FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 requires that the Company recognize in the financial statements, the impact of a tax position, if that position is more likely than not of being sustained on audit, based on the technical merits of the position. FIN 48 also provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods and disclosure. The provisions of FIN 48 were effective beginning January 1, 2007 with the cumulative effect of the change in accounting principle recorded as an adjustment to the opening balance of retained earnings. The Company's adoption of FIN 48 on January 1, 2007 did not have a material impact on the Company's consolidated financial statements. See Note 13 to the consolidated financial statements for further discussion of the Company's adoption of FIN 48.

In September 2006, the FASB issued Statement of Financial Accounting Standard No. 157 ("SFAS 157"), "Fair Value Measurements," which provides enhanced guidance for using fair value to measure assets and liabilities. SFAS 157 establishes a common definition of fair value, provides a framework for measuring fair value under U.S. GAAP and expands disclosures requirements about fair value measurements. In December 2007, the FASB issued FASB Staff Position FAS 157-b, "Effective Date of FASB Statement No. 157," which delays the effective date of Statement No. 157 for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually) to fiscal years beginning after November 15, 2008. In accordance with the new rule, we will adopt Statement No. 157 for all nonfinancial assets and non financial liabilities in the first quarter of 2009. The Company is currently evaluating the impact, if any, the adoption of SFAS 157 will have on the Company's financial statements.

In February 2007, the FASB issued Statement of Financial Accounting Standard No. 159 ("SFAS 159"), "The Fair Value Option for Financial Assets and Financial Liabilities," which permits companies to choose to measure certain financial instruments and certain other items at fair value. The standard requires that unrealized gains and losses on items for which the fair value option has been elected be reported in earnings. SFAS 159 is effective for the Company beginning in the first quarter of fiscal year 2008, although earlier adoption is permitted. The Company is currently evaluating the impact, if any, that the adoption of SFAS 159 will have on its consolidated financial statements.

In May 2007, the FASB issued FASB Staff Position No. FIN 48-1, Definition of Settlement in FASB Interpretation No. 48 (the "FSP"). The FSP provides guidance about how an enterprise should determine whether a tax position is effectively settled for the purpose of recognizing previously unrecognized tax benefits. Under the FSP, a tax position could be effectively settled on completion of examination by a taxing authority if the entity does not intend to appeal or litigate the result and it is remote that the taxing authority would examine or re-examine the tax position. The Company adopted the FSP on January 1, 2007 and the impact of adoption was not material.

In December 2007, the FASB issued Statement of Financial Accounting Standard No. 141 (revised 2007) ("SFAS 141R"), "Business Combinations". SFAS 141R establishes principles and requirements for how an acquirer in a business combination recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree at the acquisition date fair value. SFAS 141R significantly changes the accounting for business combinations in a number of areas including the treatment of contingent consideration, pre-acquisition contingencies, transaction costs, in-process research and development and restructuring costs. In addition, under SFAS 141R, changes in an acquired entity's deferred tax assets and uncertain tax positions after the measurement period will impact income tax expense. SFAS 141R provides guidance regarding what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. SFAS 141R is effective for fiscal years beginning after

December 15, 2008 with early application prohibited. The Company will adopt SFAS 141R beginning in the first quarter of fiscal 2009 and will change its accounting treatment for business combinations on a prospective basis.

In December 2007, the FASB issued Statement of Financial Accounting Standard No. 160 ("SFAS 160"), "Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No. 51". SFAS 160 changes the accounting and reporting for minority interests, which will be recharacterized as noncontrolling interests and classified as a component of equity. This new consolidation method significantly changes the accounting for transactions with minority interest holders. SFAS 160 is effective for fiscal years beginning after December 15, 2008 with early application prohibited. The Company will adopt SFAS 160 beginning in the first quarter of fiscal 2009 and is currently evaluating the impact of adopting SFAS 160 on its consolidated financial statements.

(3) Variable Interest Entity

FIN 46R requires the "primary beneficiary" of a variable interest entity ("VIE") to include the VIE's assets, liabilities and operating results in its consolidated financial statements. In general, a VIE is a corporation, partnership, limited-liability corporation, trust or any other legal structure used to conduct activities or hold assets that either (i) has an insufficient amount of equity to carry out its principal activities without additional subordinated financial support, (ii) has a group of equity owners that are unable to make significant decisions about its activities, or (iii) has a group of equity owners that do not have the obligation to absorb losses or the right to receive returns generated by its operations.

In April 2007, the Company completed a sale of the assets of its expansion and docking business to Mission Technology Group , an entity that was formed by a former officer of the Company, in exchange for $3,930,000 of notes receivable and a 15% common equity interest. There was no cash equity contributed to Mission Technology Group at its formation and Mission Technology Group's equity consists solely of its operating profit. Accordingly, the Company has determined that Mission Technology Group does not have sufficient equity to carry out its principal operating activities without subordinated financial support, and that Mission Technology Group qualifies as a VIE under FIN 46R. The Company has also determined that its 15% equity interest and its $3,930,000 notes receivable qualify as variable interests under FIN 46R. Furthermore, as Mission Technology Group is obligated to repay the promissory notes it issued to the Company, the Company has determined that it is the primary beneficiary of the VIE, and accordingly, must include the assets, liabilities and operating results of Mission Technology Group in its consolidated financial statements. The Company reports as "minority interest" the portion of the Company's net earnings that is attributable to the collective ownership interests of minority investors. Minority interest represents the 85% share in the net earnings of Mission Technology Group held by other owners.

MOBILITY ELECTRONICS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Years Ended December 31, 2007, 2006 and 2005 — (Continued)

The following table summarizes the balance sheet effect of consolidating Mission Technology Group (VIE) as of December 31, 2007:

	VIE	Mobility Consolidated
	(Amounts in thousands)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 692	$ 15,908
Short-term investments	—	9,026
Accounts receivable, net	360*	16,924
Inventories	964	7,406
Prepaid expenses and other current assets	74	446
Total current assets	2,090	49,710
Property and equipment, net	118	1,553
Intangible assets, net	—	1,926
Notes receivable (payable) and other assets	(1,331)*	961
Total assets	$ 877	$ 54,150
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 223	$ 11,694
Accrued expenses and other current liabilities	203*	3,680
Deferred revenue	—	936
Total current liabilities	426	16,310
Minority interest	384	384
Total liabilities	810	16,694
Stockholders' equity:	67	37,456
Total liabilities and stockholders' equity	$ 877	$ 54,150

* Reflects the elimination of intercompany accounts and notes receivable.

(4) Acquisition

On May 26, 2006 the Company acquired certain assets, including customer relationships, trademarks, and developed technology relating to the foldable keyboard business of Think Outside, Inc. for 362,740 shares of common stock, valued at $6.89 per share, which was determined based on the average close price for three days prior to and subsequent to the close date, or $2,500,000.

The acquisition was accounted for as a purchase and, accordingly, the purchase price was allocated to the assets acquired and the liabilities assumed, based upon the estimated fair values at the date of acquisition. Goodwill of $237,000 was recorded as a result of the transaction.

The purchase price of $2,500,000, plus acquisition costs of $92,000, was allocated as follows (amounts in thousands):

Purchase price:	
Common stock	$ 2,500
Costs of acquisition	92
	$ 2,592
Assets acquired and liabilities assumed:	
Current assets	$ 1,238
Property and equipment	830
Intangible assets	1,450
Goodwill	237
Current liabilities	(1,163)
	$ 2,592

The pro forma financial information is not presented, as the impact of this acquisition is not material.

(5) Investments

The Company evaluates its investments in marketable securities in accordance with Statement of Financial Accounting Standards No. 115, Accounting for Certain Investments in Debt and Equity Securities, and has determined that all of its investments in marketable securities should be classified as available-for-sale and reported at fair value. The unrealized gains and losses on available-for-sale securities, net of taxes, are recorded in accumulated other comprehensive income. Realized gains and losses are included in interest income (expense), net.

The fair value of the Company's investments in marketable securities is based on quoted market prices which approximate fair value due to the frequent resetting of interest rates. The Company assesses its investments in marketable securities for other-than-temporary declines in value by considering various factors that include, among other things, any events that may affect the creditworthiness of a security's issuer, the length of time the security has been in a loss position, and the Company's ability and intent to hold the security until a forecasted recovery of fair value.

The Company generated net proceeds of $3,762,000 from the sale of available-for-sale marketable securities during the year ended December 31, 2007.

MOBILITY ELECTRONICS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Years Ended December 31, 2007, 2006 and 2005 — (Continued)

As of December 31, 2007 and 2006 the amortized cost basis, unrealized holding gains, unrealized holding losses, and aggregate fair value by short-term major security type investments were as follows (amounts in thousands):

	December 31, 2007			December 31, 2006		
	Amortized Cost	Net Unrealized Holding Gains (Losses)	Aggregate Fair Value	Amortized Cost	Net Unrealized Holding Gains (Losses)	Aggregate Fair Value
U.S. corporate securities:						
Commercial paper	$ 3,821	$ 1	$ 3,822	$ 3,822	$ —	$ 3,822
Corporate notes and bonds	2,902	—	2,902	2,974	1	2,975
Asset backed securities — fixed	—	—	—	645	—	645
	6,723	1	6,724	7.441	1	7,442
U.S. government securities	2,298	4	2,302	700	—	700
	$ 9,021	$ 5	$ 9,026	$ 8,141	$ 1	$ 8,142

As of December 31, 2007 and 2006 the amortized cost basis, unrealized holding gains, unrealized holding losses, and aggregate fair value by long-term major security type investments were as follows (amounts in thousands):

	December 31, 2007			December 31, 2007		
	Amortized Cost	Net Unrealized Holding Gains (Losses)	Aggregate Fair Value	Amortized Cost	Net Unrealized Holding Gains (Losses)	Aggregate Fair Value
U.S. corporate securities:						
Corporate notes and bonds	$ —	$ —	$ —	$ 2,344	$ (6)	$ 2,338
U.S. government securities	—	—	—	2,297	1	2,298
	$ —	$ —	$ —	$ 4,641	$ (5)	$ 4,636

(6) Inventories

Inventories consist of the following (amounts in thousands):

	December 31,	
	2007	2006
Raw materials	$1,029	$ 2,160
Finished goods	6,377	10,190
	$7,406	$12,350

In February 2007, the Company sold substantially all of the assets, which consisted primarily of inventory, of its handheld connectivity business to CradlePoint, Inc. (“CradlePoint”) for $1,800,000 plus potential additional consideration based on future performance. At the closing, the Company received $50,000 in cash and a promissory note for $1,500,000, bearing interest at the rate of 6% annually, to be paid within two years as CradlePoint sells the inventory it acquired in the transaction. The Company received a cash payment of $250,000 in August 2007. The contract terms specify that the Company will also receive (1) 5% of CradlePoint’s revenues for five years, with a

minimum payment of $300,000 due within three years, and (2) 100% of the first $200,000, and 50% thereafter, of any sales beyond the first $1,800,000 of inventory purchased by CradlePoint at the closing.

In July 2007, the Company determined it would reduce the number of stock keeping units, or SKUs, currently offered to eliminate low-volume products, such as customer-specific packaging options with limited distribution. The decision to reduce SKUs resulted in a write-down to inventory of $3,734,000, which was recorded in the second quarter of 2007.

(7) Property and Equipment

Property and equipment consists of the following (amounts in thousands):

	December 31,	
	2007	2006
Furniture and fixtures	$ 531	$ 532
Store, warehouse and related equipment	1,455	1,270
Computer equipment	4,206	4,126
Tooling	2,852	3,479
Leasehold improvements	586	698
	9,630	10,105
Less accumulated depreciation and amortization	(8,077)	(7,125)
Property and equipment, net	$ 1,553	$ 2,980

Aggregate depreciation and amortization expense for property and equipment totaled $1,274,000, $1,238,000 and $1,045,000 for the years ended December 31, 2007, 2006 and 2005, respectively.

(8) Asset Impairment

During the quarter ended December 31, 2007, as a result of a decision made by the Company to discontinue production and marketing of its keyboard products, and in accordance with Statement of Financial Accounting Standard No. 144, “Accounting for the Impairment or Disposal of Long-Lived Assets” (“SFAS 144”), the Company determined that there was an indication that property and equipment, with a gross value of $917,000, and amortizable intangible assets, with a gross value of $970,000, associated with its Low-Power Group segment might be impaired. Accordingly, the Company performed an impairment analysis utilizing an undiscounted future cash flow approach in accordance with SFAS 144 and determined that these property and equipment assets and amortizable intangible assets were impaired due to a significant deterioration in forecasted sales. As a result, during the quarter ended December 31, 2007, the Company recorded an impairment charge of $564,000 related to property and equipment, which was net of accumulated depreciation of $353,000. Also, during the quarter ended December 31, 2007, the Company recorded an impairment charge of $573,000 related to amortizable intangible assets, which was net of accumulated amortization of $397,000. These impairment charges are included in the consolidated statements of operations under the caption “Asset impairment.”

During the quarter ended September 30, 2006, as a result of a sharp downturn in handheld product sales, and in accordance with Statement of Financial Accounting Standard No. 144, “Accounting for the Impairment or Disposal of Long-Lived Assets” (“SFAS 144”), the Company determined that there was an indication that property and equipment, with a gross value of $1,079,000, and amortizable intangible assets, with a gross value of $1,642,000, associated with its Connectivity Group segment might be impaired. Accordingly, the Company performed an impairment analysis utilizing an undiscounted future cash flow approach in accordance with SFAS 144 and determined that these property and equipment assets and amortizable intangible assets were impaired due to a

significant deterioration in current quarter sales and forecasted sales to the segment's largest customer. As a result, during the quarter ended September 30, 2006, the Company recorded an impairment charge of $488,000 related to property and equipment, which was net of accumulated depreciation of $591,000. Also, during the quarter ended September 30, 2006, the Company recorded an impairment charge of $690,000 related to amortizable intangible assets, which was net of accumulated amortization of $952,000. These impairment charges are included in the consolidated statements of operations under the caption "Asset impairment."

(9) Goodwill

Goodwill by business segment is as follows (amounts in thousands):

	High-Power Group	Low-Power Group	Total
Reported balance at December 31, 2006	$ 3,675	$ 237	$ 3,912
Impairment	(3,675)	(237)	(3,912)
Reported balance at December 31, 2007	$ —	$ —	$ —

In accordance with Financial Accounting Standard No. 142, "Goodwill and Other Intangible Assets" ("SFAS 142"), as of December 31, 2007, the Company determined that there was an indication that its recorded goodwill associated with its High-Power Group segment might be impaired due to a deterioration in forecasted sales as a result of the loss of two significant customers during 2007. Furthermore, as a result of the Company's decision to discontinue production and marketing of foldable keyboard products, the Company determined that there was an indication that its recorded goodwill associated with its Low-Power Group segment might also be impaired. Accordingly, the Company performed an impairment analysis utilizing both a discounted future cash flows approach and a market comparable approach on the interim period in accordance with SFAS 142 and determined that the goodwill associated with both the High-Power Group and Low-Power Group segments was fully impaired. As a result, during the quarter ended December 31, 2007, the Company recorded a goodwill impairment charge of $3,912,000. This impairment charge is included in the consolidated statements of operations under the caption "Asset impairment."

During the quarter ended September 30, 2006, as a result of a sharp downturn in handheld product sales, and in accordance with Financial Accounting Standard No. 142, "Goodwill and Other Intangible Assets" ("SFAS 142"), the Company determined that there was an indication that its recorded goodwill associated with its Connectivity Group segment might be impaired due to a significant deterioration in current quarter sales and forecasted sales to the segment's largest customer. Accordingly, the Company performed an impairment analysis utilizing both a discounted future cash flows approach and a market comparable approach on the interim period in accordance with SFAS 142 and determined that the goodwill associated with the handheld hardware and docking and expansion components was fully impaired. As a result, during the quarter ended September 30, 2006, the Company recorded a goodwill impairment charge of $6,895,000. This impairment charge is included in the consolidated statements of operations under the caption "Asset impairment."

(10) Intangible Assets

Intangible assets consist of the following at December 31, 2007 and 2006 (amounts in thousands):

		December 31, 2007			December 31, 2006		
	Average Life (Years)	Gross Intangible Assets	Accumulated Amortization	Net Intangible Assets	Gross Intangible Assets	Accumulated Amortization	Net Intangible Assets
Amortized intangible assets:							
License fees	7	$ 334	$ (280)	$ 54	$ 934	$ (571)	$ 363
Patents and trademarks	5	3,368	(1,726)	1,642	3,134	(1,371)	1,763
Trade names	10	429	(214)	215	429	(168)	261
Customer intangibles	5	33	(18)	15	813	(105)	708
Total		$ 4,164	$ (2,238)	$ 1,926	$ 5,310	$ (2,215)	$ 3,095

On April 16, 2007, the Company sold a portfolio of patents and patents pending related to its PCI expansion and docking technology for gross proceeds of $1,850,000. The net book value of this portfolio of patents was $28,000, resulting in a gain on the sale of these assets of $1,822,000. Per the terms of the agreement, the Company received a perpetual, non-exclusive license to utilize the patent portfolio, and granted a sublicense to Mission Technology Group in its ongoing connectivity business. The Company will further continue to retain all of its patents and patents pending related to its power and other technologies.

In connection with the April 2007 sale of patents, the Company disposed of a license asset related to its PCI expansion and docking business, which had a gross value of $400,000, accumulated amortization of $163,000, and a net book value of $237,000, resulting in a loss on disposition of $237,000.

As discussed in Note 8 above, during the year ended December 31, 2007, the Company determined that trademarks with a gross value of $190,000 and customer intangibles of $780,000 were impaired. Accordingly, the Company recorded an impairment charge of $573,000 during 2007 which was net of accumulated amortization of $150,000 related to trademarks and $247,000 related to customer intangibles. Also, during the year ended December 31, 2006, the Company determined that license fees with a gross value of $1,013,000 and customer intangibles of $629,000 were impaired. Accordingly, the Company recorded an impairment charge of $690,000 during 2006 which was net of accumulated amortization of $359,000 related to license fees and $594,000 related to customer intangibles.

During 2006, the Company acquired substantially all of the assets of Think Outside, Inc. The intangible assets consisted of a customer list having a value of $780,000 and patents and trademarks having a value of $670,000.

Aggregate amortization expense for identifiable intangible assets totaled $800,000, $883,000 and $933,000 for the years ended December 31, 2007, 2006 and 2005, respectively. Estimated amortization expense for each of the five succeeding years ended December 31 is as follows (amounts in thousands):

Year	Amortization Expense
2008	$ 573
2009	478
2010	354
2011	79
2012	40

During 2005, the Company sold a portfolio of 46 patents and patents pending related to its Split Bridge and serialized PCI intellectual property for gross proceeds of $13,000,000. The historical cost of this portfolio of patents

was $501,000 less accumulated amortization of $448,000, or net book value of $53,000. Other expenses associated with the sale were $1,309,000, resulting in a gain on the sale of these assets of $11,638,000. Under the terms of the agreement, the Company has received a perpetual, non-exclusive license to utilize the patent portfolio in its ongoing connectivity business. The Company will further continue to retain all of its patents and patents pending related to its power and other connectivity technologies.

(11) Line of Credit

In July 2006, the Company entered into a $10,000,000 line of credit with a bank, bearing interest at prime or LIBOR plus 2%, interest only payments due monthly, with final payment of interest and principal due on July 28, 2008. In addition, the Company pays a quarterly facility fee of 0.125% on any unused portion of the revolving loan commitment. The line of credit is secured by all assets of the Company. The Company had no outstanding balance against the line of credit at December 31, 2007 and December 31, 2006. The line of credit was subject to financial covenants at December 31, 2007 and the Company was not in compliance with those covenants.

(12) Lease Commitments

The Company has entered into various non-cancelable operating lease agreements for its office facilities and office equipment, which expire in 2009. Existing facility leases require monthly rents plus payment of property taxes, normal maintenance and insurance on facilities. Rental expense for the operating leases was $980,000, $982,000 and $885,000 during the years ended 2007, 2006, and 2005, respectively.

A summary of the minimum future lease payments for the years ending after December 31 follows (amounts in thousands):

Year	Amount
2008	439
2009	45
2010	8
2011	6
	$498

(13) Income Taxes

The provision for income taxes includes income taxes currently payable and those deferred due to temporary differences between the financial statement and tax bases of assets and liabilities that will result in taxable or deductible amounts in the future. The Company recorded no provision for income taxes for the years ended December 31, 2007 and 2006, and it recorded a provision for income tax of $285,000 for the year ended December 31, 2005.

MOBILITY ELECTRONICS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Years Ended December 31, 2007, 2006 and 2005 — (Continued)

The provision for income taxes differed from the amounts computed by applying the statutory U.S. federal income tax rate of 34% in 2007, 2006 and 2005 to income (loss) before income taxes as a result of the following:

	Years Ended December 31,		
	2007	2006	2005
Federal statutory rate	$ (4,141)	$(5,726)	$ 1,799
Equity interest in non-includable entity	(132)	—	—
Meals, entertainment and other non-deductible expenses	22	35	36
State income taxes	—	—	93
Foreign rate differential	36	18	14
Gain on sale of assets of Texas subsidiary	(3)	399	143
Reduction of net operating loss due to Section 382 limitation	—	—	18,678
Change in deferred tax valuation allowance	3,632	5,302	(21,934)
Nondeductible litigation settlement expense	—	—	1,456
Adjustment to deferred taxes	(663)	(2,372)	—
Non-deductible goodwill impairment	1,249	2,344	—
Income tax provision	$ —	$ —	$ 285

With the exception of 2005, the Company has generated net operating losses for both financial and income tax reporting purposes since inception. At December 31, 2007, the Company had net operating loss carry-forwards for federal income tax purposes of approximately $97,669,000 and approximately $6,520,000 for foreign income tax purposes which, subject to possible annual limitations, are available to offset future taxable income, if any. The federal net operating loss carry-forwards expire between 2011 and 2024.

MOBILITY ELECTRONICS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Years Ended December 31, 2007, 2006 and 2005 — (Continued)

The temporary differences that give rise to deferred tax assets and liabilities at December 31, 2007 and 2006 are as follows (amounts in thousands):

	December 31, 2007	December 31, 2006
Deferred tax assets:		
Net operating loss carry-forward for federal income taxes	$ 33,207	$ 29,887
Net operating loss carry-forward for foreign income taxes	1,956	1,687
Net operating loss carry-forward for state income taxes	3,416	3,022
Depreciation and amortization	1,487	564
Intangibles	—	421
Accrued liabilities	2,241	1,846
Reserves	217	236
Bad debts	226	108
Tax credits	630	415
Inventory obsolescence	1,761	3,296
Total gross deferred tax assets	45,141	41,482
Deferred tax liabilities:		
Intangibles	(39)	—
Acquisitions	(159)	(171)
Total gross deferred tax liabilities	(198)	(171)
Net deferred tax assets	44,943	41,311
Less valuation allowance	(44,943)	(41,311)
Net deferred tax assets	$ —	$ —

The valuation allowance for deferred tax assets as of December 31, 2007 and 2006 was $44,943,000 and $41,311,000, respectively. The change in the total valuation allowance for the year ended December 31, 2007 was an increase of $3,632,000.

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon generation of future taxable income during the periods in which those temporary differences become deductible. In addition, due to the frequency of equity transactions and acquisitions by the Company, it is possible the use of the Company's remaining net operating loss carry-forward may be limited in accordance with Section 382 of the Internal Revenue Code. A determination as to this limitation is currently underway. In 2005, a preliminary Section 382 assessment was performed on the net operating losses of iGo which were acquired as part of the iGo acquisition in 2002. Based on this preliminary assessment, the Company has determined that it is doubtful that these net operating losses will be utilized due to the limitations of Section 382. Therefore, the deferred tax asset and the related valuation allowance for these net operating losses was reduced by $18,678,000 in 2005 to reflect the fact that this portion of the net operating losses will never be used. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in assessing the valuation allowance. Based upon the level of historical taxable income and projections for future taxable income over the periods in which the deferred tax assets are deductible, management currently believes it is more likely than not that the Company will not realize the benefits of these deductible differences.

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Uncertain Tax Positions

As discussed in Note 2, in July 2006, the FASB issued FIN 48, which prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The Interpretation requires that the Company recognize in the financial statements, the impact of a tax position, if that position is not more likely than not of being sustained, based on the technical merits of the position. FIN 48 also provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods and disclosure.

The Company adopted the provisions of FIN 48 on January 1, 2007. As a result of the adoption, the Company recognized no material adjustment to income tax accounts that existed as of December 31, 2006. It is the Company's policy to recognize interest and penalties related to uncertain tax positions in general and administrative expense. As a result of its historical net operating losses, the statute of limitations remains open for each tax year since the Company was formed in 1996.

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows (amounts in thousands):

	December 31, 2007
Gross unrecognized tax benefits on January 1, 2007	$ —
Additions based on tax positions related to the current year	30
Additions for tax positions of prior years	267
Reductions for settlements and payments	—
Reductions due to statute expiration	—
Gross unrecognized tax benefits on December 31, 2007	$ 297

Included in the balance of gross unrecognized tax benefits at December 31, 2007, are $49,000 of tax positions for which the ultimate deductibility is highly certain but for which there is uncertainty about the timing of such deductibility. Because of the impact of deferred tax accounting, other than interest and penalties, the disallowance of the shorter deductibility period would not affect the annual effective tax rate but would normally accelerate the payment of cash to the taxing authority to an earlier period. However, because the Company has significant tax net operating losses in the federal and most state taxing jurisdictions, the Company believes any ultimate settlement of these items differently than as reported in the original tax returns will have little or no impact.

Included in the balance of gross unrecognized tax benefits at December 31, 2007 is $247,000 of tax positions for which ultimate tax benefit is uncertain. These amounts consist of various credits. Because of the permanent nature of these items the disallowance would normally impact the effective tax rate.

With respect to the uncertain positions identified above, both timing and credit items, the Company has established a valuation allowance against 100 percent of the credit carry-forward amounts and the net deferred tax assets. Further, sufficient net operating loss exists to offset any potential increase in taxable items. Therefore, any reversal or settlement of the amounts identified above will result in little or no additional tax. Accordingly, no interest or penalty has been accrued or included related to the table amounts shown above.

There are no positions the Company reasonably anticipates will significantly increase or decrease within 12 months of the reporting date.

The Company files income tax returns in the U.S. federal jurisdiction, and various state and foreign jurisdictions. With few exceptions, the Company is subject to examinations in all jurisdictions as statutes have not closed due to a history of net operating losses. The Internal Revenue Service (IRS) has notified the Company, during the first quarter of 2008, that an examination of the Company's U.S. income tax return for 2005 will be

conducted. Because this examination has not officially begun the Company cannot offer any indication as to when it will be complete or what issues, if any, will be raised. The Company anticipates any adjustments proposed will have little, if any, impact due to the large tax net operating loss carry-forwards.

(14) Stockholders' Equity

(a) Convertible Preferred Stock and Related Warrants

At December 31, 2007 and 2006, there were 15,000,000 shares of Series C preferred stock authorized and no shares issued and outstanding for either period. During 2005, all of the remaining shares of Series C preferred stock, which consisted of a total of 270,541 shares, were converted into 276,596 shares of common stock at an average rate of 1-to-1.02238.

At December 31, 2007 and 2006, there were 27,647 and 41,470 Series F Warrants outstanding and exercisable for 27,647 and 41,470 shares of common stock.

(b) Common Stock and Related Warrants

Holders of shares of common stock are entitled to one vote per share on all matters submitted to a vote of the Company's stockholders. There is no right to cumulative voting for the election of directors. Holders of shares of common stock are entitled to receive dividends, if and when declared by the board of directors out of funds legally available therefore, after payment of dividends required to be paid on any outstanding shares of preferred stock. Upon liquidation, holders of shares of common stock are entitled to share ratably in all assets remaining after payment of liabilities, subject to the liquidation preferences of any outstanding shares of preferred stock. Holders of shares of common stock have no conversion, redemption or preemptive rights.

During 2005, the Company, RadioShack and Motorola entered into several agreements to restructure their existing strategic relationship. The material agreements included a Strategic Partners Investment Agreement among the parties pursuant to which Motorola and RadioShack each purchased 689,656 shares of Mobility's common stock at a price of $7.25 per share, for a total aggregate issuance by Mobility of 1,379,312 shares of its common stock and total aggregate gross proceeds to Mobility of $10 million; RadioShack and Motorola each received two warrants which provided each with the right to purchase up to an additional 1,190,476 shares of Mobility's common stock at a price of $8.40 per share upon the achievement of certain performance results by Mobility. In June 2006, Mobility and RadioShack amended the terms of its agreements, resulting in RadioShack's forfeiture of its warrants to purchase 1,190,476 shares of Mobility's common stock. As of December 31, 2007 Motorola held its warrants to purchase 1,190,476 shares of Mobility's common stock and there are two performance targets, each based on Division EBIT, as defined in the agreement. 595,238 warrants expired on February 15, 2008. When the Division achieves $50 million in EBIT, the remaining 595,238 warrants will become exercisable, and these warrants expire on February 15, 2010 but may, under certain circumstances, extend to August 15, 2010. In addition, pursuant to the terms of these warrants, if at any time following March 31, 2006 the closing price of the Company's common stock exceeds $16.80 per share for 20 consecutive trading days, the Company may, at its option, notify and require that Motorola exercise, or lose, these warrants within 180 days. When it becomes probable that each of the performance targets of the Division will be met, or when the Company notifies and requires that Motorola exercise, or lose, the warrants, the fair value of the warrants will be measured and a corresponding charge will be recorded to sales and marketing expense.

In February 2006, the Company issued 82,538 shares of common stock valued at $9.68 per share to former stockholders of Portsmith in connection with the settlement of a lawsuit

In May 2006, the Company issued 362,740 shares of common stock, valued at $6.89 per share, or $2,500,000, for the acquisition of the assets of Think Outside, Inc.

In August 2006, the Company issued 15,000 shares of common stock valued at $11.36 per share, or $170,000 in aggregate, to Invision Software as earn-out consideration.

In May 2007, the Company's board of directors authorized, and the Company repurchased 689,656 shares of its common stock at a price of $3.11 per share, or a total price of $2,147,382 in a private transaction. The Company immediately retired these shares upon repurchase based on approval received from its Board of Directors.

(15) Employee Benefit Plans

(a) Retirement Plan

The Company has a defined contribution 401(k) plan for all employees. Under the 401(k) plan, employees are permitted to make contributions to the plan in accordance with IRS regulations. The Company may make discretionary contributions as approved by the Board of Directors. The Company contributed $207,000, $299,000 and $270,000 during 2007, 2006 and 2005, respectively.

(b) Stock Options

In 1995, the Board granted stock options to employees to purchase 132,198 shares of common stock. Later in 1996, the Company adopted an Incentive Stock Option Plan (the "1996 Plan") pursuant to the Internal Revenue Code. During 2002, the 1996 Plan was amended to increase the aggregate number of shares of common stock for which options may be granted or for which stock grants may be made to 3,000,000. During 2002, in connection with its acquisition of Cutting Edge Software, the Company's Board of Directors authorized the issuance of options to purchase 150,000 shares of common stock to certain Cutting Edge Software employees (the "CES Options"). During 2004, the Company adopted the Mobility Electronics, Inc. Omnibus Long-Term Incentive Plan (the "2004 Omnibus Plan") and the Mobility Electronics, Inc. Non-Employee Directors Plan (the "2004 Directors Plan"). Under the 2004 Omnibus Plan, the Company may grant up to 2,350,000 stock options, stock appreciation rights, restricted stock awards, performance awards, and other stock awards. Under the 2004 Directors Plan, the Company may grant up to 400,000 stock options, stock appreciation rights, restricted stock awards, performance awards, and other stock awards. The options under the 1996 Plan, the CES Options, and the 2004 Omnibus Plan were granted at the fair market value of the Company's stock at the date of grant as determined by the Company's Board of Directors. Options become exercisable over varying periods up to 3.5 years and expire at the earlier of termination of employment or up to six years after the date of grant. There were 324,723, 935,686 and 61,984 shares available for grant under the 1996 Plan, the 2004 Omnibus Plan and the 2004 Directors Plan, respectively, as of December 31, 2007.

The Company did not grant any stock options during the years ended December 31, 2007, 2006 or 2005, respectively. The per share weighted average fair value of stock options granted under the 1996 Plan, the CES Options, and the 2004 Omnibus Plan for the year ended December 31, 2004 was $4.24, based on the date of grant using the Black-Scholes method with the following weighted average assumptions: expected life of 3 years, risk-free interest rate of 3.25%, dividend yield of 0% and volatility of 80%.

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The following table summarizes information regarding stock option activity for the years ended December 31, 2005, 2006 and 2007:

	Number	Weighted Average Exercise Price per Share
Outstanding, January 1, 2005	1,942,159	4.11
Granted	—	—
Canceled	(135,458)	2.53
Exercised	(623,955)	2.90
Outstanding, December 31, 2005	1,182,746	4.92
Granted	—	—
Canceled	(112,049)	7.52
Exercised	(362,619)	1.82
Outstanding, December 31, 2006	708,078	6.10
Granted	—	—
Canceled	(195,855)	8.25
Exercised	(116,048)	1.92
Outstanding, December 31, 2007	396,175	$ 6.26

The following table summarizes information about the stock options outstanding at December 31, 2007:

Range of Exercise Prices	Options Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Options Exercisable	Weighted Average Exercise Price	Aggregate Intrinsic Value
$0.82 - $1.29	97,182	1.01	$ 1.06	97,182	$ 1.06	
$1.30 - $7.15	50,493	1.64	3.51	50,493	3.51	
$7.16 - $8.92	61,000	2.04	7.97	61,000	7.97	
$9.05 - $11.00	187,500	1.97	9.13	187,500	9.13	
$0.82 - $11.00	396,175	1.70	$ 6.26	396,175	$ 6.26	$48,995

Cash received from option exercises during the years ended December 31, 2007, 2006 and 2005 totaled $239,000, $606,000 and $1,828,000, respectively.

In June 2007, the Company recorded in general and administrative expense pre-tax charges of $65,000 associated with the expensing of stock options, due to a modification to a prior grant of stock options that resulted in a new measurement date for that option award. The Company used the Black-Scholes option valuation model to value the option award as of the new measurement date using the following assumptions: weighted average life of 2.6 years, risk free rate of 4.9%, volatility of 65%, and dividend rate of 0%.

For the years ended December 31, 2007, 2006 and 2005, the Company recorded in general and administrative expense pre-tax charges of $65,000, $912,000 and $11,000 associated with the expensing of stock options and employee stock purchase plan activity.

As of December 31, 2007, there were no outstanding non-vested stock options, and no unrecognized compensation expense relating to non-vested stock options.

(c) Restricted Stock Units

Under the 2004 Directors Plan and the 2004 Omnibus Plan, the Company has instituted the grant of Restricted Stock Units ("RSUs") in lieu of stock options. The RSUs are accounted for using the measurement and recognition principles of SFAS 123R. Accordingly, unearned compensation is measured at fair market value on the date of grant and recognized as compensation expense over the period in which the RSUs vest. All RSUs awarded during 2005 and 2006 will vest on January 13, 2010, but may vest earlier, in full, if specific performance criteria are met or, on a pro rata basis, upon the death, disability, termination without cause, or retirement of plan participants. All RSUs awarded during 2007 will vest ratably on January 2, 2008, 2009, 2010 and 2011, but may vest earlier, either partially or in full, if specific performance criteria are met or, on a pro rata basis, upon the death, disability, termination without cause, or retirement of plan participants. RSUs awarded to board members under the 2004 Directors Plan for election to the board vest 100% upon the three-year anniversary of the grant date, but may vest earlier, on a pro rata basis, upon the death, disability, or retirement of plan participants. RSUs awarded to board members under the 2004 Directors Plan for committee service vest 100% upon the one-year anniversary of the grant date, but may vest earlier, on a pro rata basis, upon the death, disability, or retirement of plan participants.

On June 11, 2007, pursuant to the terms of the employment agreement dated May 1, 2007 by and between the Company and Michael D. Heil, the Company's newly elected director, chief executive officer and president, Mr. Heil was awarded 1,000,000 restricted stock units outside of the Company's 2004 Directors Plan and 2004 Omnibus Plan as an inducement award without stockholder approval pursuant to Nasdaq Marketplace Rule 4350(i)(1)(A)(iv). Pursuant to the terms of Mr. Heil's agreement, 500,000 of the restricted stock units will vest in increments of 125,000 shares per year effective on June 11, 2008, June 11, 2009, June 11, 2010 and June 11, 2011, or earlier, in full, upon a change in control of Mobility or, on a pro rata basis, upon Mr. Heil's death, disability or termination without cause. The remaining 500,000 restricted stock units granted to Mr. Heil will vest in increments of 250,000, subject to the Company's achievement of annual performance objectives for the 2009 and 2011 fiscal years, respectively. The 500,000 restricted stock units granted to Mr. Heil for which the vesting is subject to the Company's achievement of future annual performance objectives will be valued and recorded if and when attainment of the performance goals is probable. During the current quarter, no expense was recognized for these performance based awards as the probability criteria under SFAS 123(R) had not been met.

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The following table summarizes information regarding restricted stock unit activity under the 2004 Directors Plan, the 2004 Omnibus Plan and the Nasdaq Rule 4350(i)(a)(iv) grant for the years ended December 31, 2005, 2006 and 2007, respectively:

	2004 Directors Plan		2004 Omnibus Plan		Nasdaq Rule 4350(i)(1)(a)(iv) Grant	
	Number	Weighted Average Value per Share	Number	Weighted Average Value per Share	Number	Weighted Average Value per Share
Outstanding, January 1, 2005	82,200	$ 8.48	—	$ —	—	$ —
Granted	59,700	8.54	894,448	7.51	—	—
Canceled	—	—	(119,422)	7.35	—	—
Released to common stock	—	—	(6,006)	7.33	—	—
Released for settlement of taxes	—	—	(2,103)	7.33	—	—
Outstanding, December 31, 2005	141,900	8.51	766,917	7.53	—	—
Granted	37,200	7.15	394,364	7.20	—	—
Canceled	—	—	(213,094)	7.69	—	—
Released to common stock	(14,700)	8.54	(25,688)	7.51	—	—
Released for settlement of taxes	—	—	(8,335)	7.47	—	—
Outstanding, December 31, 2006	164,400	8.20	914,164	7.36	—	—
Granted	127,167	2.81	1,053,450	3.45	1,000,000	2.96
Canceled	—	—	(575,457)	5.24	—	—
Released to common stock	(96,900)	8.28	(167,505)	7.19	—	—
Released for settlement of taxes	—	—	(66,487)	7.15	—	—
Outstanding, December 31, 2007	194,667	$ 4.64	1,158,165	$ 4.88	1,000,000	$ 2.96

For the years ended December 31, 2007, 2006 and 2005, the Company recorded in general and administrative expense pre-tax charges of $2,560,000, $1,724,000 and $1,487,000 associated with the expensing of restricted stock unit activity.

As of December 31, 2007, there was $5,009,000 of total unrecognized compensation cost related to non-vested RSUs, which is expected to be recognized over a weighted average period of three years.

As of December 31, 2007, all outstanding restricted stock units were non-vested.

(d) Employee Stock Purchase Plan

The Company established an Employee Stock Purchase Plan (the "Purchase Plan") in October 2001, under which 2,000,000 shares of common stock have been reserved for issuance. Eligible employees may purchase a limited number of shares of the Company's common stock at 85% of the market value at certain plan-defined dates. On January 31, 2006, the Company's Board of Directors decided to eliminate the Purchase Plan effective April 1, 2006. During the three months ended March 31, 2006, 4,815 shares were issued under the Employee Stock Purchase Plan for net proceeds of $34,000.

(16) Net Income (Loss) per Share

The computation of basic and diluted net income (loss) per share (EPS) follows (in thousands, except per share amounts):

	Years Ended December 31,		
	2007	2006	2005
Basic net income (loss) per share computation:			
Numerator:			
Net income (loss)	$ (12,564)	$ (16,842)	$ 5,007
Denominator:			
Weighted average number of common shares outstanding	31,534	31,392	30,004
Basic net income (loss) per share	$ (0.40)	$ (0.54)	$ 0.17
Diluted net income (loss) per share computation:			
Numerator:			
Net income (loss)	$ (12,564)	$ (16,842)	$ 5,007
Denominator:			
Weighted average number of common shares outstanding	31,534	31,392	30,004
Effect of dilutive stock options, warrants, and restricted stock units	—	—	1,894
Effect of common shares issuable upon conversion of preferred shares	—	—	105
	31,534	31,392	32,003
Diluted net income (loss) per share	$ (0.40)	$ (0.54)	$ 0.16
Stock options not included in dilutive net income (loss) per share since anti-dilutive	267	412	53
Warrants not included in dilutive net income (loss) per share since anti-dilutive	1,195	1,195	—

(17) Business Segments, Concentration of Credit Risk and Significant Customers

The Company is engaged in the business of selling accessories for computers and mobile electronic devices. The Company has three operating business segments, consisting of the High-Power Group, Low-Power Group, and Connectivity Group. The Company's chief operating decision maker ("CODM") continues to evaluate revenues and gross profits based on products lines, routes to market and geographies.

In February 2007, the Company sold substantially all of the assets, which consisted primarily of inventory, of its handheld hardware product line. The operating results of the handheld hardware product line were historically

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included in the results of the Connectivity Group. In April 2007, the Company sold substantially all of the assets, which consisted primarily of inventory, of its expansion and docking product line to Mission Technology Group. The operating results of Mission Technology Group are included in the consolidated financial statements pursuant to FIN 46R and are presented in the results of the Connectivity Group.

The following tables summarize the Company's revenue, operating results and assets by business segment (amounts in thousands):

	Years Ended December 31,		
	2007	2006	2005
Revenue:			
High-Power Group	$ 48,074	$57,146	$63,118
Low-Power Group	22,413	17,075	4,024
Connectivity Group	7,232	18,243	18,359
	$77,719	$92,464	$85,501

	Years Ended December 31,		
	2007	2006	2005
Operating income (loss):			
High-Power Group	$ (1,312)	$ 11,831	$ 12,676
Low-Power Group	338	(3,816)	(2,472)
Connectivity Group	(608)	(12,178)	1,235
Corporate	(14,038)	(13,761)	(14,303)
	$ (15,620)	$ (17,924)	$ (2,864)

The High-Power Group operating loss for 2007 includes a $222,000 inventory impairment charge (see Note 6) and a $3,675,000 goodwill impairment charge (see Note 9). The Low-Power Group operating income for 2007 includes a $3,512,000 inventory impairment charge (see Note 6), a $1,137,000 asset impairment charge (see Note 8) and a $237,000 goodwill impairment charge (see Note 9).

The Connectivity Group operating loss for 2006 includes a $1,178,000 asset impairment charge (see Note 8), a $6,895,000 goodwill impairment charge (see Note 9), and a $3,535,000 inventory impairment charge, which was based on the estimated fair value of expansion, docking and handheld cradle inventory as indicated by the terms of the transactions entered into during the first quarter of 2007 (see Notes 3 and 6).

The Company's corporate function supports its various business segments and, as a result, the Company attributes the aggregate amount of its general and administrative expense to corporate as opposed to allocating it to individual business segments.

	December 31,	
	2007	2006
Assets:		
High-Power Group	$ 19,035	$ 26,253
Low-Power Group	7,810	13,362
Connectivity Group	2,199	4,220
Corporate	25,106	22,029
	$ 54,150	$65,864

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The Company's cash and investments are used to support its various business segments and, as a result, the Company considers its aggregate cash and investments to be corporate assets as opposed to assets of individual business segments.

The following tables summarize the Company's revenues by product line, as well as its revenues by geography and the percentages of revenue by route to market (amounts in thousands):

	Revenue by Product Line Years Ended December 31,		
	2007	2006	2005
High-power mobile electronic power products	$ 47,835	$55,109	$53,917
Low-power mobile electronic power products	19,308	15,056	10,233
Foldable keyboard products	3,101	2,106	—
Accessories and other products	221	1,917	2,901
Handheld products	44	12,412	12,171
Expansion and docking products	7,210	5,864	6,279
Total revenues	$77,719	$ 92,464	$85,501

	Revenue by Geography Years Ended December 31,		
	2007	2006	2005
North America	$ 64,100	$ 77,724	$ 73,142
Europe	3,579	5,715	5,986
Asia Pacific	10,031	8,947	6,353
All other	9	78	20
	$77,719	$92,464	$85,501

	% of Revenue by Route to Market Years Ended December 31,		
	2007	2006	2005
OEM and private-label-resellers	52%	62%	63%
Retailers and distributors	37%	31%	27%
Other	11%	7%	10%
	100%	100%	100%

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash and trade accounts receivable. The Company places its cash with high credit quality financial institutions and generally limits the amount of credit exposure to the amount of FDIC coverage. However, periodically during the year, the Company maintains cash in financial institutions in excess of the FDIC insurance coverage limit of $100,000. The Company performs ongoing credit evaluations of its customers' financial condition but does not typically require collateral to support customer receivables. The Company establishes an allowance for doubtful accounts based upon factors surrounding the credit risk of specific customers, historical trends and other information.

Three customers accounted for 36%, 27%, and 10% of net sales for the year ended December 31, 2007. Three customers accounted for 25%, 17% and 17% of net sales for the year ended December 31, 2006. Three customers accounted for 27%, 18%, and 13% of net sales for the year ended December 31, 2005.

Three customers' accounts receivable balances accounted for 50%, 28% and 11% of net accounts receivable at December 31, 2007. Three customers' accounts receivable balances accounted for 37%, 17% and 16% of net accounts receivable at December 31, 2006.

Allowance for doubtful accounts was $597,000 and $286,000 at December 31, 2007 and December 31, 2006, respectively. Allowance for sales returns was $474,000 and $350,000 at December 31, 2007 and December 31, 2006, respectively.

Export sales were approximately 18%, 16% and 15% of the Company's net sales for the year ended December 31, 2007, 2006 and 2005, respectively. The principal international markets served by the Company were Europe and Asia Pacific.

(18) Contingencies

The Company procures its products primarily from supply sources based in Asia. Typically, the Company places purchase orders for completed products and takes ownership of the finished inventory upon completion and delivery from its supplier. Occasionally, the Company presents its suppliers with 'Letters of Authorization' for the suppliers to procure long-lead raw components to be used in the manufacture of the Company's products. These Letters of Authorization indicate the Company's commitment to utilize the long-lead raw components in production. As of June 30, 2007, based on a change in strategic direction, the Company determined it would not procure certain products for which it had outstanding Letters of Authorization with suppliers. The Company believes it is probable that it will be required to pay suppliers for certain Letter of Authorization commitments, and has estimated and accrued a liability for this contingency in the amount of $519,000 at December 31, 2007.

Certain former officers of iGo Corporation are seeking potential indemnification claims against the Company's wholly-owned subsidiary, iGo Direct Corporation, relating to an SEC matter involving such individuals (but not involving the Company) that relates to matters that arose prior to the Company's acquisition of iGo Corporation in September 2002.

Subsequent to December 31, 2007, the Company obtained reimbursement under iGo's directors' and officers' liability insurance policy as it relates to this potential iGo indemnification matter (see Note 20). The Company believes the reimbursement from the insurance company will be sufficient to offset any potential indemnification claims of former iGo officers, and accordingly, has not recorded a contingent liability for these claims as of December 31, 2007.

The Company is from time to time involved in various legal proceedings incidental to the conduct of its business. The Company believes that the outcome of all such pending legal proceedings will not in the aggregate have a material adverse effect on its business, financial condition, results of operations or liquidity.

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(19) Supplemental Financial Information

A summary of additions and deductions related to the allowances for accounts receivable for the years ended December 31, 2007, 2006 and 2005 follows (amounts in thousands):

	Balance at Beginning of Year	Charged to Costs and Expenses	Utilization	Balance at End of Year
Allowance for doubtful accounts:				
Year ended December 31, 2007	$ 286	$ 125	$ 186	$ 597
Year ended December 31, 2006	$ 316	$ 100	$ (130)	$ 286
Year ended December 31, 2005	$ 311	$ —	$ 5	$ 316
Allowance for sales returns:				
Year ended December 31, 2007	$ 350	$ 468	$ (344)	$ 474
Year ended December 31, 2006	$ 231	$ 636	$ (517)	$ 350
Year ended December 31, 2005	$ 183	$ 434	$ (386)	$ 231

(20) Subsequent Events

In February 2008, the Company entered into a Settlement Agreement and Policy Release with Twin City Fire Insurance Company (“Twin City”) wherein Twin City agreed to reimburse the Company $1,500,000 as full and final resolution of claims asserted by the Company in its lawsuit against Twin City. The Company has represented in the Settlement Agreement that it has reimbursed and/or indemnified Mick Delargy and Tom de Jong for substantially all of their known fees and costs incurred in connection with an SEC matter involving such individuals. Furthermore, the Company has also represented that it will use its best efforts to resolve any remaining obligations to indemnify any former officers and directors of iGo in connection with the SEC matter and that it will further use an appropriate portion of the Twin City Settlement Payment towards such resolution.

MOBILITY ELECTRONICS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Years Ended December 31, 2007, 2006 and 2005 — (Continued)

(21) Quarterly Financial Data (Unaudited)

A summary of the quarterly data for the years ended December 31, 2007 and 2006 follows (amounts in thousands, except per share amounts):

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Year ended December 31, 2007:				
Net revenue	$18,863	$19,508	$ 19,039	$ 20,309
Gross profit	$ 5,406	$ 2,119	$ 5,705	$ 6,016
Operating expenses	$ (8,020)	$ (8,886)	$ (6,791)	$(11,169)
Gain on disposal of assets	$ —	$ 1,837	$ —	$ 54
Minority interest	$ —	$ (127)	$ (60)	$ (197)
Net income (loss)	$ (2,043)	$ (4,768)	$ (760)	$ (4,993)
Net income (loss) per share:				
Basic	$ (0.06)	$ (0.15)	$ (0.02)	$ (0.16)
Diluted	$ (0.06)	$ (0.15)	$ (0.02)	$ (0.16)
Year ended December 31, 2006:				
Net revenue	$22,837	$26,147	$ 24,170	$ 19,310
Gross profit	$ 6,957	$ 7,566	$ 6,924	$ 1,668
Operating expenses	$ (8,293)	$ (6,577)	$(16,981)	$ (9,188)
Gain on disposal of assets	$ —	$ —	$ —	$ —
Litigation settlement expense	$ (250)	$ —	$ —	$ —
Net income (loss)	$ (1,263)	$ 1,305	$ (9,743)	$ (7,141)
Net income (loss) per share:				
Basic	$ (0.04)	$ 0.04	$ (0.31)	$ (0.23)
Diluted	$ (0.04)	$ 0.04	$ (0.31)	$ (0.23)

Item 9. ***Changes in and Disagreements with Accountants on Accounting and Financial Disclosure***

None.

Item 9A. ***Controls and Procedures***

Based on their evaluation as of December 31, 2007, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), were effective as of the end of the period covered by this report to ensure that the information required to be disclosed by us in this Annual Report on Form 10-K was recorded, processed, summarized and reported within the time periods specified in the SEC's rules and instructions for Form 10-K. Our disclosure controls and procedures are also designed to ensure that information required to be disclosed in the reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including our Principal Executive Officer and our Principal Financial Officer, to allow timely decisions regarding required disclosure.

Management's Annual Report on Internal Control over Financial Reporting

Management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting as defined by Rules 13a-15(f) and 15d-15(f) under the Exchange Act. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. Management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2007. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control — Integrated Framework*. Based on our assessment of those criteria, management believes that the Company maintained effective internal control over financial reporting as of December 31, 2007.

KPMG LLP, the independent registered public accounting firm that audited the consolidated financial statements of the Company included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2007, issued its report on the effectiveness of, the Company's internal control over financial reporting as of December 31, 2007. The report is included in this Annual Report on Form 10-K.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting (as such term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) during the quarter ended December 31, 2007 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
Mobility Electronics, Inc.:

We have audited Mobility Electronics, Inc.'s internal control over financial reporting as of December 31, 2007, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Mobility Electronics, Inc.'s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Item 9A, *Management's Annual Report on Internal Control over Financial Reporting*. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Mobility Electronics, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2007, based on criteria established in *Internal Control — Integrated Framework,* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Mobility Electronics, Inc. and subsidiaries as of December 31, 2007 and 2006, and the related consolidated statements of operations, stockholders' equity and comprehensive income (loss), and cash flows for each of the years in the three-year period ended December 31, 2007, and our report dated March 12, 2008 expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG LLP

Phoenix, Arizona
March 12, 2008

Item 9B. *Other Information*

Not applicable.

PART III

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

The information required by this Item 10 is incorporated by reference to the material under the captions “Election of Directors,” “Executive Officers of the Company,” “Executive Compensation,” (other than the material under the caption “Compensation Committee Report,” “Principal Stockholders,)” “Corporate Governance,” and “Section 16(a) Beneficial Ownership and Reporting Compliance” in our definitive proxy statement for the 2008 Annual Meeting of Stockholders to be filed with the Securities and Exchange Commission.

We have adopted a Code of Business Conduct and Ethics that applies to all of our directors, officers and employees (including our principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions), and meets the requirements of the SEC rules promulgated under Section 406 of the Sarbanes-Oxley Act of 2002. Our Code of Business Conduct and Ethics is available on our websites at www.igo.com and www.mobilityelectronics.com and copies are available to stockholders without charge upon written request to our Secretary at the Company’s principal address. Any substantive amendment to the Policy on Business Conduct or any waiver of the Policy granted to our principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions, will be posted on our websites at www.igo.com and www.mobilityelectronics.com within five business days (and retained on the Web site for at least one year).

Item 11. *Executive Compensation*

The information required by this Item 11 is incorporated by reference to the material under the captions “Executive Compensation,” other than the material under the caption “Compensation Committee Report,” in our definitive proxy statement for the 2008 Annual Meeting of Stockholders to be filed with the Securities and Exchange Commission.

Item 12. *Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters*

The information required by this Item 12 is incorporated by reference to the material under the caption “Principal Stockholders” in our definitive proxy statement for the 2008 Annual Meeting of Stockholders to be filed with the Securities and Exchange Commission.

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

The information required by this Item 13 is incorporated by reference to the material under the captions “Corporate Governance — Director Independence”, and “Certain Relationships and Related Transactions” in our definitive proxy statement for the 2008 Annual Meeting of Stockholders to be filed with the Securities and Exchange Commission.

Item 14. *Principal Accounting Fees and Services*

The information required by this Item 14 is incorporated by reference to the material under the caption “Ratification of Appointment of Independent Registered Public Accounting Firm” in our definitive proxy statement for the 2008 Annual Meeting of Stockholders to be filed with the Securities and Exchange Commission.

PART IV

Item 15. *Exhibits and Financial Statement Schedules*

(a) (1) (2) *Financial Statements.*

See the Index to Consolidated Financial Statements and Financial Statement Schedule in Part II, Item 8.

(3) *Exhibits.*

The Exhibit Index and required Exhibits immediately following the Signatures to this Form 10-K are filed as part of, or hereby incorporated by reference into, this Form 10-K.

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 on March 12, 2008.

MOBILITY ELECTRONICS, INC.

/s/ Michael D. Heil
Michael D. Heil
President, Chief Executive Officer and
Member of the Board (Principal Executive Officer)

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Michael D. Heil and Joan W. Brubacher, jointly and severally, his attorney-in-fact, each with the full power of substitution, for such person, in any and all capacities, to sign any and all amendments to this Annual Report on Form 10-K, and to file the same, with all exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorney-in-fact and agent full power and authority to do and perform each and every act and thing requisite and necessary to be done in connection therewith, as fully to all intents and purposes as he might do or could do in person hereby ratifying and confirming all that each of said attorneys-in-fact and agents, or his substitute, may do or cause to be done by virtue hereof.

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant in the capacities indicated on March 12, 2008.

Signatures	
/s/ Michael D. Heil Michael D. Heil	President, Chief Executive Officer and Member of the Board (Principal Executive Officer)
/s/ Joan W. Brubacher Joan W. Brubacher	Executive Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)
/s/ Darryl S. Baker Darryl S. Baker	Vice President, Chief Accounting Officer and Controller
/s/ Peter L. Ax Peter L. Ax	Director
Larry M. Carr	Director
/s/ Jeffrey R. Harris Jeffrey R. Harris	Director
/s/ Michael J. Larson Michael J. Larson	Director
/s/ Robert W. Shaner Robert W. Shaner	Director and Chairman of the Board

Table of Contents

EXHIBIT INDEX

Exhibit Number	
2.1	Agreement and Plan of Merger dated as of February 20, 2002, by and among Portsmith, Inc., certain holders of the outstanding capital stock of Portsmith, Mobility Electronics, Inc. and Mobility Europe Holdings, Inc.(1)%
2.2	Agreement and Plan of Merger dated March 23, 2002, by and among Mobility Electronics, Inc., iGo Corporation and IGOC Acquisition(1)%
3.1	Certificate of Incorporation of the Company(2)
3.2	Articles of Amendment to the Certificate of Incorporation of the Company dated as of June 17, 1997(3)
3.3	Articles of Amendment to the Certificate of Incorporation of the Company dated as of September 10, 1997(2)
3.4	Articles of Amendment to the Certificate of Incorporation of the Company dated as of July 20, 1998(2)
3.5	Articles of Amendment to the Certificate of Incorporation of the Company dated as of February 3, 2000(2)
3.6	Articles of Amendment to the Certificate of Incorporation of the Company dated as of March 31, 2000(3)
3.7	Certificate of Designations, Preferences, Rights and Limitations of Series C Preferred Stock(2)
3.8	Certificate of the Designations, Preferences, Rights and Limitations of Series D Preferred Stock(4)
3.9	Certificate of the Designations, Preferences, Rights and Limitations of Series E Preferred Stock of Mobility Electronics, Inc.(5)
3.10	Certificate of the Designations, Preferences, Rights and Limitations of Series F Preferred Stock of Mobility Electronics, Inc.(5)
3.11	Certificate of Designations, Preferences, Rights and Limitations of Series G Junior Participating Preferred Stock of Mobility Electronics, Inc.(6)
3.12	Amended and Restated Bylaws of the Company(14)
4.1	Specimen of Common Stock Certificate(7)
4.2	Form of Warrant to Purchase Shares of common stock of the Company used with the Series C Preferred Stock Private Placements(3)**
4.3	Form of Series C Preferred Stock Purchase Agreement used in 1998 and 1999 Private Placements(2)**
4.4	Form of Series C Preferred Stock and Warrant Purchase Agreement used in 1999 and 2000 Private Placements(2)**
4.5	Form of Warrant to Purchase common stock of the Company issued to certain holders in connection with the Contribution and Indemnification Agreement by and among Janice L. Breeze, Jeffrey S. Doss, Charles S. Mollo, Cameron Wilson, the Company and certain Stockholders of the Company, dated November 2, 1999(4)**
4.6	Form of Series F Preferred Stock and Warrant Purchase Agreement(5)**
4.7	Form of Warrant issued to purchasers of Series F Stock(5)
4.8	Rights Agreement between the Company and Computershare Trust Company, dated June 11, 2003(6)
4.9	Amendment No. 1 to Rights Agreement dated as of August 4, 2006, by and between Mobility Electronics, Inc. and Computershare Trust Company, Inc.(21)
4.10	Amendment No. 2 to Rights Agreement dated as of October 11, 2006, by and between Mobility Electronics, Inc. and Computershare Trust Company.(22)
4.11	Form of Warrant to Purchase Common Stock of the Company issued to Silicon Valley Bank on September 3, 2003.(8)
4.12	$25 Million Threshold Warrant to Purchase Shares of Common Stock issued to Motorola, Inc., dated as of March 31, 2005.(15)
4.13	$50 Million Threshold Warrant to Purchase Shares of Common Stock issued to Motorola, Inc., dated as of March 31, 2005.(15)

Exhibit Number	
4.14	Strategic Partners Investment Agreement by and among Mobility Electronics, Inc., RadioShack Corporation and Motorola, Inc., dated as of March 31, 2005.(15)
10.1	William O. Hunt Non-qualified Stock Option Agreement dated December 8, 1999.(4)+
10.2	Amended and Restated 1996 Long Term Incentive Plan, as amended on January 13, 2000.(2)+
10.3	Employee Stock Purchase Plan.(9)+
10.4	Form of Indemnity Agreement executed between the Company and certain officers and directors. (11)**
10.5	Form of Indemnity Agreement executed between the Company and its officers and directors.(4)**
10.6	Standard Multi-Tenant Office Lease by and between Mobility Electronics, Inc. and I.S. Capital, LLC, dated July 17, 2002.(13)
10.7	Amendment to Lease Agreement by and between Mobility Electronics, Inc. and I.S. Capital, LLC, dated February 1, 2003.(13)
10.8	Second Amendment to Lease Agreement by and between Mobility Electronics, Inc. and I.S. Capital, LLC, dated January 15, 2004.(13)
10.9	Third Amendment to Lease Agreement by and between the Company and Mountain Valley Community Church, effective as of October 6, 2004.(12)
10.10	Employment Agreement by and between the Company and Joan W. Brubacher dated April 14, 2004. (10)+
10.11	Employment Agreement, dated July 17, 2006, by and between Mobility Electronics, Inc. and Jonathan Downer. (19)+
10.12	Mobility Electronics, Inc. Omnibus Long-Term Incentive Plan Restricted Stock Unit Award Agreement, dated July 17, 2006, by and between Mobility Electronics, Inc. and Jonathan Downer. (19)+
10.13	Form Change In Control Agreement executed between the Company and certain officers. (26)+
10.14	Form of Amended and Restated 2005 Mobility Electronics, Inc. Omnibus Long-Term Incentive Plan Restricted Stock Unit Award Agreement. (17)+
10.15	Form of 2007 Mobility Electronics, Inc. Omnibus Long-Term Incentive Plan Restricted Stock Unit Award Agreement. (23)+
10.16	Amended and Restated Form of Mobility Electronics, Inc. Non-Employee Director Long-Term Incentive Plan Restricted Stock Unit Award Agreement (Annual Committee Grants). (17)+
10.17	Amended and Restated Form of Mobility Electronics, Inc. Non-Employee Director Long-Term Incentive Plan Restricted Stock Unit Award Agreement (Election / Re-Election Committee Grants). (17)+
10.18	Mobility Electronics, Inc. 2007 Executive Bonus Plan. (24)+
10.19	Patent Purchase Agreement between Mobility Electronics, Inc. and Tao Logic Systems LLC dated March 31, 2005. (16)%
10.20	Asset Purchase Agreement dated as of February 21, 2007 by and between Mobility California, Inc. and Mission Technology Group, Inc. (25)%
10.21	Credit Agreement dated as of July 27, 2006, between Mobility Electronics, Inc. and JPMorgan Chase Bank, N.A.(20)
10.22	Form of Pledge and Security Agreement dated as of July 27, 2006, between JPMorgan Chase Bank, N.A. and each of Mobility California, Inc., Mobility Idaho, Inc., Mobility Texas, Inc. and iGo Direct Corporation.(20)
10.23	Form of Continuing Guarantee dated July 27, 2006 by each of Mobility California, Inc., Mobility Idaho, Inc., Mobility Texas, Inc. and iGo Direct Corporation in favor of JPMorgan Chase Bank, N.A.(20)
10.24	Modification Agreement dated as of February 26, 2007 by and between Mobility Electronics, Inc. and JPMorgan Chase Bank, N.A. (26)%
10.25	$2.5 Million Secured Promissory Note dated April 16, 2007 issued by Mission Technology Group, Inc.(27)

Exhibit Number	
10.26	$1.43 Million Secured Promissory Note dated April 16, 2007 issued by Mission Technology Group, Inc.(27)
10.27	Mutual Restructuring and Separation Agreement, dated May 1, 2007, by and between Mobility Electronics, Inc. and Charles R. Mollo.(28)+
10.28	Employment Agreement, dated May 1, 2007, by and between Mobility Electronics, Inc. and Michael D. Heil.(28)+
10.29	Mobility Electronics, Inc. Omnibus Long-Term Incentive Plan Restricted Stock Unit Award Agreement.(29)+
10.30	Mobility Electronics, Inc. Omnibus Long-Term Incentive Plan Restricted Stock Unit Award Agreement.(29)+
10.31	Mobility Electronics, Inc. Non-Employee Director Compensation Program.(29)+
21.1	Subsidiaries. • iGo Direct Corporation (Delaware) • Mobility 2001 Limited (United Kingdom) • Mobility Assets, Inc. (Delaware) • Mobility California, Inc. (Delaware) • Mobility Idaho, Inc. (Delaware) • Mobility Texas, Inc. (Texas)
23.1	Consent of KPMG LLP.*
24.1	Power of Attorney (included on the signature page of this Annual Report on Form 10-K)
31.1	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*
31.2	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*
32.1	Certification of Chief Executive Officer and Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.*

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* Filed herewith

** Each of these agreements is identical in all material respects except for the Purchasers.

% Schedules and similar attachments have been omitted from these agreements. The registrant will furnish supplementally a copy of any omitted schedule or attachment to the Commission upon request.

\+ Management or compensatory plan or agreement.

\# Portions of these exhibits have been omitted pursuant to a request for confidential treatment filed with the Securities and Exchange Commission.

(1) Previously filed as an exhibit to Form 10-K for the year ended December 31, 2001.

(2) Previously filed as an exhibit to Registration Statement No. 333-30264 dated February 11, 2000.

(3) Previously filed as an exhibit to Amendment No. 2 to Registration Statement No. 333-30264 on Form S-1 dated May 4, 2000.

(4) Previously filed as an exhibit to Amendment No. 1 to Registration Statement No. 333-30264 on Form S-1 dated March 28, 2000.

(5) Previously filed as an exhibit to Current Report on Form 8-K filed on January 14, 2003.

(6) Previously filed as an exhibit to Current Report on Form 8-K filed on June 19, 2003.

(7) Previously filed as an exhibit to Amendment No. 3 to Registration Statement No. 333-30264 on Form S-1 dated May 18, 2000.

(8) Previously filed as an exhibit to Form 10-Q for the quarter ended September 30, 2003.

(9) Previously filed as an exhibit to Registration Statement No. 333-69336 on Form S-8 filed on September 13, 2001.

(10) Previously filed as an exhibit to Form 10-Q for the quarter ended March 31, 2004.
(11) Previously filed as an exhibit to Form 10-Q for the quarter ended September 30, 2001.
(12) Previously filed as an exhibit to Form 10-Q for the quarter ended September 30, 2004.
(13) Previously filed as an exhibit to Form 10-K for the period ended December 31, 2003.
(14) Previously filed as an exhibit to Registration Statement No. 333-116182 dated June 4, 2004.
(15) Previously filed as an exhibit to Current Report on Form 8-K dated April 5, 2005.
(16) Previously filed as an exhibit to Form 10-Q for the period ended March 31, 2005.
(17) Previously filed as an exhibit to Form 10-K for the period ended December 31, 2005.
(18) Previously filed as an exhibit to Form 10-Q for the period ended March 31, 2006.
(19) Previously filed as an exhibit to Current Report on Form 8-K dated July 18, 2006.
(20) Previously filed as an exhibit to Current Report on Form 8-K dated July 28, 2006.
(21) Previously filed as an exhibit to Current Report on Form 8-K dated August 4, 2006.
(22) Previously filed as an exhibit to Current Report on Form 8-K dated October 12, 2006.
(23) Previously filed as an exhibit to Current Report on Form 8-K dated January 5, 2007.
(24) Previously filed as an exhibit to Current Report on Form 8-K dated January 24, 2007.
(25) Previously filed as an exhibit to Current Report on Form 8-K dated February 22, 2007.
(26) Previously filed as an exhibit to Form 10-K for the period ended December 31, 2007.
(27) Previously filed as an exhibit to Current Report on Form 8-K dated April 18, 2007.
(28) Previously filed as an exhibit to Current Report on Form 8-K dated May 3, 2007.
(29) Previously filed as an exhibit to Current Report on Form 8-K dated June 13, 2007.

All other schedules and exhibits are omitted because they are not applicable or because the required information is contained in the Financial Statements or Notes thereto.

EXHIBIT 23.1

Consent of Independent Registered Public Accounting Firm

The Board of Directors
Mobility Electronics, Inc.:

We consent to the incorporation by reference in the registration statements Nos. 333-131222, 333-112023, 333-108623 and 333-108283 on Form S-3 and Nos. 333-116182, 333-102990, 333-69336, 333-47210 and 333-143651 on Form S-8, of Mobility Electronics, Inc. (the Company) of our reports dated March 12, 2008, with respect to the consolidated balance sheets of Mobility Electronics, Inc. and subsidiaries as of December 31, 2007 and 2006, and the related consolidated statements of operations, stockholders' equity and comprehensive income (loss), and cash flows for each of the years in the three-year period ended December 31, 2007 and the effectiveness of internal control over financial reporting as of December 31, 2007, and references to our firm in Item 6, *Selected Consolidated Financial Data*, which reports and reference appear in the December 31, 2007 annual report on Form 10-K of Mobility Electronics, Inc.

As discussed in Note 2 to the consolidated financial statements, effective January 1, 2007, the Company adopted the provisions of Financial Accounting Standards Board ("FASB") Interpretation No. 48, *Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109* and as discussed in Note 2 to the consolidated financial statements, effective January 1, 2006, the Company adopted the provisions of Statement of Financial Accounting Standards No. 123R, *Share-Based Payment.*

/s/ KPMG LLP

Phoenix, Arizona
March 12, 2008

EXHIBIT 31.1

CERTIFICATION

I, Michael D. Heil, certify that:

1. I have reviewed this annual report on Form 10-K of Mobility Electronics, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Michael D. Heil

Michael D. Heil
President and Chief Executive Officer
March 12, 2008

EXHIBIT 31.2

CERTIFICATION

I, Joan W. Brubacher, certify that:

1. I have reviewed this annual report on Form 10-K of Mobility Electronics, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Joan W. Brubacher

Joan W. Brubacher
Executive Vice President and Chief Financial Officer
March 12, 2008

EXHIBIT 32.1

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

The undersigned, the Chief Executive Officer and the Chief Financial Officer of Mobility Electronics, Inc. (the "Company"), each certifies that, to his or her knowledge on the date of this certification:

1. The annual report of the Company for the period ending December 31, 2007 as filed with the Securities and Exchange Commission on this date (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

March 12, 2008

/s/ Michael D. Heil
Michael D. Heil
President and Chief Executive Officer

/s/ Joan W. Brubacher
Joan W. Brubacher
Executive Vice President and Chief Financial Officer