SOCKET MOBILE, INC.
Form 10-Q
May 16, 2011

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.

For the quarterly period ended March 31, 2011

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.

For the transition period ____________ to ____________

Commission file number 1-13810

SOCKET MOBILE, INC.

(Exact name of registrant as specified in its charter)

Delaware	**94-3155066**
(State of incorporation)	(IRS Employer Identification No.)

39700 Eureka Drive, Newark, CA 94560
(Address of principal executive offices including zip code)

(510) 933-3000
(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES [ ] NO [ ]

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES [ ] NO [X]

The number of shares of Common Stock ($0.001 par value) outstanding as of May 6, 2011 was 4,237,306 shares.

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Item 1. Financial Statements

SOCKET MOBILE, INC.
CONDENSED BALANCE SHEETS

		March 31, 2011 (unaudited)			December 31, 2010*	
ASSETS						
Current assets:						
Cash and cash equivalents	$	758,813		$	460,833	
Restricted cash		---			710,797	
Accounts receivable, net		1,687,169			813,569	
Inventories		1,375,268			1,698,650	

Prepaid expenses and other current assets	** **	202,437	** **	128,131
Total current assets		4,023,687		3,811,980
Property and equipment:				
Machinery and office equipment		2,145,597		2,140,897
Computer equipment	** **	1,281,790	** **	1,285,197
		3,427,387		3,426,094
Accumulated depreciation	** **	(3,035,202)	** **	(2,954,757)
Property and equipment, net		392,185		471,337
Intangible assets, net		195,000		210,000
Goodwill		4,427,000		4,427,000
Other assets	** **	122,931	** **	146,298
Total assets	$	9,160,803	$	9,066,615
LIABILITIES AND STOCKHOLDERS EQUITY				
Current liabilities:				
Accounts payable	$	3,931,982	$	3,770,325
Accrued payroll and related expenses		617,273		634,146
Deferred income on shipments to distributors		595,786		673,484
Short term portion of deferred service revenue		301,985		324,267
Short term portion of capital leases and deferred rent	** **	29,356	** **	27,080
Total current liabilities		5,476,382		5,429,302
Long term portion of deferred service revenue		173,095		197,044
Long term portion of capital leases and deferred rent		194,658		202,072
Senior convertible note payable, net of debt discount of $628,135 at March 31, 2011 and $670,447 at December 31, 2010		171,865		329,553
Deferred income taxes		23,500		15,515
Total liabilities		6,039,500		6,173,486
Commitments and contingencies				
Stockholders' equity:				
Common stock, $0.001 par value: Authorized shares 10,000,000,				
Issued and outstanding shares 4,220,495 at March 31, 2011 and 3,801,991 at December 31, 2010		4,220		3,802
Additional paid-in capital		58,827,081		57,671,065
Accumulated deficit	** **	(55,709,998)	** **	(54,781,738)
Total stockholders equity	** **	3,121,303	** **	2,893,129
Total liabilities and stockholders equity	$	9,160,803	$	9,066,615

* Derived from audited financial statements.

See accompanying notes.

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SOCKET MOBILE, INC.
CONDENSED STATEMENTS OF OPERATIONS
(Unaudited)

	Three Months Ended March 31,					
		2011			2010	
Revenues	$	4,039,442		$	3,807,149	
Cost of revenues	** **	2,525,732		** **	2,201,689	
Gross profit		1,513,710			1,605,460	
Operating expenses:						
Research and development		654,775			681,520	
Sales and marketing		827,966			1,239,367	
General and administrative		595,557			660,625	
Amortization of intangible assets	** **	15,000		** **	15,000	
Total operating expenses		2,093,298			2,596,512	
Operating loss		(579,588)			(991,052)	
Interest expense, net (including amortization of debt discount of $316,216 for the three months ended March 31, 2011)	** **	(340,687)		** **	(47,749)	
Net loss before income taxes		(920,275)			(1,038,801)	
Deferred income tax expense	** **	(7,985)		** **	---	
Net loss	$	(928,260)		$	(1,038,801)	
	** **			** **		
Net loss per share:						
Basic and diluted	$	(0.24)		$	(0.27)	
Weighted average shares outstanding:						
Basic and diluted		3,935,271			3,788,990	

See accompanying notes.

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SOCKET MOBILE, INC.
CONDENSED STATEMENTS OF CASH FLOWS
(Unaudited)

		Three Months Ended March 31,		
		2011		2010
Operating activities				
Net loss	$	(928,260)	$	(1,038,801)
Adjustments to reconcile net loss to net cash used in operating activities:				
Stock-based compensation		178,503		165,240
Depreciation and amortization		105,640		138,812
Amortization of debt discount to interest expense		316,216		---
Non cash interest expense on convertible note		4,029		---
Deferred income tax expense		7,985		---
** **				
Changes in operating assets and liabilities:				
Accounts receivable		(873,600)		(1,260,225)
Inventories		323,382		427,100
Prepaid expenses and other current assets		(74,306)		(125,539)
Other assets		23,367		14,167
Accounts payable		661,655		1,104,580
Accrued payroll and related expenses		(16,873)		143,213
Deferred income on shipments to distributors		(77,698)		(8,258)
Deferred service revenue		(46,231)		64,585
Change in deferred rent	** **	(1,943)		(5,985)
Net cash used in operating activities	** **	(398,134)		(381,111)
Investing activities				
Purchases of equipment	** **	(11,488)		(46,492)
Net cash used in investing activities	** **	(11,488)		(46,492)

** **				
Financing activities				
Payments on capital leases		(3,195)		(3,009)
Reduction in restricted cash requirement		710,797		---
Proceeds from borrowings under bank line of credit agreement		---		1,803,623
Repayments of borrowings under bank line of credit agreement		---		(1,338,902)
Stock options exercised	** **	---		8,120
Net cash provided by financing activities	** **	707,602		469,832
** **				
Net increase in cash and cash equivalents		297,980		42,229
Cash and cash equivalents at beginning of period	** **	460,833	** **	1,940,295
Cash and cash equivalents at end of period	$	758,813	$	1,982,524
Supplemental cash flow information				
Cash paid for interest	$	12,143	$	47,583
Non-cash investing and financing activities:				
Issuance of Common Stock for reduction in accounts payable balance	$	499,998	$	---
Beneficial conversion feature associated with senior convertible note payable	$	273,904	$	---
Conversion of senior convertible note payable and accrued interest to Common Stock	$	204,029	$	---

See accompanying notes.

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SOCKET MOBILE, INC.
NOTES TO CONDENSED FINANCIAL STATEMENTS
(Unaudited)

NOTE 1 - Basis of Presentation

The accompanying unaudited condensed financial statements of Socket Mobile, Inc. (the "Company") have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions to Form 10-Q and Article 8 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. In the opinion of management, all adjustments, consisting only of normal recurring accruals considered necessary for fair presentation have been included. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted.

These condensed financial statements should be read in conjunction with the audited financial statements and notes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2010. The financial statements in the Company's annual report on Form 10-K were prepared on a going concern basis.

Liquidity and Going Concern
The Company's financial statements have been prepared on a going concern basis. During the quarter ended March 31, 2011 and the year ended December 31, 2010, the Company incurred net losses of $928,260 and $3,975,837, respectively. As of March 31, 2011, the Company has an accumulated deficit of $55,709,998. The Company's cash balances at March 31, 2011 were $758,813. The Company's balance sheet at March 31, 2011 has a current ratio of 0.73 to 1.0 (current assets divided by current liabilities), and a working capital deficit of $1,452,695 (current assets less current liabilities). These circumstances raise substantial doubt about the Company's ability to continue as a going concern. The Company's ability to continue as a going concern is dependent upon its ability to establish profitable operations and to increase its capital. The Company has been taking steps intended to reduce operating losses and achieve profitability including the introduction of new products, continued close support of its distributors and its application partners as they establish their mobile applications in key vertical markets, and management of its costs. The Company has the ability to reduce expenses further if necessary. The Company believes that it will be able to improve its liquidity and secure additional sources of financing by managing its working capital balances, improving its operating results to cash positive levels, and raising additional capital as needed, including development funding from development partners and through the issuance of additional equity securities. There can be no assurance that the Company will be successful in achieving any of these steps, and there can be no assurance that additional financing will be available on acceptable terms, if at all, and any such terms may be dilutive to existing stockholders. The Company's inability to secure and maintain the necessary liquidity would have a material adverse effect on its financial condition and results of operations. If the Company is unable to secure the necessary capital for its business, it may need to suspend some or all of its current operations. The financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classification of assets and liabilities that may result from the outcome of this uncertainty. If the Company can return to revenue growth and attain profitability, it anticipates requirements for cash will include funding of higher receivable and inventory balances, and increased expenses, including more employees to support its growth and increases in salaries, benefits, and related support costs for employees.

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(Unaudited)

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern, which contemplates the realization of assets and the settlement of liabilities and commitments in the normal course of business. These financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classification of liabilities that may result from the Company's inability to continue as a going concern.

NOTE 2 - Summary of Significant Accounting Policies

Use of Estimates
The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expense during the reporting period. Actual results could differ from those estimates, and such differences may be material to the financial statements.

Cash Equivalents and Fair Value of Financial Instruments
The Company considers all highly liquid investments purchased with an original maturity date of 90 days or less at date of purchase to be cash equivalents. At March 31, 2011 and December 31, 2010, all of the Company's cash and cash equivalents consisted of amounts held in demand and money market deposits in banks. The carrying value of the Company's cash and cash equivalents, accounts receivable, accounts payable, debt and foreign exchange contracts approximate fair value due to the relatively short period of time to maturity.

Restricted Cash
Under the terms of the Company's senior convertible note issued in November 2010, the Company is required at all times to maintain collateralization of the convertible note with an amount equivalent to the unconverted principal plus accrued interest. Collateral consists of qualified accounts receivables of the Company, plus cash to the extent qualified accounts receivables are less than the unconverted principal plus accrued interest (see "NOTE 4 - Senior Convertible Note" for more information). At March 31, 2011, the Company's accounts receivable fully collateralized the note and therefore no cash was classified as restricted. At December 31, 2010 all of the Company's restricted cash consisted of amounts held in demand deposits in banks under the terms of our senior convertible note.

Derivative Financial Instruments
The Company regularly enters into forward foreign currency contracts to reduce exposures related to foreign exchange rate changes in certain foreign currencies against the U.S. dollar. The Company's forward foreign currency contracts are recorded at fair value and are included within current assets or liabilities as appropriate. The Company had no foreign currency forward contracts outstanding at March 31, 2011. At December 31, 2010, the fair value of contracts with a notional amount of $132,900 to hedge Euros was immaterial based on quotations from financial institutions, and had maturity dates in January 2011.

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SOCKET MOBILE, INC.
NOTES TO CONDENSED FINANCIAL STATEMENTS

(Unaudited)

NOTE 3 - Inventories

Inventories consist principally of raw materials and sub-assemblies, which are stated at the lower of cost (first-in, first-out) or market.

	March 31, 2011	December 31, 2010
Raw materials and sub-assemblies	$ 1,333,008	$ 1,608,469
Finished goods	42,260	90,181
	$ 1,375,268	$ 1,698,650

NOTE 4 - Senior Convertible Note

On November 19, 2010, the Company issued a senior secured convertible note having a principal amount of $1,000,000 in a private placement financing. The note was initially convertible all or in part at the option of the noteholder into 500,000 shares of Common Stock, at an initial conversion price of $2.00 per share. The conversion price is subject to resets under certain market conditions. The convertible note matures eighteen months from the date of issuance, and will bear interest at the rate of 10% per annum, which is payable quarterly in arrears. The proceeds from the note financing were used for working capital purposes.

In conjunction with the convertible note, the Company issued to the investor a 5.5 year warrant to purchase 500,000 shares of Common Stock at $2.44 per share. In connection with the note financing, the Company issued to the private placement agent a 5.5 year warrant to purchase 50,000 shares of Common Stock with a fair value of $50,500. The private placement agent warrants have terms that are substantially the same as the warrant issued to the investor, except that the private placement agent's warrant will allow for net exercise. The fair values of these warrants were derived using a binomial lattice valuation formula with the following assumptions: 0.0% dividend yield rate, 1.54% risk free interest rate, $2.11 fair value of common stock, $2.44 exercise price, a life of five and a half years, and a volatility of 65.32%.

The convertible note was initially recorded on the Company's balance sheet net of the associated debt discount of $726,096, which was comprised of the following:

- allocated fair value of the warrant issued to the investor of $335,548;
- beneficial conversion feature of $335,548 based on the allocation of the proceeds between the note and the fair value of the investor warrants; and
- in-the-money beneficial conversion feature of $55,000.

The debt discount will be amortized ratably over the life of the note, except in the case of conversion which may accelerate the amortization.

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SOCKET MOBILE, INC.
NOTES TO CONDENSED FINANCIAL STATEMENTS
(Unaudited)

The convertible note is secured by all the assets of the Company. In order to secure the note, the Company terminated its credit line facilities with its bank, who then released its security interest. The Company is required at all times to maintain collateralization of the convertible note with an amount equivalent to the unconverted principal plus accrued interest. Collateral consists of qualified accounts receivables of the Company, plus cash to the extent qualified accounts receivables are less than the unconverted principal plus interest due over the remaining life of the note. At March 31, 2011, the outstanding note was fully collateralized by the Company's accounts receivable and therefore no cash was classified as restricted on the Company's balance sheet. At December 31, 2010, $710,797 of the note proceeds was reserved as collateral under the terms of the note and classified as restricted cash.

On January 12, 2011, the Company completed the registration of 1,310,398 shares which is an amount equal to the maximum shares issuable for the conversion of the note and warrants. On January 20, 2011, the date of the first conversion price reset, 85% of the lowest reported closing bid price in the five days preceding the reset date resulted in a conversion price reset of $1.50 per share which added an additional 166,666 shares to be issued upon conversion of the note for a total of 666,666 shares issuable upon conversion. As a result of the reset, a beneficial conversion feature with a fair value of $273,904 was added to debt discount in the quarter ended March 31, 2011 and is being amortized ratably over the remaining life of the note. The conversion price is subject to one additional price reset one year from date of closing subject to a conversion floor price of $1.31 per share and could result in an increase in the number of shares the Company is obligated to issue upon conversion of the note up to an additional 97,732 shares in aggregate. As the total debt discount is limited to the face value of the note, no additional debt discount will be recognized in the future.

During the three months ended March 31, 2011, the holder converted a $200,000 principal amount which resulted in the issuance of 133,333 shares of Common Stock. Amortization of the debt discount during the quarter totaled $316,216, which is classified as interest expense in the quarter ended March 31, 2011. Interest expense on the note principal for the quarter ended March 31, 2011 was $24,029.

NOTE 5 - Common Stock Financing

On February 23, 2011, the Company completed the sale of 282,485 shares of its Common Stock in a private placement with AboCom Systems, Inc., a corporation organized under the laws of Taiwan and a contract manufacturer of the Company's products. The shares were priced at the closing bid price of $1.77 per share as reported on February 23, 2011 for a total of $499,998 raised in the private placement. The issuance of Common Stock was used to settle trade payables due to AboCom Systems.

NOTE 6 - Intangible Assets

Amortization of all intangible assets for each of the quarters ended March 31, 2011 and 2010 was $15,000. Intangible assets as of March 31, 2011 consisted of the following:

		Gross Assets			Accumulated Amortization			Net	
Patent	$	600,000		$	405,000		$	195,000	
Project management tools		570,750			570,750			---	
Total intangible assets	$	1,170,750		$	975,750		$	195,000	

Intangible assets as of December 31, 2010 consisted of the following:

		Gross Assets			Accumulated Amortization			Net	
Patent	$	600,000		$	390,000		$	210,000	
Project management tools		570,750			570,750			---	
Total intangible assets	$	1,170,750		$	960,750		$	210,000	

The future amortization expense is expected to be $15,000 per quarter through mid 2014.

NOTE 7 - Segment Information and Concentrations

Segment Information

The Company operates in one segment-mobile systems solutions for businesses. Mobile systems solutions typically consist of a handheld computer, data collection and connectivity peripherals, and third-party vertical applications software. The Company markets its products in the United States and foreign countries through its sales personnel and distributors. Revenues for the geographic areas were as follows:

	Three Months Ended March 31,					
Revenues:		2011			2010	
United States	$	2,924,445		$	2,802,929	
Europe		874,169			825,170	
Asia and rest of world		240,828			179,050	
Total Revenues	$	4,039,442		$	3,807,149	

Export revenues are attributable to countries based on the location of the Company's customers. The Company does not hold long-lived assets in foreign locations.

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SOCKET MOBILE, INC.
NOTES TO CONDENSED FINANCIAL STATEMENTS
(Unaudited)

Major Customers
Customers who accounted for at least 10% of the Company's total revenues in the quarters ended March 31, 2011 and 2010 were as follows:

	Three Months Ended March 31,	
	2011	2010
Ingram Micro Inc.	17%	17%
Tech Data Corporation	*	12%
BlueStar	*	18%
Epcoal, Inc.	20%	*

* Customer accounted for less than 10% of total revenues for the period

Concentration of Credit Risk
Financial instruments that potentially subject the Company to significant concentrations of credit risk consist principally of cash, cash equivalents and accounts receivable. The Company invests its cash in demand and money market deposit accounts in banks. To date, the Company has not experienced losses on these investments. The Company's trade accounts receivables are primarily with distributors and OEMs. The Company performs ongoing credit evaluations of its customers' financial conditions but the Company generally requires no collateral. Reserves are maintained for potential credit losses, and such losses have been within management's expectations. At March 31, 2011, 56% of the Company's accounts receivable balances were with two customers. At December 31, 2010, 62% of the Company's accounts receivable balances were with five customers.

Concentration of Suppliers
Several of the Company's component parts are produced by a sole or limited number of suppliers. Shortages could occur in these essential materials due to an interruption of supply or increased demand in the industry, such as the Company experienced in the fourth quarter 2010 and to a lesser extent in the first quarter 2011 with the delays in availability of LCD touch screens used in the manufacture of the Company's mobile handheld computer. If the Company were unable to procure certain of such materials, it would be required to reduce its operations, which could have a material adverse effect upon its results. At March 31, 2011 and December 31, 2010, 28% and 32%, respectively, of the Company's accounts payable balances were concentrated in a single supplier. For the quarter ended March 31, 2011, this same supplier accounted for 55% of the inventory purchases.

NOTE 8 - Stock-Based Compensation

The Company recognizes stock-based compensation in the financial statements for all share-based awards to employees, including grants of employee stock options, based on their fair values. The Company uses a binomial lattice valuation model to estimate the fair value of stock option grants. The binomial lattice model incorporates calculations for expected volatility, risk-free interest rates, employee exercise patterns and post-vesting employment termination behavior, and these factors affect the estimate of the fair value of the Company's stock option grants.

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SOCKET MOBILE, INC.
NOTES TO CONDENSED FINANCIAL STATEMENTS
(Unaudited)

Total stock-based compensation expense recognized in the Company's statements of operations is shown below:

	Three Months Ended March 31,					
Statements of Operations Classification		2011			2010	
Cost of revenues	$	14,548		$	14,407	
Research and development		40,154			39,826	
Sales and marketing		41,743			51,005	
General and administrative		82,058			60,002	
Total	$	178,503		$	165,240	

The weighted average per share fair value of stock options granted during the three months ended March 31, 2011 and 2010 was estimated at $1.04 and $2.16, respectively. At March 31, 2011, options issued to employees for 3,794,938 shares were outstanding, of which options for 1,514,905 shares were exercisable. As of March 31, 2011, the total remaining unrecognized compensation costs related to unvested stock options was approximately $1.18 million, which will be amortized over the weighted average remaining requisite period of 2.1 years.

Weighted average assumptions for stock options granted during the three months ended March 31, 2011 and 2010 are shown below:

	Three Months Ended March 31,		
	2011		2010
Risk-free interest rate (%)	3.46%		3.61%
Dividend yield	---		---
Volatility factor	0.60		1.11
Expected option life (years)	5.7		4.2

NOTE 9 - Net Loss Per Share Applicable to Common Stockholders

The following table sets forth the computation of basic and diluted net loss per share:

		Three Months Ended March 31, 2011		2010
tor:				
ss	$	(928,260)	$	(1,038,801
nator:				
nted average common shares outstanding used in computing net loss per share:				
ic and diluted		3,935,271		3,788,995
per share:				
ic and diluted	$	(0.24)	$	(0.27

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SOCKET MOBILE, INC.
NOTES TO CONDENSED FINANCIAL STATEMENTS
(Unaudited)

For the quarters ended March 31, 2011 and 2010, the diluted net loss per share is equal to the basic net loss per share because the Company experienced losses in these periods. Thus no potential common shares underlying stock options and warrants have been included in the net loss per share calculation, as their effect is anti-dilutive. Options and warrants to purchase 2,031,258 shares and 1,271,969 shares of common stock at March 31, 2011, and 2010, respectively, have been omitted from the net loss per share calculation.

NOTE 10 - Bank Financing Arrangements

In the comparable first quarter of 2010 and up through November 2, 2010, the Company had a credit facility with Silicon Valley Bank (the "Bank") which allowed the Company to borrow up to $2,500,000 based on the level of qualified domestic and international receivables, up to a maximum of $1,500,000 and $1,000,000, respectively. The outstanding amounts borrowed under the domestic and international lines at March 31, 2010 were $1,096,913 and $369,896, respectively, and the full amounts of accounts receivable provided as collateral were $1,953,666, and $688,840, respectively.

On November 2, 2010, in anticipation of issuing a senior convertible note which subsequently closed on November 19, 2010, the Company repaid in full its outstanding indebtedness to the Bank and terminated the lines of credit (see "NOTE 4 - Senior Convertible Note" for more information). All obligations of the Company under the credit facility and any other related loan and collateral security documents, except those which specifically survive the termination of such agreements, were terminated.

NOTE 11 - Taxes

Deferred tax expense in first quarter of 2011 is related entirely to the deferred tax liability on the portion of the Company's goodwill amortized for tax purposes. Due to the indefinite characteristic of this deferred tax liability, it cannot be offset against deferred tax assets. As a result, the Company recognized deferred tax expense of $7,985 for the quarter ended March 31, 2011.

At December 31, 2010, the Company has an unrecognized tax benefit of approximately $597,000, which did not change significantly during the three months ended March 31, 2011. Future changes in the unrecognized tax benefit will have no impact on the effective tax rate due to the existence of the valuation allowance.

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

This Quarterly Report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These statements include statements forecasting our future financial condition and results, our future operating activities, market acceptance of our products, expectations for general market growth of handheld computers and other mobile computing devices, growth in demand for our products, expansion of the markets that we serve, expansion of the distribution channels for our products, adoption of our embedded products by third-party manufacturers of electronic devices, and the timing of the introduction and availability of new products, as well as other forecasts discussed under "Management's Discussion and Analysis of Financial Condition and Results of Operations." Words such as "may," "will," "predicts," "anticipates," "expects," "intends," "plans," "believes," "seeks," "estimates," variations of such words, and similar expressions are intended to identify such forward-looking statements. Such forward-looking statements are based on current expectations, estimates, and projections about our industry, management's beliefs, and assumptions made by management. These forward-looking statements are not guarantees of future performance and are subject to certain risks, uncertainties, and assumptions that are difficult to predict; therefore, actual results and outcomes may differ materially from what is expressed or forecasted in any such forward looking statements. Factors that could cause actual results and outcomes to differ materially include, but are not limited to: continued weakness in the U.S. and world economy generally and in the markets we serve in particular; the risk of delays in the availability of our products due to technological, market or financial factors including the availability of product components and necessary working capital; our ability to successfully develop, introduce and market future products; our ability to effectively manage and contain our operating costs; the availability of announced third-party handheld computer hardware and software that our products are intended to work with; product delays associated with new model introductions and product changeovers by the makers of products that our products are intended to work with; continued growth in demand for handheld computers; market acceptance of emerging standards such as Bluetooth and wireless LAN and of our related connection, data collection and mobile handheld computer products; the ability of our strategic relationships to benefit our business as expected; our ability to enter into additional distribution relationships; or other factors described in this Form 10-Q including "Part II, Item 1A. Risk Factors" and recent Form 8-K and Form 10-K reports filed with the Securities and Exchange Commission. We assume no obligation to update such forward-looking statements or to update the reasons why actual results could differ materially from those anticipated in such forward-looking statements.

You should read the following discussion in conjunction with the interim condensed financial statements and notes included elsewhere in this report, the Company's annual financial statements in the Form 10-K, and other information *contained in other reports and documents filed from time to time with the Securities and Exchange Commission.*

Our financial statements have been prepared assuming the Company will continue as a going concern as described in Note 1 to our condensed financial statements as of March 31, 2011 and for the three months then ended.

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Revenues

We are a producer of mobile handheld computers and data collection products serving the business mobility markets. We offer a family of handheld computer products designed for business enterprise use and a wide range of data collection products including two dimensional (2D) and linear (1D) bar code scanners, Radio Frequency Identification (RFID) readers, and magnetic stripe readers. We also offer wearable ring scanners, customized versions of our handheld computers, embedded wireless LAN cards and Bluetooth modules as OEM products to third party companies. Our data collection products work with our handheld computers and our cordless hand scanners work with many third-party mobile handheld devices including smartphones, tablet computers, ultra-mobile personal computers (UMPCs), notebooks and desktop systems, adding data collection capabilities to these devices. Our products are designed to run or enhance mobile applications that enable the accessing, collection and processing of data by employees while mobile. Our mobile computing products utilize popular Bluetooth and wireless LAN connection technologies using management software we developed for ease of use.

We work closely with software application developers offering or developing vertical software applications for use with our handheld computers and for use with Smartphones, including phones running Apple iOS4, Google Android, RIM BlackBerry and Microsoft Windows operating systems for use with our cordless hand scanners. Healthcare and hospitality are two of the primary areas of focus for software application developers who have developed applications for use on our handheld computers, and a significant portion of our handheld computer sales now come from organizations within these two market segments. Other vertical markets benefiting from mobile solutions include retail merchandising, automotive, government and education. These mobile solutions are designed to improve the productivity of business enterprises and service providers by automating manual tasks, improving the quality of information collected, and enhancing mobile productivity by processing and transferring information from remote locations and mobile devices to the business or medical enterprise, and then if required, back to the remote locations and mobile devices.

We believe growth in the mobile workforce along with technical advances and cost reductions in mobile devices, Smartphones and networking technologies along with the pervasive use of the Internet are driving broader adoption of mobile computing solutions. Our products are designed to address the growing need for mobile computing by today's mobile workforce by enabling them to run or enhance mobile applications that allow access to business data files, or collect and process data while mobile, thereby enhancing their productivity and allowing them to exploit time sensitive opportunities and improve customer satisfaction. Overall, our hardware products enable mobile third-party applications to become complete mobile data collection and connectivity solutions.

We also make available directly to original equipment manufacturers ("OEMs") and other select customers our wearable ring scanners, customized versions of our handheld computers, component Bluetooth and wireless LAN technologies. We customize these products and components for our use in our own products and leverage that investment through the sale of modified versions or modules and plug-in cards to OEM manufacturers to embed into their products, including driver and device management software that is designed to simplify the ability of mobile employees to get and stay connected with Wi-Fi as well as with Bluetooth.

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We subcontract the manufacturing of all of our products to independent third-party contract manufacturers located in the U.S., China and Taiwan who have the equipment, know-how and capacity to manufacture products to our specifications. Our handheld computers and data collection products are sold through a worldwide network of distributors and resellers, vertical industry partners, and value added resellers (VARs). Our OEM products are sold directly to the original equipment manufacturers. The geographic regions we serve include the Americas, Europe, the Middle East, Africa and Asia Pacific.

Total revenues for the first quarter of 2011 were $4.0 million, an increase of 6% from revenues of $3.8 million in the first quarter of 2010.

Our revenues in the comparable three month periods are classified into three broad product families:

- Mobile handheld computer products;
- Data collection products; and
- OEM embedded products.

Our ***mobile handheld computer products*** are designed to be durable, lightweight and dependable devices which meet the requirements of the healthcare, hospitality and other markets we serve. Our initial model, *the SoMo® 650* (SoMo is derived from <u>So</u>cket <u>Mo</u>bile), was introduced in June 2007 with initial volume shipments in September 2007, and features the Microsoft Windows Mobile operating system, Version 6. Windows Mobile is the industry standard OS for mobile applications thereby ensuring that the SoMo is compatible with a large number of business applications and giving workers a familiar computing environment. Our mobile handheld computers are easy to customize for a particular application with peripherals and accessories. The SoMo products are designed with an expected product life cycle of three to five years which meets the needs of our customers who are deploying mobile solutions. In order to extend the life of the current product family, we upgrade SoMo technology components from time to time without impacting form, fit or function. We expect our SoMo650 product to continue to be offered into 2014, approximately seven years from its introduction.

The SoMo's features include wireless LAN and Bluetooth, a fast processor, a large, bright screen display enabling its use outdoors, large amounts of SDRAM and flash memory, an extended battery, programmable action buttons to activate peripheral devices, reinforced CompactFlash and SDIO card slots, and a durable case. The SoMo is available with multiple language support. The SoMo 650 was specifically designed without an integrated mobile phone to serve the market for business mobility applications that are not mobile phone centric such as medication dispensing in the healthcare market or tableside ordering in the hospitality market, most of which use Bluetooth or wireless LAN connections for data communications.

In late 2008, we introduced the SoMo 650 Rx Model made with antimicrobial materials added to the case plastics to provide an extra layer of protection to the device to aid against the multiplication and spread of potentially harmful bacteria and microbes found in healthcare environments. We also introduced a SoMo 650 DX Model without Bluetooth or wireless LAN for high security environments. We have also developed accessory products such as a back pack to enable direct connections to mobile phone networks using network phone cards and a durable case to provide additional protection in the event the computer is dropped. In addition, we work with third-party accessory providers, who have qualified to make a number of accessory products that work with the SoMo family of products, including headsets, battery chargers, keyboards, printers and smartcard readers.

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Mobile handheld computer products, accessories and related service revenues represented approximately 42% of our revenue in the first quarters of 2011 and 2010, respectively.

Our ***data collection products*** are designed to enable the electronic collection of data from barcodes, radio frequency identification (RFID) tags or magnetic stripes. The products have been designed as durable devices for commercial use enabling a wide variety of accurate and rapid scans over a full work shift. All of the products come with SocketScan software that allows data to be edited when scanned and provides an easy-to-use interface for developers to build barcode scanning into their applications. Products are available in both standard and antimicrobial cases.

Our data collection products consist of:

- Cordless Hand Scanners: two dimensional (2D) and linear (1D) scanning used primarily with Smartphones and Tablet computers;
- Plug-in barcode scanners: 2D and 1D in a CompactFlash form factor used primarily with our SoMo handheld computers;
- Plug-in RFID products that read radio frequency identification tags used primarily with our SoMo handheld computers;
- Combination plug-in barcode scanner and RFID reader/writer used primarily with our SoMo handheld computers;
- Plug-in magnetic stripe reader used primarily with our SoMo handheld computers; and
- Wearable cordless ring scanner for industrial applications needing two hands.

Our plug-in barcode scanning products plug into handheld computers and our cordless hand scanners connect wirelessly over Bluetooth to tablet computers, ultra-mobile personal computers, notebook computers and smartphones and turn these devices into portable barcode scanners and RFID readers that can be used in various retail and industrial workplaces; our cordless hand scanner and cordless ring scanner connect using Bluetooth technology.

Our *Cordless Hand Scanners* use Bluetooth technology as the connection interface. The scanners are available with two dimensional (2D) imagers and laser (1D) linear scanning engines. The scanners are available in standard cases or antimicrobial cases. The Cordless Hand Scanners are lightweight, ergonomically designed for ease of use and rapid repetitive scanning and are durable, lightweight and compact. During 2010, we redesigned our SocketScan software to enable the use of our Cordless Hand Scanners with a wide variety of smartphones, and we intend to add additional smartphone models as they are released by the smartphone manufacturers to provide wide ranging support for this fast emerging category of mobile devices. Currently SocketScan10 supports smartphones that use Windows Mobile, Windows CE, RIM Blackberry, and Google Android operating systems. The Human Interface Device (HID) Bluetooth protocol also allows the use of our Cordless Hand Scanners with HID-enabled devices including the iPad, iPhone, and iPod touch using the Apple iOS4 operating system. The HID protocol enters scanned data as if it was entered through the keyboard. During 2011, we intend to extend the benefits of SocketScan 10 software to Apple devices running the iOS operating system.

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Our *plug-in barcode scanners* use the industry standard CompactFlash form factor and are available with two dimensional 2D and laser linear 1D scanning engines. When plugged into a mobile computing device with a CompactFlash slot and SocketScan loaded onto the device, the combination of device and plug-in barcode scanner can be used as a one handed barcode scanner operated from programmable buttons on the mobile computing device.

Our *ring scanner* is an industrial strength barcode scanner that is worn on the index finger and connects via Bluetooth to mobile or fixed data collection computing devices. The device enables a worker to scan while having two hands available and is designed for applications such as warehousing and pick-and-pack operations.

Our *Radio Frequency Identification (RFID) products* enable RFID tags to be read. We also offer an RFID/laser barcode scanner combination product that enables RFID tags to be read or written to and linear (1D) barcodes to be scanned with the same device.

Our *Magnetic Stripe Reader* is a plug-in device in a CompactFlash form factor for use with devices having a CompactFlash slot. The Reader enables magnetic card stripes such as on credit cards to be swiped and read electronically from a mobile location and is ideal for applications such as tableside ordering.

Data collection product revenues represented approximately 49% and 40% of our revenues in the first quarters of 2011 and 2010, respectively.

Our ***OEM embedded products*** consist of Bluetooth and wireless LAN plug-in cards used primarily by Original Equipment Manufacturers (OEMs) of electronic products to build wireless connection functions into their products using the Bluetooth and wireless LAN standards for wireless connectivity. Our Bluetooth products use the Bluetooth 2.1 + EDR standard. Our plug-in cards for connecting wirelessly to local area networks were upgraded in 2009 to use the wireless LAN 802.11 a/b/g Wi-Fi standard, upgrading our products from the wireless LAN 802.11b/g standard used in 2008. Our wireless LAN products include extensive communications software with Cisco Compatible Extensions (CCX) designed to make these products easy to use. In 2008 our Bluetooth module sales peaked due to last time buys of older Bluetooth chip technology that was being phased out by the chip manufacturer. Our OEM product sales are primarily based on the acceptance of our designs by OEM customers (referred to as design-wins), and the product transitions described have resulted in last-time buys and reductions in ongoing revenue as new design-wins are pursued. OEM embedded products represented approximately 4% and 14% of our revenues for the three months ended March 31, 2011 and 2010, respectively.

Our ***SocketCare services*** provide extended warranty and accidental breakage coverage for selected products including our handheld computers and our ring and cordless hand scanners. Premium service purchased at the time of product purchase provides coverage for three years. Service revenues represented approximately 7% and 5% of our revenues in the first quarter 2011 and 2010, respectively. Service revenues are included within the related handheld computer and data collection revenues in the table that follows.

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In addition, we continue to carry legacy plug-in ***connectivity products*** consisting of Ethernet cards and adapters which represented approximately 5% and 4% of our revenues in the first quarter 2011 and 2010, respectively.

Our revenues by product family for the three months ended March 31, 2011 and 2010, and the corresponding increase or decrease in revenues for the comparable periods are shown in the following table:

(revenues in thousands)	Three months ended March 31,						Increase
Product family:		2011			2010		(Decrease)
Mobile handheld computer products	$	1,689	42%	$	1,613	42%	5%
Data collection products		1,988	49%		1,513	40%	31%
OEM embedded products		151	4%		529	14%	(71%)
Other:							
Connectivity		211	5%		152	4%	39%
Total	$	4,039	100%	$	3,807	100%	6%

Our mobile handheld computer product and related service revenues in the first quarter of 2011 were $1.7 million, an increase of 5% compared to revenues of $1.6 million in the first quarter of 2010. Sales of our mobile handheld computer have been adversely affected as a result of shortages in the availability of LCD touch screens used in the manufacture of our mobile handheld computer. Beginning in the fourth quarter 2010, a major tablet and smartphone manufacturer secured a majority of the LCD touch screen manufacturing capacity producing LCD screens for our mobile handheld computer products causing short term supply disruptions as the LCD touch screen manufacturer reprioritized its capacity commitments. As a result of the supply disruptions our fourth quarter 2010 mobile handheld product revenues were adversely affected. The supply of this key component improved in the first quarter 2011 and consequently our mobile handheld revenues improved significantly from fourth quarter 2010 revenues. However, the increases in the comparable first quarter mobile handheld computer revenues are due to an increase in mobile handheld service revenues as a result of an increased percentage of customers opting to include our SocketCare extended warranty and accidental breakage coverage in conjunction with their deployments. Partially offsetting this increase was an overall decline in sales volumes of our mobile handheld computer of 2% in the comparable first quarters as a consequence of the continuing supply delay and our inability to ship approximately $1.5 million of our customer mobile handheld computer orders scheduled for shipment in the first quarter 2011.

Our data collection product revenues in the first quarter of 2011 were $2.0 million, an increase of 31%, or $0.5 million, compared to revenues of $1.5 million in the first quarter of 2010. Revenue increases of $0.4 million were from increased sales volumes of our Cordless Hand Scanner. Additional revenue increases of $0.3 million were from increased sales volumes of our Cordless Ring Scanner. Partially offsetting these increases were declines in sales of our SDIO In-Hand Scan card. Sales of our CompactFlash In-Hand Scan card were flat in the comparable first quarters. A significant sales volume of our plug-in scan cards are sold in conjunction with our mobile handheld computer. In the fourth quarter 2010 in particular, and to a lesser extent in the first quarter 2011, supply delays in our mobile handheld computer mentioned previously, adversely impacted our mobile handheld computer sales and consequently the companion plug-in scan card revenues as we were forced to defer shipments beyond the end of the first quarter.

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Service revenues from our SocketCare extended warranty program were $0.3 million or 7% of our revenue in the first quarter 2011 and approximately $0.2 million or 5% of our revenue in the comparable first quarter 2010. Increases in SocketCare service revenues are due to an increased percentage of customers opting to purchase our SocketCare extended warranty and accidental breakage coverage in conjunction with their mobile handheld computer and data collection deployments. Revenues related to our SocketCare services have been allocated to the respective mobile handheld computer and data collection revenues in the comparable first quarters presented in the table above.

Our OEM embedded product revenues in the first quarter of 2011 were $151,000, a decrease of 71% compared to $529,000 in the first quarter of 2010. Approximately half of the revenue decrease was due to reduced sales of Bluetooth products. Sales of our Bluetooth modules to our OEM customers declined as a result of phasing out older Bluetooth technology. Sales of Bluetooth plug-in products declined as a result of last-buys of these products as we completed the phase out of these products in 2010. Remaining declines in first quarter 2011 were from reductions in sales of our wireless LAN plug-in cards.

Our connectivity product revenues in the first quarter of 2011 were $211,000, an increase of 39% compared to revenues of $152,000 in the first quarter of 2010. The increases resulted from increased sales volumes of our adapter plug-in cards.

Gross Margins
Our gross margins for the first quarter of 2011 were 37% compared to 42% in the comparable period one year ago. We generally price our products as a markup from our cost, and we offer discount pricing for higher volume purchases. Reductions in overall margins in the first quarter of 2011 are due primarily to a greater portion of our revenues comprised of data collection products, which comprised 48% of our revenues in the first quarter of 2011 compared to 38% in the first quarter last year, at margins below the overall average data collection product margins due to a product mix emphasizing new data collection products. New products typically begin with reduced margins that improve over time as unit volumes increase. Additional decreases in margins are due to declines in margins on our mobile handheld computer product line due to a product mix within that line which emphasized lower margin OEM models.

Research and Development Expense
Research and development expense in the first quarter of 2011 was $655,000, a decrease of 4% compared to $682,000 in the first quarter of 2010. Reductions in research and development expense in the first quarter of 2011 were from reduced development costs due to a reduction in product development activities, and reduced equipment costs and outside services related to those reductions in product development activities, compared to the first quarter one year ago. Partially offsetting these reductions in the first quarter 2011 were increased personnel costs due to the elimination of a payroll salary cost savings program which had been in effect throughout fiscal 2010. Research and development expense in the second quarter of 2011 is expected to increase slightly due to higher levels of anticipated development activities.

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Sales and Marketing Expense
Sales and marketing expense for the first quarter of 2011 was $0.8 million, a decrease of 33%, or $0.4 million, compared to $1.2 million in the first quarter of 2010. The majority of the reduction in sales and marketing expense in the first quarter 2011 was from reduced personnel costs as a result of a realignment of the sales force we initiated in the fourth 2010 quarter to emphasize inside sales personnel located at the Company's Newark, CA headquarters to better serve our customer base, and from reductions in the related travel expense as a result of fewer outside sales personnel. Sales and marketing expense in the second quarter of 2011 is expected to continue at levels similar to the first quarter.

General and Administrative Expense
General and administrative expense for the first quarter of 2011 was $596,000, a decrease of 10% compared to $661,000 in the first quarter of 2010. Reductions in general and administrative expense in the first quarter 2011 were due to reductions in legal fees and outside services as a result of reduced activities requiring such services. Partially offsetting these reductions in the first quarter 2011 were increased personnel costs due to the elimination of a payroll salary cost savings program which had been in effect throughout fiscal 2010. General and administrative expense is expected to decline in the second quarter of 2011 from first quarter levels due to the absence of professional fees and other expenses related to the costs of our annual audit and stockholder communications which are expensed in the fourth and first quarters.

Amortization of Intangibles
Amortization expense for the three months ended March 31, 2011 and 2010 was $15,000. Future amortization expense will be $15,000 per quarter going forward until fully amortized in mid 2014.

Interest Income and Expense
Interest income reflects interest earned on cash balances. Interest income in the first quarter of 2011and 2010 was nominal in each of the periods, reflecting low average rates of return on cash balances.

Interest expense in the first quarter of 2011 was $341,000 compared to interest expense of $48,000 in the same period one year ago. Interest expense in the first quarter 2011 is primarily related to our convertible note including the amortization of the related debt discount and interest on the principal outstanding during the quarter. Amortization of debt discount is a non-cash expense and totaled $316,000 in the first quarter 2011. Additionally, interest expense includes interest on equipment lease financing obligations, and in 2010 interest on amounts drawn on our bank lines of credit.

Taxes
Deferred tax expense in the first quarter of 2011 and the corresponding deferred tax liability shown on our balance sheet, is related entirely to the deferred tax liability on the portion of our goodwill amortized for tax purposes. Due to the indefinite characteristic of this deferred tax liability, it cannot be offset against deferred tax assets. Goodwill impairment charges recorded at December 31, 2009 on that portion of our goodwill being amortized for tax purposes resulted in the reversal of accumulated deferred tax expense in 2009 and the related deferred tax liability, temporarily eliminating the difference between financial and tax reporting at December 31, 2009, and through the first half of 2010. As a result no deferred tax expense was incurred in the first quarter of 2010. We maintain a full valuation allowance for all other components of deferred tax assets. There can be no assurance that the deferred tax assets subject to the valuation allowance will be realized. We have not generated taxable income in any periods in any

jurisdiction, foreign or domestic.

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Liquidity and Capital Resources

During the quarter ended March 31, 2011, and the year ended December 31, 2010, we incurred net losses of $0.9 million and $4.0 million, respectively. As of March 31, 2011, we have an accumulated deficit of $55.7 million. We have a history of operating losses and we may continue to be unprofitable in the foreseeable future. Historically we have financed our operations through the sale of equity securities, equipment financing, and revolving bank lines of credit. Since our inception we have raised approximately $41 million in equity capital to fund our operations.

As reflected in our Statements of Cash Flows, net cash used in operating activities was $0.4 million in the comparable first quarters of 2011 and 2010. We calculate net cash used in or provided by operating activities by reducing our net loss ($0.9 million and $1.0 million in the first quarter of 2011 and 2010, respectively) by those expenses that did not require the use of cash, and reversing gains or losses that did not generate or use cash. These items consist of stock based compensation expense, depreciation, amortization of intangible assets, deferred tax expense, and in 2011 in particular, the amortization of debt discount. These amounts totaled $0.6 million in the first quarter of 2011 and $0.3 million in the first quarter of 2010. In addition, we report increases in assets and reductions in liabilities as uses of cash and decreases in assets and increases in liabilities as sources of cash, together referred to as changes in operating assets and liabilities. In the first quarter of 2011 changes in operating assets and liabilities resulted in a net use of cash of $0.1 million and were primarily from increases in accounts receivable due to increases in overall shipments in the first quarter 2011 and the timing of those shipments later in the quarter compared to the previous quarter, increases in prepaid expenses, and reductions in deferred income on shipments to distributors due to delays in stocking our distribution channel resulting from supply delays on our mobile handheld computer, partially offset by increases in accounts payable due to deferred payments, and decreases in inventory. In the first quarter of 2010 changes in operating assets and liabilities resulted in a net source of cash of $0.4 million and were primarily from increases in accounts payable due to timing of payments, increases in accrued payroll and related expense, increases in deferred service revenue due to increased service billings, and reductions in inventory levels as a result of planned reductions from year end levels, partially offset by increases in accounts receivable due to increases in overall shipments in the first quarter 2010 and the timing of those shipments later in the quarter compared to the previous quarter, and increases in prepaid expenses.

Cash used in investing activities was $12,000 in the first quarter of 2011 compared to $46,000 in the first quarter of 2010. Reductions in investing activities in the first quarter of 2011 reflects reductions in equipment and tooling purchases due to fewer development projects requiring these expenditures.

Cash provided by financing activities was $0.7 million in the first quarter of 2011 compared to $0.5 million in the first quarter of 2010. Financing activities in the first quarter 2011 consisted primarily of a reduction in the amount of cash required to collateralize our senior convertible note payable. Increases in qualified accounts receivable during the first quarter were sufficient to fully collateralize the note thereby eliminating the requirement to restrict cash at March 31, 2011 (see "NOTE 4 - Senior Convertible Note" for more information). The reduction in restricted cash was partially offset by payments on capital leases. Financing activities in the first quarter of 2010 consisted of a net increase in the amounts drawn on our bank lines of credit and proceeds from the exercise of stock options, partially offset by payments on capital leases.

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Our cash balances at March 31, 2011 were $759,000. Our balance sheet at March 31, 2011 has a current ratio (current assets divided by current liabilities) of 0.73 to 1.0, and a working capital deficit of $1,453,000 (current assets less current liabilities). We have experienced continuing operating losses and declines in our working capital balances. These conditions raise substantial doubt about our ability to continue as a going concern. Our ability to continue as a going concern is dependent upon our ability to establish profitable operations and to increase our capital. We have been taking steps intended to reduce operating losses and achieve profitability including the introduction of new products, continued close support of our distributors and of our application partners as they establish their mobile applications in key vertical markets, and management of our costs. We have the ability to reduce expenses further if necessary. We believe that we will be able to improve liquidity and secure additional sources of financing by managing our working capital balances, improving our operating results to cash positive levels, and raising additional capital as needed, including development funding from development partners and through the issuance of additional equity securities. There can be no assurance that we will be successful in achieving any of these steps, and there can be no assurance that additional financing will be available on acceptable terms, if at all, and any such terms may be dilutive to existing stockholders. Our inability to secure and maintain the necessary liquidity would have a material adverse effect on our financial condition and results of operations. If we are unable to secure the necessary capital for our business, we may need to suspend some or all of our current operations. The financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classification of assets and liabilities that may result from the outcome of this uncertainty. If we can return to revenue growth and attain profitability, we anticipate requirements for cash will include funding of higher receivable and inventory balances, and increased expenses, including more employees to support our growth and increases in salaries, benefits, and related support costs for employees.

Our contractual cash obligations at March 31, 2011 are outlined in the table below:

	Payments Due by Period				
Contractual Obligations ** **	Total	Less than 1 year	1 to 3 years	4 to 5 years	More than 5 years
Capital leases	$ 28,000	$ 13,000	$ 15,000	$ ---	$ ---
Operating leases	2,841,000	381,000	730,000	779,000	951,000
Senior convertible notes (including interest)	891,000	80,000	811,000	---	---
Unconditional purchase obligations with contract manufacturers	** ** 2,957,000	** ** 2,957,000	** ** ---	** ** ---	** ** ---
Total contractual obligations	$ 6,717,000	$ 3,431,000	$ 1,556,000	$ 779,000	$ 951,000

Off-Balance Sheet Arrangements
As of March 31, 2011, we have no off-balance sheet arrangements as defined in Item 303 of Regulation S-K.

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Item 3. Quantitative and Qualitative Disclosures About Market Risk

Interest Rate Risk

Our exposure to market risk for changes in interest rates relates primarily to invested cash. Our cash is invested in short-term money market investments backed by U.S. Treasury notes and other investments that mature within one year and whose principal is not subject to market rate fluctuations. Accordingly, interest rate declines would adversely affect our interest income but would not affect the carrying value of our cash investments. Based on a sensitivity analysis of our cash investments during the quarter ended March 31, 2011, a decline of 1% in interest rates would not have had a material effect on our quarterly interest income.

Foreign Currency Risk

A substantial majority of our revenue, expense and purchasing activities are transacted in U.S. dollars. However, we require our European distributors to purchase our products in Euros, we pay the expenses of our European employees in Euros and British pounds, and we may enter into selected future purchase commitments with foreign suppliers that may be paid in the local currency of the supplier. We hedge a significant portion of our European receivables balance denominated in Euros to reduce the foreign currency risk associated with these assets, and we have not been subject to significant losses from material foreign currency fluctuations. Based on a sensitivity analysis of our net foreign currency denominated assets and expenses at the beginning, during and at the end of the quarter ended March 31, 2011, an adverse change of 10% in exchange rates would have resulted in an increase in our net loss for the first quarter 2011 of approximately $7,600 if left unprotected. For the first quarter of 2011 the total net adjustment for the effects of changes in foreign currency on cash balances, collections, payables, and derivatives was a net gain of $6,500. We will continue to monitor, assess, and mitigate through hedging activities, the risk associated with these exposures.

Item 4. Controls and Procedures

Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures

Our management evaluated, with the participation of our Chief Executive Officer and our Chief Financial Officer, the effectiveness of our disclosure controls and procedures as of the end of the period covered by this Quarterly Report on Form 10-Q. Based on this evaluation, our Chief Executive Officer and our Chief Financial Officer have concluded that our disclosure controls and procedures are effective to ensure that information we are required to disclose in reports that we file or submit under the Securities Exchange Act of 1934 is (i) recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms, and (ii) accumulated and communicated to our management, including our Chief Executive Officer and our Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control Over Financial Reporting

There was no change in our internal control over financial reporting that occurred during the period covered by this Quarterly Report on Form 10-Q that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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PART II. OTHER INFORMATION

Item 1A. Risk Factors

The risks described in this Quarterly Report on Form 10-Q are not the only risks facing our Company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition, and operating results.

Our ability to continue as a going concern is dependent upon our ability to establish profitable operations and to raise additional capital.

The financial statements in our annual report on Form 10-K were prepared on a going concern basis. Our continued operating losses and declines in our working capital balances are conditions that raise doubt about the Company's ability to continue as a going concern. Our ability to continue as a going concern is dependent upon our ability to establish profitable operations and to raise additional capital as needed. We have been taking steps intended to reduce operating losses and achieve profitability including the introduction of new products, continued close support of our distributors and of our application partners as they establish their mobile applications in key vertical markets, and management of our costs. We believe that we will be able to improve our liquidity and secure additional sources of financing by managing our working capital balances, and raising additional capital as needed, including development funding from development partners and the issuance of additional equity securities. Nonetheless, there can be no assurance that we will be successful in achieving any of these steps, and there can be no assurance that additional financing will be available on acceptable terms, if at all, and any such terms may be dilutive to existing stockholders. Our inability to secure and maintain the necessary liquidity would have a material adverse effect on our financial condition and results of operations. Our financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classification of assets and liabilities that may result from our inability to continue as a going concern.

The global economic financial crisis may continue to have an impact on our business and financial condition in ways that we currently cannot predict, and may further limit our ability to raise additional funds.

The continued credit crisis and related turmoil in the global financial system may continue to have an impact on our business and our financial condition. We may face significant challenges if economic conditions and conditions in the financial markets do not improve or continue to worsen. In particular, should these conditions cause our revenues to be materially less than forecast, we may find it necessary to initiate further reductions in our expenses and defer additional product development programs. In addition, our ability to access the capital markets and raise funds required for our operations may be severely restricted at a time when we would like, or need, to do so, which could have an adverse effect on our ability to meet our current and future funding requirements and on our flexibility to react to changing economic and business conditions.

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We have a history of operating losses and may not achieve ongoing profitability.

We have been unprofitable in every quarter except one during the past three fiscal years. Fiscal year 2004 was the only profitable year in our history, and only to the extent of $288,000. Prior to 2004, we incurred significant operating losses in each financial period since our inception. To achieve ongoing profitability, we must accomplish numerous objectives, including growth in our business and the development of successful new products. We cannot foresee with any certainty whether we will be able to achieve these objectives in the future. Accordingly, we may not generate sufficient net revenue or manage our expenses sufficiently to achieve ongoing profitability. If we cannot achieve ongoing profitability, we will not be able to support our operations from positive cash flows, and we would use our existing cash to support operating losses. If we are unable to secure the necessary capital to replace that cash, we may need to suspend some or all of our current operations.

We may require additional capital in the future, but that capital may not be available on reasonable terms, if at all, or on terms that would not cause substantial dilution to your stock holdings.

We may incur operating losses in future quarters and would need to raise capital to fund such losses. Our forecasts are highly dependent on factors beyond our control, including market acceptance of our products, deployments by businesses of applications that use our handheld computers and our data collection products, and supply delays in key components such as we experienced in the fourth quarter of 2010 and to a lesser extent in the first quarter of 2011. If capital requirements vary materially from those currently planned, we may require additional capital sooner than expected. There can be no assurance that such capital will be available in sufficient amounts or on terms acceptable to us, if at all.

We may require additional capital in the future to repay our outstanding convertible note, but that capital may not be available on reasonable terms, if at all, or available only on terms that result in substantial dilution to your stock holdings.

Although the convertible note that we issued in November 2010 is priced to facilitate its conversion into equity over the eighteen-month term of the convertible note, such conversion is at the option of the noteholder and the note, including interest, if outstanding at the end of the eighteen-month period, would require repayment by the Company. Our failure to repay the convertible note including interest if outstanding at the end of its term, would be an event of default. In addition, the convertible note contains other events of default, including in the event the Company is unable to maintain the minimum cash and accounts receivables balance and the minimum current ratio required by the convertible note. There can be no assurance that capital to refinance the convertible note at the end of its eighteen-month term or upon an event of default would be available on terms acceptable to the Company, if at all. The terms of our November 2010 convertible note financing contain certain anti-dilution provisions. Should we need to raise additional capital in the future at prices below the conversion price of the convertible note, if outstanding at such future time, substantial dilution could result from such a financing.

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Our quarterly operating results may fluctuate in future periods, which could cause our stock price to decline.

We expect to experience quarterly fluctuations in operating results in the future. We generally ship orders as received, and as a result we may have little backlog. Quarterly revenues and operating results therefore depend on the volume and timing of orders received during the quarter, which are difficult to forecast. Historically, we have often recognized a substantial portion of our revenue in the last month of the quarter. This subjects us to the risk that even modest delays in orders or in the manufacture of products relating to orders received, may adversely affect our quarterly operating results. Our operating results may also fluctuate due to factors such as:

- the demand for our products;
- the size and timing of customer orders;
- unanticipated delays or problems in our introduction of new products and product enhancements;
- the introduction of new products and product enhancements by our competitors;
- the timing of the introduction and deployments of new applications that work with our products;
- changes in the revenues attributable to royalties and engineering development services;
- product mix;
- timing of software enhancements;
- changes in the level of operating expenses;
- competitive conditions in the industry including competitive pressures resulting in lower average selling prices;
- timing of distributors' shipments to their customers;
- delays in supplies of key components used in the manufacturing of our products, and
- general economic conditions and conditions specific to our customers' industries.

Because we base our staffing and other operating expenses on anticipated revenues, unanticipated declines or delays in the receipt of orders can cause significant variations in operating results from quarter to quarter. As a result of any of the foregoing factors, or a combination, our results of operations in any given quarter may be below the expectations of public market analysts or investors, in which case the market price of our Common Stock would be adversely affected.

Goodwill comprises a significant portion of our assets and may be subject to impairment write-downs in future periods which would substantially increase our losses, make it more difficult to achieve profitability, and cause our stock price to decline.

We review our goodwill for impairment at least annually and more often if factors suggest potential impairment. Many factors are considered in evaluating goodwill including our market capitalization, comparable companies within our industry, our estimates of our future performance, and discounted cash flow analysis. Many of these factors are highly subjective and may be negatively impacted by our financial results and market conditions in the future. We recorded goodwill impairment charges in 2009 of $5.4 million. We may incur goodwill impairment charges in the future and any future write-downs of our goodwill would increase our net losses, make it more difficult to achieve profitability, and as a result the market price of our Common Stock could be adversely affected.

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We may be unable to manufacture our products, because we are dependent on a limited number of qualified suppliers for our components.

Several of our component parts, including our serial interface chip, our Ethernet chip, our bar code scanning modules, and our line of mobile handheld computers, are produced by one or a limited number of suppliers. Shortages could occur in these essential components due to an interruption of supply or increased demand in the industry. In particular, shipments of our mobile handheld computers in the fourth quarter 2010, and to a lesser extent in the first quarter 2011, were adversely affected by a worldwide supply chain LCD screen shortage, due to increased demand for LCD screens by tablet and smart phone manufacturers. If we are unable to procure certain component parts such as we experienced in the fourth quarter of 2010 and first quarter 2011, we could be required to reduce our operations while we seek alternative sources for these components, which could have a material adverse effect on our financial results. To the extent that we acquire extra inventory stocks to protect against possible shortages, we would be exposed to additional risks associated with holding inventory, such as obsolescence, excess quantities, or loss.

If third-parties do not produce and sell innovative products with which our products are compatible, or if our own line of mobile handheld computers is not successful, we may not achieve our sales projections.

Our success has been dependent upon the ability of third-parties in the mobile computer industry to successfully develop products that include or are compatible with our technology and then to sell these products into the marketplace. Even if we are successful in marketing and selling our new line of mobile handheld computers, our ability to generate increased revenue depends significantly on the commercial success of other parties' Windows mobile products, particularly vertical market software applications for use with our handheld computer and peripheral products, and standard Pocket PC handhelds, phone-integrated devices, tablet computers, and other phone-integrated devices, including those from Nokia, Blackberry, Google, Hewlett-Packard and Apple, with which our plug-in and wireless peripherals can be used, and the adoption of these mobile computer devices for business use. A number of manufacturers of handheld computers have reduced the number of handheld products they offer, or curtailed development of future handheld computer products. If manufacturers are unable or choose not to ship new products such as Windows Mobile devices, or experience difficulties with new product transitions that cause delays in the market, or if these products fail to achieve or maintain market acceptance, the number of our potential new customers could be reduced and we may not be able to meet our sales expectations.

If we fail to develop and introduce new products rapidly and successfully, we will not be able to compete effectively, and our ability to generate sufficient revenues will be negatively affected.

The market for our products is prone to rapidly changing technology, evolving industry standards and short product life cycles. If we are unsuccessful at developing and introducing new products and services on a timely basis that include the latest technologies conforming to the newest standards and that are appealing to end users, we will not be able to compete effectively, and our ability to generate significant revenues will be seriously harmed.

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The development of new products and services can be very difficult and requires high levels of innovation. The development process is also lengthy and costly. Short product life cycles expose our products to the risk of obsolescence and require frequent new product introductions. We will be unable to introduce new products and services into the market on a timely basis and compete successfully, if we fail to:

- invest significant resources in research and development, sales and marketing, and customer support;
- identify emerging trends, demands and standards in the field of mobile computing products;
- enhance our products by adding additional features;
- maintain superior or competitive performance in our products; and
- anticipate our end users' needs and technological trends accurately.

We cannot be sure that we will have sufficient resources to make adequate investments in research and development or that we will be able to identify trends or make the technological advances necessary to be competitive.

A significant portion of our revenue currently comes from two distributors, and any decrease in revenue from these distributors could harm our business.

A significant portion of our revenue comes from two distributors, Tech Data Corporation and Ingram Micro Inc., which together represented approximately 26% and 27% of our worldwide revenues in the first quarter of 2011 and fiscal year 2010, respectively. We expect that a significant portion of our revenue will continue to depend on sales to Tech Data Corporation and Ingram Micro Inc. Additionally, 11% of our revenues in fiscal 2010 came from our distributor BlueStar, Inc., and 20% and 10% of our revenue in the first quarter 2011 and fiscal 2010, respectively, came from Epocal, Inc., an OEM customer. We do not have long-term commitments from Tech Data Corporation or Ingram Micro Inc. to carry our products, or any of our other distributors who may from quarter to quarter comprise a significant concentration of our revenues. Any could choose to stop selling some or all of our products at any time, and each of these companies also carries our competitors' products. If we lose our relationship with Tech Data Corporation or Ingram Micro Inc., or any of our other significant distributors, we would experience disruption and delays in marketing our products.

If the market for mobile computers experiences delays, or fails to grow, we may not achieve our sales projections.

Substantially all of our peripheral products are designed for use with mobile computers, including handhelds, notebooks, tablets, and handhelds with integrated phones. If the mobile computer industry does not grow, if its growth slows, or if product or operating system changeovers by mobile computer manufacturers and partners cause delays in the market, or if the markets for our mobile handheld computers do not grow, or if the impact of the global economic financial crisis continues, we may not achieve our sales projections.

Our sales will be hurt if the new technologies used in our products do not become widely adopted, or are adopted slower than expected.

Many of our products use new technologies, such as two dimensional bar code scanning and radio frequency identification, which are not yet widely adopted in the market. If these technologies fail to become widespread, or are adopted slower than expected, our sales will suffer.

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We could face increased competition in the future, which would adversely affect our financial performance.

The market for mobile handheld computers in which we operate is very competitive. Our future financial performance is contingent on a number of unpredictable factors, including that:

- some of our competitors have greater financial, marketing, and technical resources than we do;
- we periodically face intense price competition, particularly when our competitors have excess inventories and discount their prices to clear their inventories; and
- certain manufacturers of personal computers, mobile phones and handheld computers offer products with built-in functions, such as Bluetooth wireless technology, Wi-Fi, or bar code scanning, that compete with our products.

Increased competition could result in price reductions, fewer customer orders, reduced margins, and loss of market share. Our failure to compete successfully against current or future competitors could harm our business, operating results and financial condition.

If we do not correctly anticipate demand for our products, our operating results will suffer.

The demand for our products depends on many factors and is difficult to forecast. We expect that it will become more difficult to forecast demand given current economic conditions, as we introduce and support more products, and as competition in the market for our products intensifies. If demand is lower than forecasted levels, we could have excess production resulting in higher inventories of finished products and components, which could lead to write-downs or write-offs of some or all of the excess inventories, and reductions in our cash balances. Lower than forecasted demand could also result in excess manufacturing capacity at our third-party manufacturers and in our failure to meet minimum purchase commitments, each of which may lower our operating results.

If demand increases beyond forecasted levels, we would have to rapidly increase production at our third-party manufacturers. We depend on suppliers to provide additional volumes of components, and suppliers might not be able to increase production rapidly enough to meet unexpected demand. Even if we were able to procure enough components, our third-party manufacturers might not be able to produce enough of our devices to meet our customer demand. In addition, rapid increases in production levels to meet unanticipated demand could result in higher costs for manufacturing and supply of components and other expenses. These higher costs could lower our profit margins. Further, if production is increased rapidly, manufacturing yields could decline, which may also lower operating results.

We rely primarily on distributors, resellers, vertical industry partners, and OEMs to sell our products, and our sales would suffer if any of these third-parties stops selling our products effectively.

Because we sell our products primarily through distributors, resellers, vertical industry partners, and OEMs, we are subject to risks associated with channel distribution, such as risks related to their inventory levels and support for our products. Our distribution channels may build up inventories in anticipation of growth in their sales. If such growth in their sales does not occur as anticipated, the inventory build up could contribute to higher levels of product returns. The lack of sales by any one significant participant in our distribution channels could result in excess inventories and adversely affect our operating results and working capital liquidity.

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Our agreements with distributors, resellers, vertical industry partners, and OEMs are generally nonexclusive and may be terminated on short notice by them without cause. Our distributors, resellers, vertical industry partners, and OEMs are not within our control, are not obligated to purchase products from us, and may offer competitive lines of products simultaneously. Sales growth is contingent in part on our ability to enter into additional distribution relationships and expand our sales channels. We cannot predict whether we will be successful in establishing new distribution relationships, expanding our sales channels or maintaining our existing relationships. A failure to enter into new distribution relationships or to expand our sales channels could adversely impact our ability to grow our sales.

We allow our distribution channels to return a portion of their inventory to us for full credit against other purchases. In addition, in the event we reduce our prices, we credit our distributors for the difference between the purchase price of products remaining in their inventory and our reduced price for such products. Actual returns and price protection may adversely affect future operating results and working capital liquidity by reducing our accounts receivable and increasing our inventory balances, particularly since we seek to continually introduce new and enhanced products and are likely to face increasing price competition.

We depend on alliances and other business relationships with a small number of third-parties, and a disruption in any one of these relationships would hinder our ability to develop and sell our products.

We depend on strategic alliances and business relationships with leading participants in various segments of the communications and mobile handheld computer markets to help us develop and market our products. Our strategic partners may revoke their commitment to our products or services at any time in the future or may develop their own competitive products or services. Accordingly, our strategic relationships may not result in sustained business alliances, successful product or service offerings, or the generation of significant revenues. Failure of one or more of such alliances could result in delay or termination of product development projects, failure to win new customers, or loss of confidence by current or potential customers.

We have devoted significant research and development resources to design products to work with a number of operating systems used in mobile devices including Windows Mobile, Windows CE, Windows 7/Vista/XP, RIM Blackberry, Apple, Google's Android, and to develop our own family of mobile handheld computers. Such design activities have diverted financial and personnel resources from other development projects. These design activities are not undertaken pursuant to any agreement under which Microsoft, Research In Motion, Apple, or Google is obligated to continue the collaboration or to support the products produced from the collaboration. Consequently, these organizations may terminate their collaborations with us for a variety of reasons, including our failure to meet agreed-upon standards or for reasons beyond our control, such as changing market conditions, increased competition, discontinued product lines, and product obsolescence.

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Our intellectual property and proprietary rights may be insufficient to protect our competitive position.

Our business depends on our ability to protect our intellectual property. We rely primarily on patent, copyright, trademark, trade secret laws, and other restrictions on disclosure to protect our proprietary technologies. We cannot be sure that these measures will provide meaningful protection for our proprietary technologies and processes. We cannot be sure that any patent issued to us will be sufficient to protect our technology. The failure of any patents to provide protection to our technology would make it easier for our competitors to offer similar products. In connection with our participation in the development of various industry standards, we may be required to license certain of our patents to other parties, including our competitors, that develop products based upon the adopted standards.

We also generally enter into confidentiality agreements with our employees, distributors, and strategic partners, and generally control access to our documentation and other proprietary information. Despite these precautions, it may be possible for a third-party to copy or otherwise obtain and use our products, services, or technology without authorization, develop similar technology independently, or design around our patents.

Effective copyright, trademark, and trade secret protection may be unavailable or limited in certain foreign countries. Furthermore, certain of our customers have entered into agreements with us which provide that the customers have the right to use our proprietary technology in the event we default in our contractual obligations, including product supply obligations, and fail to cure the default within a specified period of time.

We may become subject to claims of intellectual property rights infringement, which could result in substantial liability.

In the course of operating our business, we may receive claims of intellectual property infringement or otherwise become aware of potentially relevant patents or other intellectual property rights held by other parties. Many of our competitors have large intellectual property portfolios, including patents that may cover technologies that are relevant to our business. In addition, many smaller companies, universities, and individuals have obtained or applied for patents in areas of technology that may relate to our business. The industry is moving towards aggressive assertion, licensing, and litigation of patents and other intellectual property rights.

If we are unable to obtain and maintain licenses on favorable terms for intellectual property rights required for the manufacture, sale, and use of our products, particularly those products which must comply with industry standard protocols and specifications to be commercially viable, our results of operations or financial condition could be adversely impacted.

In addition to disputes relating to the validity or alleged infringement of other parties' rights, we may become involved in disputes relating to our assertion of our own intellectual property rights. Whether we are defending the assertion of intellectual property rights against us or asserting our intellectual property rights against others, intellectual property litigation can be complex, costly, protracted, and highly disruptive to business operations by diverting the attention and energies of management and key technical personnel. Plaintiffs in intellectual property cases often seek injunctive relief, and the measures of damages in intellectual property litigation are complex and often subjective or uncertain. Thus, any adverse determinations in this type of litigation could subject us to significant liabilities and costs.

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New industry standards may require us to redesign our products, which could substantially increase our operating expenses.

Standards for the form and functionality of our products are established by standards committees. These independent committees establish standards, which evolve and change over time, for different categories of our products. We must continue to identify and ensure compliance with evolving industry standards so that our products are interoperable and we remain competitive. Unanticipated changes in industry standards could render our products incompatible with products developed by major hardware manufacturers and software developers. Should any major changes, even if anticipated, occur, we would be required to invest significant time and resources to redesign our products to ensure compliance with relevant standards. If our products are not in compliance with prevailing industry standards for a significant period of time, we would miss opportunities to sell our products for use with new hardware components from mobile computer manufacturers and OEMs, thus affecting our business.

Undetected flaws and defects in our products may disrupt product sales and result in expensive and time-consuming remedial action.

Our hardware and software products may contain undetected flaws, which may not be discovered until customers have used the products. From time to time, we may temporarily suspend or delay shipments or divert development resources from other projects to correct a particular product deficiency. Efforts to identify and correct errors and make design changes may be expensive and time consuming. Failure to discover product deficiencies in the future could delay product introductions or shipments, require us to recall previously shipped products to make design modifications, or cause unfavorable publicity, any of which could adversely affect our business and operating results.

The loss of one or more of our senior personnel could harm our existing business.

A number of our officers and senior managers have been employed for sixteen to nineteen years by us, including our President, Executive Vice President, Chief Financial Officer, and Chief Technical Officer. Our future success will depend upon the continued service of key officers and senior managers. Competition for officers and senior managers is intense, and there can be no assurance that we will be able to retain our existing senior personnel. The loss of one or more of our officers or key senior managers could adversely affect our ability to compete.

The expensing of options will continue to reduce our operating results and may continue to cause us to incur net losses such that we may find it necessary to change our business practices to attract and retain employees.

Historically, we have used stock options as a key component of our employee compensation packages. We believe that stock options provide an incentive to our employees to maximize long-term stockholder value and, through the use of vesting, encourage valued employees to remain with us. Furthermore, on July 1, 2010, we completed a stockholder approved exchange offer for certain of our outstanding options. As a result, the total remaining unrecognized compensation costs related to unvested stock options increased by $0.74 million, which is being amortized over the weighted average remaining requisite period of 2.4 years. The expensing of employee stock options adversely affected our net income and earnings per share in the first quarter 2011 and in each of the quarters in fiscal 2010, will continue to adversely affect future quarters, and will make profitability harder to achieve. In addition, we may decide in response to the effects of expensing stock options on our operating results to reduce the number of stock options granted to employees or to grant options to fewer employees. This could adversely affect our ability to retain existing employees and attract qualified candidates, and also could increase the cash compensation we would have to pay to them.

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If we are unable to attract and retain highly skilled sales and marketing and product development personnel, our ability to develop and market new products and product enhancements will be adversely affected.

We believe our ability to achieve increased revenues and to develop successful new products and product enhancements will depend in part upon our ability to attract and retain highly skilled sales and marketing and product development personnel. Our products involve a number of new and evolving technologies, and we frequently need to apply these technologies to the unique requirements of mobile products. Our personnel must be familiar with both the technologies we support and the unique requirements of the products to which our products connect. Competition for such personnel is intense, and we may not be able to attract and retain such key personnel. In addition, our ability to hire and retain such key personnel will depend upon our ability to raise capital or achieve increased revenue levels to fund the costs associated with such key personnel. Failure to attract and retain such key personnel will adversely affect our ability to develop and market new products and product enhancements.

We may not be able to collect revenues from customers who experience financial difficulties.

Our accounts receivable are derived primarily from distributors and OEMs. We perform ongoing credit evaluations of our customers' financial conditions but generally require no collateral from our customers. Reserves are maintained for potential credit losses, and such losses have historically been within such reserves. However, many of our customers may be thinly capitalized and may be prone to failure in adverse market conditions. Although our collection history has been good, from time to time a customer may not pay us because of financial difficulty, bankruptcy or liquidation. The current global financial crisis may have an impact on our customers' ability to pay us in a timely manner, and consequently, we may experience increased difficulty in collecting our accounts receivable, and we may have to increase our reserves in anticipation of increased uncollectible accounts.

Our operating results could be harmed by economic, political, regulatory and other risks associated with export sales.

Export sales (sales to customers outside the United States) accounted for approximately 28% and 24% of our revenue in the first quarter of 2011 and fiscal 2010, respectively. Accordingly, our operating results are subject to the risks inherent in export sales, including:

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- longer payment cycles;
- unexpected changes in regulatory requirements, import and export restrictions and tariffs;
- difficulties in managing foreign operations;
- the burdens of complying with a variety of foreign laws;
- greater difficulty or delay in accounts receivable collection;
- potentially adverse tax consequences; and
- political and economic instability.

Our export sales are primarily denominated in United States dollars and in Euros for our sales to European distributors. Accordingly, an increase in the value of the United States dollar relative to foreign currencies could make our products more expensive and therefore potentially less competitive in foreign markets. Declines in the value of the Euro relative to the United States dollar may result in foreign currency losses relating to collection of Euro denominated receivables if left unhedged.

Our operations are vulnerable to interruption by fire, earthquake, power loss, telecommunications failure, and other events beyond our control.

Our corporate headquarters is located near an earthquake fault. The potential impact of a major earthquake on our facilities, infrastructure, and overall business is unknown. Additionally, we may experience electrical power blackouts or natural disasters that could interrupt our business. Should a disaster be widespread, such as a major earthquake, or result in the loss of key personnel, we may not be able to implement our disaster recovery plan in a timely manner. Any losses or damages incurred by us as a result of these events could have a material adverse effect on our business.

Failure to maintain effective internal controls could have a material adverse effect on our business, operating results and stock price.

We have evaluated and will continue to evaluate our internal control procedures in order to satisfy the requirements of Section 404 of the Sarbanes-Oxley Act, which requires an annual management assessment of the design and effectiveness of our internal control over financial reporting. If we fail to maintain the adequacy of our internal controls, as such standards are modified, supplemented or amended from time to time, we may not be able to ensure that we can conclude on an ongoing basis that we have effective internal control over financial reporting in accordance with Section 404 of the Sarbanes-Oxley Act. Moreover, effective internal controls, particularly those related to revenue recognition, are necessary for us to produce reliable financial reports and are important to helping prevent financial fraud. If we cannot provide reliable financial reports or prevent fraud, our business and operating results could be harmed, investors could lose confidence in our reported financial information, and the trading price of our stock could drop significantly.

The sale of a substantial number of shares of our Common Stock could cause the market price of our Common Stock to decline.

Sales of a substantial number of shares of our Common Stock in the public market could adversely affect the market price for our Common Stock. The market price of our Common Stock could also decline if one or more of our significant stockholders decided for any reason to sell substantial amounts of our Common Stock in the public market.

As of May 6, 2011, we had 4,237,306 shares of Common Stock outstanding. Substantially all of these shares are freely tradable in the public market, either without restriction or subject, in some cases, only to S-3 prospectus delivery requirements and, in other cases, only to manner of sale, volume, and notice requirements of Rule 144 under the Securities Act.

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As of May 6, 2011, we had 1,418,335 shares of Common Stock subject to outstanding options under our stock option plans, and 96,777 shares of Common Stock were available for future issuance under the plans. We have registered the shares of Common Stock subject to outstanding options and reserved for issuance under our stock option plans. Accordingly, the shares of Common Stock underlying vested options will be eligible for resale in the public market as soon as the options are exercised.

As of May 6, 2011, we had 86,585 shares of Common Stock subject to outstanding warrants issued in our 2009 private placement. We have registered the resale of all shares of Common Stock subject to the warrants. Accordingly, the shares of Common Stock underlying these warrants will be eligible for resale in the public market as soon as the warrants are exercised, subject to S-3 prospectus delivery requirements.

As of May 6, 2011, we had 516,666 shares of Common Stock subject to the conversion of a note issued in our November 2010 senior convertible note financing. The conversion price of this note is subject to one additional conversion price reset one year from date of issuance of the note, and, depending upon the market price of our

Common Stock at the time of such reset, can result in an increase in the number of shares we are obligated to issue upon conversion of the note up to an additional 97,732 shares in aggregate. As of May 6, 2011, we had 550,000 shares of Common Stock subject to outstanding warrants issued in connection with the convertible note financing in November 2010. The warrants are not exercisable until May 20, 2011. We have registered the resale of all shares of Common Stock subject to the note conversion and warrants. Accordingly, the shares of Common Stock underlying the note and warrants will be eligible for resale in the public market as soon as the note is converted and the warrants are eligible and exercised, subject to S-3 prospectus delivery requirements.

Volatility in the trading price of our Common Stock could negatively impact the price of our Common Stock.

During the period from January 1, 2010 through May 6, 2011, our Common Stock price fluctuated between a high of $5.44 and a low of $1.51. Following a one-for-ten reverse stock split effected on October 23, 2008, which significantly decreased the Company's share float, we have experienced low trading volumes in our stock, and thus relatively small purchases and sales can have a significant effect on our stock price. The trading price of our Common Stock could be subject to wide fluctuations in response to many factors, some of which are beyond our control, including general economic conditions and the outlook of securities analysts and investors on our industry. In addition, the stock markets in general, and the markets for high technology stocks in particular, have experienced high volatility that has often been unrelated to the operating performance of particular companies. These broad market fluctuations may adversely affect the trading price of our Common Stock.

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Item 6. Exhibits

Exhibits

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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SIGNATURES

Pursuant to the requirements 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.

SOCKET MOBILE, INC.
Registrant

Date: May 13, 2011	/s/ Kevin J. Mills Kevin J. Mills President and Chief Executive Officer (Duly Authorized Officer and Principal Executive Officer)
Date: May 13, 2011	/s/ David W. Dunlap David W. Dunlap Vice President of Finance and Administration and Chief Financial Officer (Duly Authorized Officer and Principal Financial and Accounting Officer)

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Index to Exhibits

Exhibit Number	Description
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.