SOCKET MOBILE, INC.
Form 10-K
April 15, 2013

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-K

(X) **ANNUAL REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2012

( ) TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 For the transition period from _____ to _____.

Commission file number 1-13810

SOCKET MOBILE, INC.

(Exact name of registrant as specified in its charter)

Delaware **94-3155066**
(State or other jurisdiction of (IRS Employer

incorporation or organization) 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)

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

Title of Each Class	Name of Exchange on Which Registered
Common Stock, $0.001 Par Value per Share	NASDAQ Capital Market

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

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. YES [ ] NO [X]

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. YES [ ] NO [X]

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 Rule405 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 [X] NO [ ]

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [X]

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]

As of June 30, 2012, the aggregate market value of the registrant's Common Stock ($0.001 par value) held by non-affiliates of the registrant was $9,079,274 based on the closing sale price as reported on the National Association of Securities Dealers Automated Quotation Capital Market System.

Number of shares of Common Stock ($0.001 par value) outstanding as of April 8, 2013: 4,861,063 shares

DOCUMENTS INCORPORATED BY REFERENCE

Items 10, 11, 12, 13, and 14 of Part III are incorporated by reference from the Registrant's Proxy Statement for the Annual Meeting of Stockholders to be held on June 5, 2013. Such Proxy Statement will be filed within 120 days after the end of the fiscal year covered by this Annual Report on Form 10-K.

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PART I

This Annual 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 and barcode scanners; 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-K including "Item 1A. Risk Factors" and recent Form 8-K and Form 10-Q 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 financial statements and notes included elsewhere in this report, and other information contained in other reports and documents filed from time to time with the Securities and Exchange Commission.

Item 1. Business

The Company

We are a producer of mobile handheld computers and barcode scanning products serving the business mobility markets. Our products are designed for the mobile worker, and run or enhance mobile applications that enable the accessing, collection and processing of data by workers while mobile. We believe growth in the mobile workforce and pervasive use of the mobile Internet are resulting from technical advances in mobile technologies and cost reductions in mobile devices, building a growing demand for our products. Our products are designed to address the growing need for mobile computing and barcode scanning by today's mobile workers to access business data or collect and process data while mobile, thereby enhancing their productivity and allowing them to exploit time sensitive opportunities and improve customer satisfaction.

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Cordless barcode scanners

We offer a family of cordless barcode scanning products that connect over Bluetooth with smartphones, tablets and computers running operating systems from Apple (iOS), Google (Android), Blackberry and Microsoft (Windows/Windows Mobile). Our cordless barcode scanners include two dimensional (2D) and linear (1D) barcode scanners in both durable and ruggedized cases. We also offer wearable cordless ring scanners for hands free barcode scanning. Extended warranty programs are available for all of our barcode scanning products.

We also strongly support software application developers offering or developing software applications for use with our family of barcode scanners. We offer a software developers kit ("SDK") with our own set of Application Program Interfaces (APIs) which enable developers to easily integrate our scanners into their applications, as well as control data captured by the scanners being delivered to software applications. Our SDK for barcode scanning also includes support for the APIs from RedLaser, a leading supplier of barcode scanning software for mobile devices with built-in cameras in platforms supported by RedLaser. Use by developers of the integrated software developer kit enables smartphone users to use either their built-in camera for occasional scanning or Socket barcode scanners for more robust barcode scanning without requiring changes to the application software. The market segments with the highest level of adoption of our mobile barcode scanners are retail point of sale, healthcare, and commercial services. See "Products".

Handheld Computers

We offer a family of handheld computer products in standard or antimicrobial cases running the Windows Mobile operating system. Handheld computer accessories include plug-in 1D and 2D barcode scanners, cradles, radio frequency identification (RFID) readers and magnetic stripe readers. Our handheld computers are designed with wireless LAN (802.11 b/g/n) and Bluetooth connectivity for use with applications that do not require phones. We also offer handheld computers without wireless connectivity for secure environments. Our newest family of handheld computers, SoMo Model 655, commenced sales in June 2012, replacing the SoMo650 introduced in 2007. We provide extended warranty programs for our handheld computer products.

Our SoMo655 handheld computers run Microsoft's Windows Embedded Handheld operating system 6.5. Microsoft recently announced that they will continue to support this operating system through the beginning of 2020. We offer to application developers a software developers kit ("SDK") enabling greater control over the hardware. 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 inspections, 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. See "Products".

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OEM and Legacy Products

We make available to original equipment manufacturers ("OEMs") customized versions of our handheld computers and will supply components that we use in our standard products, such as Bluetooth and Wireless LAN modules used in our SoMo handheld and packaged as handheld computer electronic components for use as a controller in third party electronic devices. We also supply small quantities of discontinued legacy products on request when available. See "Products".

General

Total employee headcount on December 31, 2012 was 50. We subcontract the manufacturing of all of our products to independent third-party contract manufacturers located in North America, Taiwan and other Asian countries that 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. Our OEM products are sold directly to the original equipment manufacturers.

We were founded in March 1992 as Socket Communications, Inc. and reincorporated in Delaware in 1995 prior to our initial public offering in June 1995. We have financed our operations since inception primarily from the sale of equity capital or convertible debt and a receivables-based revolving line of credit with our bank. We began doing business as Socket Mobile, Inc. in January 2007 to better reflect our market focus on the mobile business market and changed our legal name to Socket Mobile, Inc. in April 2008. Our common stock trades on the OTC Market under the symbol "SCKT". Our principal executive offices are located at 39700 Eureka Drive, Newark, CA 94560, and our phone number is (510) 933-3000. Our Internet home page is located at http://www.socketmobile.com; however, the information on, or that can be accessed through, our home page is not part of this Annual Report. Our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and any amendments to such reports are available free of charge on or through our Internet home page, as soon as reasonably practical after we electronically file such material with, or furnish it to, the Securities and Exchange Commission.

Products

Our primary products are classified into two broad product families:

· Cordless barcode scanning products, accessories and service;
· Mobile handheld computer products, accessories and service;

Cordless barcode scanning products and the related accessories and service, represented 44% of our revenue in 2012, 31% in 2011 and 15% in 2010. Mobile handheld computer products and the related accessories and service, represented 53% of our revenue in 2012, 65% in 2011 and 73% in 2010. Other revenues were from sale of legacy

products representing 3% of our revenue in 2012, 4% in 2011 and 12% in 2010. Reductions in legacy sales have been primarily due to the phasing out of older products.

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Our **cordless barcode scanning products** are designed to enable the electronic collection of data from 2D (imager) and 1D (linear and imager) barcodes. The products are 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 using our Software Developer Kit. Data may also be scanned without editing where SocketScan has not been integrated into an application. Products are available in both standard and antimicrobial cases.

Our cordless barcode scanning products consist of:

· Cordless Hand Scanners: two dimensional (2D) and linear (1D) scanning used primarily with smartphones, tablets and other mobile computers

· Wearable cordless ring scanner for industrial applications needing two hands free

Our *Cordless Hand Scanners* use Bluetooth technology as the connection interface. The scanners are available with two dimensional (2D) imagers and one dimensional lasers/imagers (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. Our SocketScan software enables the use of our Cordless Hand Scanners with a wide variety of smartphones, tablets and mobile computers using operating systems from Apple (iOS), Google (Android), Blackberry and Microsoft (Windows/Windows Mobile).

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 **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 Socket Mobile), was introduced in June 2007 with initial volume shipments in September 2007, and featured the Microsoft Windows Mobile operating system, Version 6. We introduced the SoMo655 as a replacement for the SoMo650 in June 2012 running Microsoft's Windows Embedded Handheld 6.5 operating system. Windows Embedded Handheld is the industry standard OS for mobile handheld computer applications thereby ensuring that the SoMo is compatible with a large number of business applications, giving workers and businesses 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 five years which addresses the needs of our customers who are deploying mobile

solutions. Microsoft recently announced support for the Windows Embedded Handheld 6.5 operating system until early 2020.

The SoMo 655's features include wireless LAN (802.11 b/g/n) and Bluetooth, a fast processor, a large, bright screen display enabling its use outdoors, large amounts of SDRAM and flash memory (4 GB), an extended battery, programmable action buttons to activate peripheral devices, reinforced CompactFlash and microSD card slots, and a durable case. The SoMo is available with multiple language support. The SoMo family of handheld computers 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.

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The software developer kit ("SDK") for handheld computing enables greater control by the developer over the SoMo655 handheld computer.

The SoMo family of products includes a standard model, a standard model, SoMo655RX, with an antimicrobial case 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, and a model DX without Bluetooth or Wireless LAN for use in secure environments.

Accessories and peripherals include a charger, stylus, rugged protective case, CompactFlash plug-in barcode 1D and 2D scanners, RFID readers and magnetic stripe readers.

Our *SocketCare program* provides extended warranty and accidental breakage coverage for our handheld computers and our barcode scanners. Premium service purchased at the time of product purchase provides coverage for up to three years. We will also repair products that are out of warranty for a fee. Service revenue was $0.8 million, or 6% of our revenue in 2012, compared to $1.0 million, or 7% of our revenue in 2011 and $0.8 million, or 6% of our revenue in 2010. Service revenues are included in sales and service revenue totals for handheld computer and data collection products as described at the beginning of this Products section.

Developer Support Programs

Barcode Scanning. We offer a barcode scanning software developer kit (SDK) to registered software application developers. Our barcode scanning SDK enables developers to easily integrate Socket's SocketScan barcode scanning software into their applications, providing application users with the ability to edit scanned data and to avail themselves of the many features of our SocketScan software. The SocketScan software works with smartphones, tablets and computers using operating systems from Apple (iOS), Google (Android), Blackberry and Microsoft (Windows and Windows Mobile). In 2012, we integrated our barcode scanning SDK with an SDK from RedLaser whose application is used to operate built-in cameras in many smartphones and tablets. Use of the integrated SDK by developers enables users to scan barcodes with either the camera built into their Smartphone or tablet, or with Socket's cordless barcode scanners without needing the application to be updated. As of March 31, 2013, we had more than 300 registered developers for our barcode scanning SDK including developers of third party applications and developers of in-house applications for businesses. The primary segments being addressed by registered developers are retail point of sale, healthcare, and commercial services.

Handheld Computers. Our SDK for the SoMo 655 handheld computer was introduced in the second half of 2012 and enables registered developers to avail themselves of features on our SoMo655 handheld computer that would not otherwise be accessible on the SoMo655 operating system, Windows Embedded 6.5. As of March 31, 2013, we had

more than 50 registered developers for our Handheld Computer SDK.

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Our handheld computer products provide a mobile platform for use by third-party software developers, value added resellers and end users in a number of vertical market applications where workers are mobile and can benefit from the collection, processing and transmittal of data or access to data while mobile. Our product design priorities for our handheld computer products have focused on the healthcare and hospitality vertical market segments. Other vertical markets using our products in mobile applications include inspections, automotive, government and education.

Market Dynamics

Cordless barcode scanners. Over the past 7 years, consumers have been moving to smartphones and most recently tablet devices with the most popular running operating systems from Apple (iOS) and Google (Android). Others including Microsoft working with Nokia (Windows/Windows Mobile), Blackberry and for a short period Hewlett-Packard (Palm) have entered these markets. Advances in mobile phone technology have facilitated rapid data transfers and Internet access creating a dynamic, rapidly growing smartphone and tablet market. Although smartphone and tablet applications are focused on consumer applications, smartphones and tablets have the capability to support many business applications and over the past several years, application developers have begun writing mobile applications for businesses using smartphones and tablets. Recognizing these trends, our cordless barcode scanning products have been designed to work with smartphones and tablets from the major smartphone and tablet manufacturers where repetitive or robust barcode scanning requirements exceed the limited scanning capabilities of a phone or tablet's camera. (See Products – Cordless barcode scanning products).

Growth in the mobile workforce and the large demand and reliance on the Internet for access to corporate databases and email are increasing the demand for mobile data communications. The capability of a mobile workforce to collect data in the field and to transfer it electronically generally improves the timeliness and accuracy of information such as order entry, process management or transaction reporting.

Handheld Computers. Mobile electronic computing devices have evolved over the past several years from simple devices used mainly to hold personal information into small portable units with functionality similar to desktop PCs. These devices include smartphones, tablets, handheld computers, tablet computers and notebooks. Up until the middle of the last decade, businesses used classic personal digital assistants (PDA's) designed for use while mobile. These PDA's typically had a small color touch screen, connected wirelessly over a wireless LAN or Bluetooth connection, provided expansion slots (Secure Digital or Compact Flash) for peripherals such as barcode scanners or magnetic stripe readers, and used the Windows Mobile operating system as most business applications were written to run on Windows or Windows Mobile devices. Wireless email was widely available and manufacturers like Research in Motion (now Blackberry) were popular with business professionals.

As consumers switched from Windows Mobile based classic PDA devices to smartphones and tablets over the past decade, larger electronic device manufacturers began to discontinue the manufacture and sale of classic Windows Mobile based PDA's in favor of smartphones, including Acer, Siemens, Dell and most recently, Hewlett-Packard. Recognizing the need of businesses for the continued availability of a classic PDA to run mobile business applications, we introduced in 2007 a classic PDA, the SoMo650, and have sold more than 65,000 devices, primarily to business customers who have needed to switch from other Windows Mobile based products discontinued by their manufacturers. In June 2012, we launched a replacement for the SoMo650, the SoMo655 running the Windows Embedded Handheld 6.5 operating system. Available to software developers is a software developer kit ("SDK") that enables greater control over the hardware. The product is designed to be on the market for at least five years and Microsoft recently announced support for Windows Embedded Handheld 6.5 through early 2020.

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We believe there is a large installed base using now discontinued Windows mobile based classic PDA handheld computers. Our SoMo655 is one of the last Windows Mobile based classic PDA's in the market. With the cost of moving applications to other operating system devices, and with our commitment and the support of Microsoft to maintain this product in the marketplace, the SoMo655 becomes an excellent replacement for many of these discontinued products.

Marketing Strategy

Our marketing strategy has been to be a systems supplier to the Business Mobility markets which today consists of two segments, the handheld computing market for our SoMo 655 family of handheld computers, and the data collection products market for our family of cordless barcode scanners. Key elements of our marketing strategy include:

Capitalize on Strategic Relationships. We actively promote software application developers to integrate our products into their solutions through our developer support program. We provide easy to use software developer kits, training and technical support to our strategic relationships. We coordinate our handheld computer product development efforts with Microsoft on an ongoing basis, with the goal of ensuring that our current and future products are compatible with new releases of Microsoft's operating systems. We spend extensive engineering time and resources to ensure that our cordless barcode scanning products are compatible with a wide variety of the most popular smartphones, tablets and computers running a variety of operating systems. We adhere to standards of a number of standards setting bodies whose technologies are used in our products including Bluetooth (both handheld computers and cordless barcode scanners) and wireless LAN (handheld computers).

Expand and improve our product offerings. We offer a wide range of products under a modular concept that enables customers to design their mobile systems to meet their specific requirements, and we encourage our distributors to carry the full range of our products. The goal is for customers to view Socket as a primary source for their mobile accessory needs. For the SoMo family of handheld computers, we've upgraded the operating system and management software, adding many operating system features such as multiple language support, upgraded to later versions of the Windows (Mobile) embedded handheld operating system, and upgraded our Bluetooth and wireless LAN management software. We have expanded our data collection product offerings with 2D imaging technology to add to our 1D barcode scanning capabilities. We design our products to comply with the regulations of the many worldwide agencies that regulate the safety, performance and use of electronic products.

Build a Strong Brand Name. We believe that our products make a difference in the daily work life of mobile workers and the people they serve. We are building a brand image focused on business mobility. This image closely associates us with business mobility solutions and to reflect this image, we began doing business as Socket Mobile, Inc. in

January 2007 and changed our legal name to Socket Mobile, Inc. in April 2008. We stress with customers the design of our products for the markets they address, emphasizing quality and standards-based connectivity. Mobility requires products that are compact and designed to be handled while mobile, with low power consumption to extend time between charges, and easy to use. Through our developer support program, we work closely with application developers developing productivity enhancing applications for the mobile workforce. Our overall company brand identity and positioning goal is to be a leading provider of easy-to-deploy business mobility systems to the business mobility market."

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Competition and Competitive Risks

The overall market for mobile handheld computing solutions is both complex and competitive. Our hardware products compete with similar hardware products in all of our markets in the United States, Europe and Asia. Our longtime focus on creating innovative mobile solutions for the mobile workforce has resulted in good brand name recognition and reputation. We believe that our brand name identifies our products as durable, dependable, small form factor, low power and easy to use, all features designed for a mobile worker while mobile, and the breadth of our product offerings, including the extensive features of our software and software developer kits, will continue to differentiate us relative to our competitors.

Cordless Barcode Scanning. We offer a full range of stand-alone cordless barcode hand scanners connecting to smartphones, tablets and other computing devices over Bluetooth. Our SocketScan Software Developer Kit enables registered third party application developers to integrate the features of our SocketScan software into their applications and helps differentiate our products. We face competition from products similar to our cordless hand scanners from Baracoda, Code Corporation, and Opticon (Japan). Users of smartphones and tablets may also scan barcodes with their camera phone, although the process is much slower than with our products and larger devices such as tablets may be difficult to position to obtain a barcode scan. Users also may choose more rugged barcode scanners as an alternative, some of which are integrated into computing devices from manufacturers such as Datalogic, Honeywell, LXE (acquired by Honeywell), Intermec (acquisition by Honeywell pending), Motorola Solutions and Psion Teklogix (acquired by Motorola). These devices are not Apple certified. They will connect over Bluetooth, but don't offer extensive tools for software developers such as our software developer kit to integrate features of our sophisticated barcode scanning software SocketScan into barcode scanning applications.

Handheld Computers. A number of larger, well financed companies manufacture handheld mobile computers. Most of the manufacturers offer only ruggedized systems that are higher priced and larger than our devices but are capable of running the same applications. Many of these systems have built in barcode scanners, are larger, heavier and more expensive, so do not directly compete with our products but are an alternative. These companies include Datalogic, Honeywell, LXE (acquired by Honeywell), Intermec (acquisition by Honeywell pending), Motorola Solutions and Psion Teklogix (acquired by Motorola). As our handheld computers are designed for business use without integrated barcode scanners or integrated phones, we do not directly compete with these devices but they are an alternative. Consumer grade products (durable rather than rugged) also provide competitive alternatives to our products. These companies include Bluebird (selling under the brand name Pidion), Unitek and Janam and some of their products include integrated barcode scanners.

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Our SoMo655 handheld computer's operating system is Windows Embedded Handheld 6.5. Microsoft recently announced it would continue to support version 6.5 until early 2020 which was designed to assure users of products running this version of a long period of continued support. Microsoft also announced Windows Mobile 8 Embedded, a superset of their phone operating systems for devices having phones and integrated barcode scanners. Windows Mobile 8 Embedded does not apply to our category of handheld computer which has neither a phone nor an integrated barcode scanner as our customers typically operate over wireless LAN and Bluetooth connections within the walls of their organization and do not require a phone. We do not directly compete with devices running Windows Mobile 8 Embedded but they can become competitive alternatives where a phone and an integrated scanner are needed.

Sales of our handheld computer family of products, the SoMo650, introduced in 2007 and replaced in 2012 with the SoMo655, are designed as a close replacement for the Hewlett-Packard Series 200 family of handheld computer products that were discontinued by Hewlett-Packard in 2011. We have enhanced our product offerings with a software developer kit that enables registered developers to avail themselves of features on our SoMo655 handheld computer that would not otherwise be accessible under the Windows Embedded 6.5 operating system. More than 65,000 SoMo handheld computers have been sold since 2007.

Proprietary Technology

We have developed a number of technological building blocks that enhance our ability to design new hardware and software products, to offer products which run on multiple software and hardware platforms, and to manufacture and package products efficiently.

We own and control the design of our handheld computer, enabling us to modify its features or software to meet specific customer requirements.

Another area of intellectual property is our expertise in embedded radio-dependent firmware. Within our Bluetooth cordless products are software and firmware that include a wide variety of functions to enable efficient radio control and overall systems functionality. For cordless barcode scanning this includes our patented Error Proof Protocol, which is designed to ensure that scanned data is correctly received by the mobile computing device and allow for real-time validation of data and error notification to the user. We have developed a library of software drivers and control modules that allow our products to operate in handheld computers running the Windows Mobile operating systems and in notebooks running Windows 8/7/Vista/XP operating systems and in smartphones and tablets running operating systems from Apple (iOS), Google (Android), Research In Motion (BlackBerry), and Microsoft (Windows and Windows Mobile). We hold twenty-eight U.S. patents and ten design patents covering various inventions that relate to mobile products and to the design of our products. We have other patent applications undergoing review.

We have developed a number of software programs that provide unique functions and features for our handheld computer and cordless barcode scanning products. For example, our SocketScan software enables all of our barcode scanning products to scan a variety of barcodes and to route the scanned data to many different types of data files on a number of operating systems used in mobile devices. Our Bluetooth software used in conjunction with our Bluetooth hardware provides a completely functional Bluetooth solution enabling connections and data transfers between Bluetooth-enabled devices. Our wireless local area network software called Enhanced Wi-Fi Companion provides an extensive set of features to help the user get and stay connected. This software program used in conjunction with our handheld computers provides a completely functional wireless local area network solution, enabling connections and data transfers from and to our mobile computers over wireless local area networks. In addition, our Bluetooth and wireless LAN software programs are aligned to insure optimal performance even when both technologies are being utilized at the same time.

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We have registered trademarks with the U.S. Patent and Trademark Office for the mark "Socket", our logo, the terms "Go-WiFi" and "Battery Friendly" and "SoMo", the mark associated with our mobile handheld computers.

We rely on a combination of patent, copyright, trademark and trade secret laws, and confidentiality procedures to protect our proprietary rights. As part of our confidentiality procedures, we generally enter into non-disclosure agreements with our employees, distributors and strategic partners, and limit access to our software, 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 or technology without authorization, or to develop similar technology independently. In addition, we may not be able to effectively protect our intellectual property rights in certain foreign countries. From time to time we receive communications from third parties asserting that our products infringe, or may infringe, their proprietary rights. In connection with any such claims, litigation could be brought against us that could result in significant additional expense or compel us to discontinue or redesign some of our products.

Personnel

Our future success will depend in significant part upon the continued service of certain of our key technical and senior management personnel, and our continuing ability to attract, assimilate and retain highly qualified technical, managerial and sales and marketing personnel. Our total employee headcount as of December 31, 2012 was 50. Our employees are not represented by a union, and we consider our employee relationships to be good.

Sales and Marketing

Cordless barcode scanning products and the related accessories and service, represented 44% of our revenue in 2012, 31% in 2011 and 15% in 2010. Mobile handheld computer products and the related accessories and service, represented 53% of our revenue in 2012, 65% in 2011 and 73% in 2010. Other revenues were from sale of legacy products representing 3% of our revenue in 2012, 4% in 2011 and 12% in 2010. Reductions in legacy sales have been primarily due to the phasing out of older products.

We target business customers in selected vertical markets with our products. Most of our products are sold through distributors and resellers that service businesses. Our OEM products including embedded product components and custom versions of our handheld computers and barcode scanners are sold directly to the manufacturers of OEM products. The geographic regions we serve include the Americas, Europe, the Middle East, Africa and Asia Pacific.

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Our sales were in the Americas were 60% in 2012, 67% in 2011 and 76% in 2010. Our sales in Europe, the Middle East and Africa were 26% in 2012, 23% in 2011, and 20% in 2010. Our sales in Asia and Pacific Rim countries were 14% in 2012, 10% in 2011 and 4% in 2010. Export sales are subject to the complications of complying with laws of various countries and the risk of import/export restrictions and tariff regulations.

We support our distributors and resellers with education, training and customer assistance through our sales, marketing, and technical support staff in the Americas, Europe and Asia-Pacific regions. As of December 31, 2012, we had 15 people in sales, marketing and customer support.

Sales to customers in 2012 representing 10% or more of our revenue consisted of distributors ScanSource, Inc. (21%), Ingram Micro Inc. (17%) and BlueStar, Inc.(10%). Sales to customers in 2011 representing 10% or more of our revenue consisted of distributors ScanSource (16%), Ingram Micro (13%), and our OEM customer Epocal accounted for 11%. Sales to customers in 2010 representing 10% or more of our revenue consisted of distributors Ingram Micro (14%), Tech Data Corporation (13%), Blue Star Corporation (11%), and our OEM customer Epocal accounted for 10%.

Consistent with industry practice, we provide our distributors with stock balancing and price protection rights which permit these distributors to return slow-moving products to us for credit and to receive price adjustments for inventories of our products held by the distributors if we lower the price of those products. The immediate effect of returns and adjustments on our quarterly operating results is limited, since we recognize revenues on products shipped to distributors only at the time the merchandise is sold by the distributor.

We rely significantly on our distributors and resellers for distribution of our products. Our agreements with our distributors and resellers generally are nonexclusive and may be terminated on short notice by either party without cause. Furthermore, our distributors and resellers are not within our control, are not obligated to purchase products from us, and may represent other lines of products, including those of our competitors. If any distributors or resellers reduce or discontinue efforts to sell our products, our revenues and operating results could be materially adversely affected.

Manufacturing

We subcontract the manufacturing of substantially all of our product components and subassemblies to independent third-party contract manufacturers located in North America., China, and Taiwan who have the equipment, know-how and capacity to manufacture to our specifications. We perform final product assembly and testing, and package and

distribute our products at and from our Newark, California facility for most of our worldwide sales. As of December 31, 2012, we had 17 people employed in manufacturing operations, including planning, buying, manufacturing engineering, quality control, product assembly, shipping and receiving, and product support.

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Certain of our products or product components are available from only one vendor. These sole sourced products or components include the interface chip that controls the signal transmission between all of our plug-in CompactFlash products (except our Ethernet and wireless LAN products) and the card slot on our mobile computer, our Ethernet, wireless LAN and Bluetooth chips, our imager and laser scanning engines, certain cable and connector components and several major components of our mobile handheld computers including our processor and audio components. With the exception of worldwide supply shortages of LCD screens for our handheld computers in 2011 (See Management's Discussion and Analysis), we have generally been able to obtain adequate supplies of components. Such components are generally purchased on a purchase order basis under standard commercial terms and conditions, and we do not have long-term supply contracts for these products or components. Accordingly, the manufacturers could stop providing these products or components to us at any time. Alternatively, although our suppliers are generally large, well-financed organizations, they could encounter financial difficulties that interfere with our product supplies. In such an event, we could experience a decline in revenues until we establish sufficient manufacturing supply through an alternative source. Locating and qualifying alternative suppliers, and commencing new manufacturing operations, could take a significant period of time, although we believe that we can relocate manufacturing or find alternative suppliers for sole sourced products or components should it become necessary. We generally stock higher inventory quantities of sole sourced products or components as safety stocks to mitigate the risk of supply disruption.

Research and Development

Since our inception, we have made substantial investments in research and development. Research and development expenditures were $2.7 million in 2012, $2.8 million in 2011 and $2.5 million in 2010. Costs include compensation and benefit costs of our engineering employees and outside development costs including consultants and costs of product certification. The amount of expense is determined in part by the number and timing of product development projects.

As of December 31, 2012, we had 10 people on our product development staff, and we hire engineering consultants to perform additional engineering services as required. We anticipate that we will continue to commit substantial resources to research and development in the future.

General and Administration

As of December 31, 2012, we had 8 people responsible for our financial and administrative activities including accounting and finance personnel, internal computer systems and administrative support personnel. Costs include compensation and benefit costs, travel, audit, legal, and overhead support costs.

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Item 1A. Risk Factors

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

Our continued operating losses and declines in our working capital balances are conditions that 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 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, use of our bank lines of credit, 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.

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

We have been unprofitable in every quarter 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, delays in deployments by businesses of applications that use our handheld computers and our data collection products as we experienced in the third quarter of 2012 due to the transition of our mobile computer product line to new models, and supply delays in key components such as we experienced in the fourth quarter of 2010 and to progressively lesser extents in the first three quarters of 2011. Even if we grow the business to profitable operating levels, we may need to raise capital to provide sufficient working capital to fund our growth. 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 acce