SOCKET COMMUNICATIONS INC
Form 10-Q
May 15, 2007

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, 2007

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 COMMUNICATIONS, INC.
(Exact name of registrant as specified in its charter)

Delaware	**94-3155066**
(State or other jurisdiction of incorporation or organization)	(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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer" and "large accelerated filer" in Rule 12b-2 of the Exchange Act. Large accelerated filer [ ] Accelerated filer [ ] Non-accelerated filer [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]

Number of shares of Common Stock ($0.001 par value) outstanding as of April 30, 2007 was 31,913,386 shares.

INDEX

	PAGE NO.
Part I. Financial information	
Item 1. Consolidated Financial Statements:	
Condensed Consolidated Balance Sheets - March 31, 2007 and December 31, 2006	1
Condensed Consolidated Statements of Operations - Three Months Ended March 31, 2007 and 2006	2
Condensed Consolidated Statements of Cash Flows - Three Months Ended March 31, 2007 and 2006	3
Notes to Condensed Consolidated Financial Statements	4
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	11
Item 3. Quantitative and Qualitative Disclosures about Market Risk	19
Item 4. Controls and Procedures	20
Item 4T. Controls and Procedures	20
Part II. Other Information	
Item 1A. Risk Factors	21
Item 4. Submission of Matters to a Vote of Security Holders	33
Item 6. Exhibits	33
Signatures	34
Index to Exhibits	35

(Index)

Item 1. Financial Statements (Unaudited)

SOCKET COMMUNICATIONS, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS

	March 31,	December 31,

		2007 (Unaudited)		2006*
ASSETS				
Current assets:				
Cash and cash equivalents	$	5,182,301	$	6,104,277
Accounts receivable, net		3,279,700		2,699,218
Inventories		2,696,317		2,350,284
Prepaid expenses and other current assets	** **	174,095	** **	193,196
Total current assets		11,332,413		11,346,975
Property and equipment:				
Machinery and office equipment		2,232,715		1,790,053
Computer equipment	** **	1,074,486	** **	1,021,720
		3,307,201		2,811,773
Accumulated depreciation	** **	(2,186,154)	** **	(2,069,596)
Property and equipment, net		1,121,047		742,177
Intangible technology, net		574,683		608,491
Goodwill		9,797,946		9,797,946
Other assets	** **	284,045	** **	291,778
Total assets	$	23,110,134	$	22,787,367
LIABILITIES AND STOCKHOLDERS EQUITY				
Current liabilities:				
Accounts payable and accrued expenses	$	3,422,815	$	2,440,404
Accrued payroll and related expenses		913,340		751,007
Bank line of credit		2,285,230		2,213,261
Deferred income on shipments to distributors		1,461,801		1,472,781
Current portion of capital leases	** **	10,528	** **	8,372
Total current liabilities		8,093,714		6,885,825
Long term portion of capital leases and deferred rent		64,627		---
Deferred income taxes	** **	158,367	** **	150,379
Total liabilities		8,316,708		7,036,204
Commitments and contingencies				
Stockholders' equity:				
Common stock, $0.001 par value: Authorized shares 100,000,000, Issued and outstanding shares 31,883,886 at March 31, 2007 and 31,851,285 at December 31, 2006		31,884		31,851
Additional paid-in capital		52,839,524		52,531,493
Accumulated deficit	** **	(38,077,982)	** **	(36,812,181)
Total stockholders equity	** **	14,793,426	** **	15,751,163
Total liabilities and stockholders equity	$	23,110,134	$	22,787,367

* Derived from audited consolidated financial statements.

See accompanying notes.

(Index)

SOCKET COMMUNICATIONS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	Three Months Ended March 31,			
		2007		2006
Revenues	$	5,548,340	$	6,758,691
Cost of revenues	** **	2,763,773	** **	3,385,144
Gross profit		2,784,567		3,373,547
Operating expenses:				
Research and development		1,427,046		1,136,557
Sales and marketing		1,759,020		1,762,424
General and administrative		856,973		842,110
Amortization of intangible technology	** **	33,808	** **	36,043
Total operating expenses		4,076,847		3,777,134
Operating loss		(1,292,280)		(403,587)
Interest income and other		37,881		36,678
Interest expense	** **	(3,414)	** **	(2,204)
Net loss before deferred taxes		(1,257,813)		(369,113)
Deferred tax expense	** **	(7,988)	** **	---
Net loss	** **	(1,265,801)	** **	(369,113)
	** **		** **	
Preferred stock dividends	** **	---	** **	(10,653)
Net loss applicable to common stockholders	$	(1,265,801)	$	(379,766)
Net loss per share applicable to common stockholders:				
Basic	$	(0.04)	$	(0.01)
Diluted	$	(0.04)	$	(0.01)
Weighted average shares outstanding:				
Basic		31,872,223		30,395,495
Diluted		31,872,223		30,395,495

See accompanying notes.

(Index)

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

	Three Months Ended March 31,	
	2007	2006
Operating activities		
Net loss	$ (1,265,801)	$ (369,113)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Stock-based compensation	281,668	325,813
Depreciation and amortization	141,855	126,626
Amortization of intangible technology	33,808	36,043
Net foreign currency transaction (gains) losses	(11,372)	2,186
Deferred tax expense	7,988	---
Change in deferred rent	29,294	(8,256)
** **		
Changes in operating assets and liabilities:		
Accounts receivable	(566,261)	(648,382)
Inventories	(346,033)	(98,511)
Prepaid expenses and other current assets	19,101	46,955
Other assets	7,733	9,723
Accounts payable and accrued expenses	980,345	812,890
Accrued payroll and related expenses	162,333	64,527
Deferred income on shipments to distributors	** ** (10,980)	(160,046)
Net cash provided by (used in) operating activities	(536,322)	140,455
Investing activities		
Purchases of equipment and tooling	** ** (480,748)	(265,902)
Net cash used in investing activities	(480,748)	(265,902)
** **		

Financing activities				
Payments on capital leases and equipment financing notes		(2,488)		(2,361)
Gross proceeds from borrowings under bank line of credit agreement		2,285,230		2,747,326
Gross repayments of borrowings under bank line of credit agreement		(2,213,261)		(2,308,771)
Stock options exercised		26,396		22,635
Warrants exercised		---		345,809
Dividends paid on Series F convertible preferred stock	** **	---	** **	(22,682)
Net cash provided by financing activities		95,877		781,956
** **				
Effect of exchange rate changes on cash and cash equivalents	** **	(783)	** **	(3,860)
Net increase (decrease) in cash and cash equivalents		(921,976)		652,649
Cash and cash equivalents at beginning of period	** **	6,104,277	** **	6,833,193
Cash and cash equivalents at end of period	$	5,182,301	$	7,485,842
Supplemental cash flow information				
Cash paid for interest	$	3,414	$	2,204

See accompanying notes.

(Index)

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

NOTE 1 - Basis of Presentation

The accompanying unaudited consolidated financial statements of Socket Communications, Inc. (dba as Socket Mobile, Inc. beginning January 2007) and its wholly owned subsidiaries (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 10 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 consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2006.

NOTE 2 - Summary of Significant Accounting Policies

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.

The Company makes adjustments to the value of inventory based on estimates of potentially excess and obsolete inventory after considering forecasted demand and forecasted average selling prices. However, forecasts are subject to revisions, cancellations, and rescheduling. Actual demand will inevitably differ from anticipated demand, and such differences may have a material effect on the financial statements.

Recent Accounting Standards

In June 2006, the Financial Accounting Standards Board issued Interpretation No. 48, "Accounting for Uncertainty in Income Taxes - An Interpretation of FASB Statement No. 109" ("FIN 48"), to create a single model to address accounting for uncertainty in tax positions. FIN 48 clarifies the accounting for income taxes by prescribing a minimum recognition threshold a tax position is required to meet before being recognized in the financial statements. FIN 48 also provides guidance on derecognition, measurement, classification, interest and penalties, accounting in interim periods, disclosure and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006. The Company adopted FIN 48 as of January 1, 2007, as required. There were no adjustments to the financial statements as a result of the adoption of FIN 48. See Note 9 - Taxes, for additional information.

(Index)

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, 2007		December 31, 2006
Raw materials and sub-assemblies	$	2,376,583	$	2,044,643
Finished goods		319,734		305,641
	$	2,696,317	$	2,350,284

NOTE 4 - Bank Financing Arrangements

On March 3, 2006, the Company agreed with its bank to extend the term of the existing credit facility by an additional year, which expires on March 2, 2008. The credit facility under the credit agreement allows the Company to borrow up to $4,000,000 based on the level of qualified domestic and international receivables, up to a maximum of $2,500,000 and $1,500,000, respectively, at the lender's index rate based on prime plus 0.5%. The rates in effect at March 31, 2007 were 8.75% on both the domestic and international lines. At March 31, 2007, outstanding amounts borrowed under the lines were $1,134,377 and $1,150,853, respectively, which were the approximate amounts available on the lines. These amounts outstanding at March 31, 2007 were repaid in April 2007. At December 31, 2006, outstanding amounts borrowed under the lines were $1,100,226 and $1,113,035, respectively, which were the approximate amounts available on the lines. These amounts outstanding at December 31, 2006 were repaid in January 2007. The Company used the credit facility only at the end of the first quarter of 2007 and the end of each quarter in fiscal year 2006. Under the terms of the credit agreement, the Company must maintain a quarterly minimum tangible net worth of at least $4,100,000 for the first quarter of 2007, and thereafter a minimum quarterly tangible net worth of at least $5,400,000, plus 50% of quarterly net profits and 50% of net proceeds from equity and subordinated debt financing transactions beginning with the quarter ending June 30, 2007. The Company was in compliance with the tangible net worth requirement at March 31, 2007.

On May 8, 2007, the Company agreed with its bank to extend the term of the credit facility by an additional year and to change specific terms in the agreement (see Note 10 for additional information).

NOTE 5 - Intangible Assets

Intangible assets at March 31, 2007 consist of a patent purchased in 2004 for $600,000 covering the design and functioning of plug-in bar code scanners, bar code imagers and RFID products, which is being amortized on a straight line basis over its estimated life of ten years; intangible assets of $570,750 remaining from a prior acquisition in 2000 consisting of developed software and technology with estimated lives at the time of acquisition of 8.5 years; and a licensing agreement with a book value of $38,000, which was reclassified as an intangible asset at December 31, 2004 and is being amortized over its remaining life of three years.

(Index)

Amortization of all intangible assets in the first quarter of 2007 was $33,808 compared to $36,043 in the first quarter of 2006. Intangible assets as of March 31, 2007 consisted of the following:

		Gross Assets		Accumulated Amortization		Net
Patent	$	600,000	$	(165,000)	$	435,000
Project management tools		570,750		(436,456)		134,294
Licensing agreement		114,342		(108,953)		5,389
Intangible technology	$	1,285,092	$	(710,409)	$	574,683

Intangible technology as of December 31, 2006 consisted of the following:

		Gross Assets		Accumulated Amortization		Net
Patent	$	600,000	$	(150,000)	$	450,000

Project management tools	570,750	(419,669)	151,081
Licensing agreement	114,342	(106,932)	7,410
Intangible technology	$ 1,285,092	$ (676,601)	$ 608,491

Based on definite lived intangible assets recorded at March 31, 2007, and assuming no subsequent impairment of the underlying assets, the annual amortization expense is expected to be as follows:

Year	Amount
2007 (nine months remaining)	$ 100,749
2008	127,147
2009	76,787
2010	60,000
2011	60,000
2012 and beyond	150,000
	$ 574,683

NOTE 6 - 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. Information regarding geographic areas for the three months ended March 31, 2007 and 2006 is as follows:

	Three Months Ended March 31,	
Revenues:	2007	2006
United States	$ 3,264,260	$ 4,740,123
Europe	1,763,745	1,384,323
Asia and rest of world	520,335	634,245
Total Revenues	$ 5,548,340	$ 6,758,691

(Index)

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.

Major customers who accounted for at least 10% of the Company's total revenues were as follows:

	Three Months Ended March 31,	
	2007	2006
Tech Data	23%	27%
Ingram Micro	14%	14%

NOTE 7 - Stock-Based Compensation

On January 1, 2006, the Company adopted SFAS 123R for fiscal years ended December 31, 2006 and onward. SFAS 123R requires all share-based awards to employees, including grants of employee stock options, to be recognized in

the financial statements based on their fair values. The valuation provisions of SFAS 123R apply to new grants and to grants that were outstanding as of the effective date. Under SFAS 123R, the Company uses a binomial lattice valuation model to estimate fair value of stock option grants made on or after January 1, 2006. The binomial lattice model incorporates estimates for expected volatility, risk-free interest rates, employee exercise patterns and post-vesting employment termination behavior, and these estimates per share affect the calculation of the fair value of the Company's stock option grants. The fair value of stock option grants outstanding as of the effective date is estimated using the Black-Scholes option pricing model used under SFAS 123. The Company adopted the modified prospective recognition method and implemented the provisions of SFAS 123R beginning with the first quarter of 2006.

The weighted average per share fair value of the individual options issued and outstanding during the three months ended March 31, 2007 and 2006 was estimated at $1.51 and $1.74, respectively. The fair values were determined using a binomial lattice valuation model for options granted on or after January 1, 2006, and a Black-Scholes valuation model for options granted prior to January 1, 2006. Weighted average assumptions for options issued and outstanding during the three months ended March 31, 2007 and 2006 are shown below:

	Three Months Ended March 31,	
	2007	2006
Risk-free interest rate (%)	3.66%	3.47%
Dividend yield	---	---
Volatility factor	1.1	1.3
Expected option life (years)	4.6	4.9

At March 31, 2007, options issued to employees for 9,439,760 shares were outstanding, of which 7,009,588 were exercisable. At March 31, 2006, options issued to employees for 9,109,995 shares were outstanding, of which 6,321,578 were exercisable.

7

(Index)

Total stock-based compensation expense recognized in our consolidated statements of income for the three months ended March 31, 2007 and 2006 is shown below:

	Three Months Ended March 31,	
Income Statement Classification	2007	2006
Cost of revenues	$ 22,680	$ 24,396
Research and development	62,966	94,967
Sales and marketing	79,644	133,256
General and administrative	116,378	73,194
Total	$ 281,668	$ 325,813

NOTE 8 - Net Loss Per Share Applicable to Common Stockholders

The Company calculates earnings per share in accordance with Financial Accounting Standards Board Statement No. 128, *Earnings per Share.*

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

	Three Months Ended March 31,			
		2007		2006
erator:				
t loss	$	(1,265,801)	$	(369,113)
eferred stock dividends		---		(10,653)
oss applicable to common stockholders	$	(1,265,801)	$	(379,766)
sp				
ominator:				
ghted average common shares outstanding used in computing net loss per share:				
asic		31,872,223		30,395,495&
iluted		31,872,223		30,395,495&
oss per share applicable to common stockholders:				&
asic	$	(0.04)	$	(0.01)
iluted	$	(0.04)	$	(0.01)

For the quarters ended March 31, 2007 and 2006, the diluted net loss per share is equal to the basic net loss per share, because the Company experienced losses in these periods and thus no potential common shares underlying stock options or warrants have been included in the net loss per share calculation, as their effect is anti-dilutive. Options and warrants to purchase 10,373,128 and 10,348,707 shares of common stock at March 31, 2007 and 2006, respectively, have been omitted from the net loss per share calculation.

(Index)

NOTE 9 - Taxes

Deferred income tax reflects the net tax effects of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amount used for income tax purposes. Deferred tax expense of $7,988 for the quarter ended March 31, 2007 and the corresponding deferred tax liability shown on the Company's balance sheet, is related 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, and furthermore, this deferred tax liability may never reverse. The Company maintains a full valuation allowance for all other components of deferred tax assets. The Company has not generated taxable income in any periods in any jurisdiction, foreign or domestic.

On January 1, 2007, the Company adopted Financial Accounting Standards Board Interpretation No. 48, "Accounting for Uncertainty in Income Taxes - An Interpretation of FASB Statement No. 109" ("FIN 48"). FIN 48 prescribes a recognition threshold that a tax position is required to meet before being recognized in the financial statements, and provides guidance on derecognition, measurement, classification, interest and penalties, accounting in interim periods, disclosure and transition issues. There were no adjustments to the financial statements as a result of the adoption of FIN 48. The Company has an unrecognized tax benefit of approximately $760,000 which did not change significantly during the three months ended March 31, 2007. The application of FIN 48 does not result in a change to retained earnings, as the unrecognized tax benefit would be fully offset by the application of a valuation allowance. In addition, future changes in the unrecognized tax benefit will have no impact on the effective tax rate due to the existence of the valuation allowance. The Company estimates that the unrecognized tax benefit will not change significantly within the next twelve months. It is the Company's policy to include interest and penalties related to tax positions as a component of income tax expense. Accrued interest on tax positions was not significant at March 31, 2007.

The Company files its tax returns as prescribed by the tax laws of the jurisdictions in which it operates. The Company is not currently under audit in any of its jurisdictions where income tax returns are filed. The tax years 1992 to 2006 remain open to examination by the major domestic taxing jurisdictions to which the Company is subject, and for the years 2001 to 2006 for the international taxing jurisdictions to which the Company is subject.

(Index)

NOTE 10 - Subsequent Event: Bank Financing Arrangements

On May 8, 2007, the Company agreed with its bank to extend the term of the credit facility by an additional year. The facility will now expire on March 3, 2009. Under the terms of the credit agreement, the Company must maintain a minimum tangible net worth of at least $4,000,000, plus 50% of net profits on a quarterly basis and 50% of net proceeds from equity and subordinated debt financing transactions beginning with the quarter ended September 30, 2007. The minimum tangible net worth will be measured on a quarterly basis so long as advances under the credit facility are repaid within five business days from date of the advance, as the Company has done in the first quarter of 2007 and in each of the quarters in fiscal 2006, and will be measured on a monthly basis if advances under the facility remain outstanding for more than five business days. Additionally, under the terms of the agreement a term loan is available to the Company in a principal amount of $500,000, the advance of which must be completed on or before June 30, 2007. The term loan will bear a fixed interest rate equal to the prime rate plus 1.5% at the time of the advance, and is to be repaid by the Company in 36 equal monthly installments.

(Index)

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 future financial results and 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: the risk of delays in the availability of our products due to technological, market or financial factors including the availability of necessary working capital; our ability to successfully 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 and data collection 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 consolidated 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.

Revenues

Socket and our partners make business mobility solutions possible for small-to-mid sized deployments. We are a producer of mobile systems and peripherals serving the business mobility market. Mobile systems solutions typically consist of a handheld computer, data collection and connectivity peripherals, and third-party vertical applications software. We have historically offered a wide range of data collection and connectivity peripheral products and embedded products for use with mobile computing devices offered by third-parties. In January 2007, we began doing business as Socket Mobile, Inc. to emphasize our commitment to mobile computing. We have announced plans to offer a family of handheld computers with the first product scheduled to ship in the second quarter of 2007. Our initial handheld computing product is called the SoMo 650. Our data collection and connectivity peripheral products are used with handheld computers, tablet computers, notebook computers and smartphones that use Windows Mobile, Windows XP, Windows Tablet, Palm, or Symbian 60 or 80 operating systems. The guiding principles that we follow in developing products for the business mobility computing market are standard form factors, low battery power consumption, ease of use, interoperability and quality. Our focus is business customers in the mobile marketplace. Most of our products, except our embedded products, are sold through distributors and resellers that service enterprises. Our embedded products are sold directly to the manufacturers of devices in which our products are embedded. The geographic regions we serve include the Americas, Europe, the Middle East, Africa and Asia Pacific.

Total revenues for the first quarter of 2007 were $5.5 million, a decrease of 18% from revenues of $6.8 million in the first quarter of 2006.

(Index)

Revenues in the comparable three month periods may be classified into the following broad product families:

- Mobile peripheral products;
- OEM embedded products; and
- Serial card products

Beginning in 2007 we have added a handheld computer products category. The first customer shipments are expected to start during the second quarter of 2007.

Our mobile peripheral products consist of *data collection products* and *connectivity products*, which together represented approximately 71% of our revenues for the quarter ended March 31, 2007 compared to 67% of our revenues for comparable quarter one year ago.

Our *data collection products* enable the electronic collection of data from bar codes, RFID tags, or magnetic stripes and consist of:

- bar code scanning products that plug into or connect wirelessly to handheld computers, tablet computers, notebook computers and smartphones that use Windows Mobile, Windows XP, Windows Tablet, Palm, or Symbian 60 or Symbian 80 operating systems, and turn these devices into portable bar code scanners that can be used in various retail and industrial workplaces;
- Radio Frequency Identification (RFID) plug-in products that read RFID tags;
- a combination plug-in bar code scanner and RFID reader; and
- a plug-in magnetic stripe reader.

We have developed extensive bar code scanning software called SocketScan that supports all of our data collection products, and have software developer kits that assist third-party developers in integrating our SocketScan software and our hardware products into their applications and solutions. Our bar code scanning products include CompactFlash and SDIO plug-in bar code scanners for linear and two-dimensional bar code scanning, along with a cordless handheld bar code scanner and a ring scanner worn on the index finger, both of which connect to computing systems using the Bluetooth standard for short-range wireless connectivity. Data collection products represented approximately 58% of our revenues for the quarter ended March 31, 2007 compared to 37% of our revenues for the comparable quarter one year ago.

(Index)

Our *connectivity products* are connection devices that can either be plugged into standard expansion slots in handheld computers, tablet computers, notebook computers and smartphones that use Windows Mobile, Windows XP,

Windows Tablet, or Palm operating systems, or connect to these devices over wireless and wired connections. These products allow users to connect their devices to the Internet via mobile or wired phone services, or to private networks, or to communicate with other electronic devices such as desktop computers, other handheld, tablet and notebook computers, smartphones and printers. Historically our connectivity products have included:

- plug-in cards using the Bluetooth standard for short-range wireless connectivity, along with extensive communications software enabling the use of these products;
- plug-in cards for connecting to local wireless networks using the Wireless LAN 802.11b/g (or Wi-Fi) standards along with extensive communications software enabling the use of these products.
- Modems for telephone connections that connect over a cable, and cordless modems that utilize Bluetooth wireless technology to connect a telephone to a Bluetooth-enabled computer or other device; and
- Ethernet cards for local area network connections that connect over a cable.

Bluetooth and wireless LAN connection functions are being built into many third-party mobile devices. Demand for these wireless plug-in products from customers using consumer grade handhelds has declined, and demand is instead increasingly from our OEM customers with industrial grade handhelds and products. In response to this change we have begun categorizing all revenues in 2007 related to our Bluetooth and Wireless LAN plug-in products within our OEM embedded products family. Increased built-in wireless functionality in handheld computers has reduced the demand for these categories of our plug-in products. Revenues related to these wireless plug-in products now categorized within our OEM embedded products family was 9% of the first quarter 2007 revenues. Remaining connectivity products in the first quarter of 2007 represented approximately 12% of our revenues for the quarter ended March 31, 2007 compared to 30% of our revenues for the comparable quarter one year ago.

Our *OEM embedded products* consist of Bluetooth and Wireless LAN modules and plug-in cards used by Original Equipment Manufacturers (OEMs) of handheld computers and other devices to build wireless connection functions into their products using the Bluetooth and wireless LAN standards for wireless connectivity. OEM embedded products represented approximately 21% of our revenues for the quarter ended March 31, 2007, of which 9% represented wireless plug-in products categorized as connectivity products in 2006, compared to 22% of our revenues for the comparable quarter one year ago.

Our *serial card products* enable the connection of a mobile computer to another electronic device either as a plug-in card connecting over cables or wirelessly over a Bluetooth network. Serial card products represented approximately 9% of our revenues for the quarter ended March 31, 2007 compared to 11% of our revenues for the comparable quarter one year ago.

(Index)

Our data collection product revenues in the first quarter of 2007 were $3.2 million, an increase of 28% compared to revenues of $2.5 million in the first quarter of 2006. Revenue increases in the first quarter 2007 of $0.5 million in sales of our Cordless Hand Scanner, increases of $0.3 million in sales of our primary scanning product, the CompactFlash In-Hand Scan card, and increases of $0.2 million in our Cordless Ring Scanner which began shipping in the fourth quarter of 2005, were partially offset by declines in sales of our SDIO In-Hand Scan card and declines in our In-Hand Scan Imager card. Overall data collection revenues improved in the first quarter of 2007 from the comparable period one year ago, benefiting from factors which adversely affected the marketplace in 2006. In the first quarter of 2006 data collection revenues were slowed by the introduction of an operating system upgrade, Windows Mobile 5.0, released in September 2005 by the major PDA manufacturers, which slowed customer deployments in the first quarter 2006, and throughout 2006, as third-party applications were modified and tested with the operating

system. During the first half of 2006 the availability of units by the major PDA manufacturers was limited until late in the second quarter as the PDA manufacturers concluded transitioning their products to lead-free equivalents to comply with the Reduction of Hazardous Substances (RoHS) rules implemented in Europe and around the world which were in effect beginning with shipments made after June 30, 2006.

Our connectivity product revenues in the first quarter of 2007 were $0.7 million compared to revenues of $2.0 million in the first quarter of 2006. Beginning with the first quarter of 2007, sales of our Wireless LAN plug-in cards and Bluetooth plug-in cards, which have historically been included in our connectivity products category, are now included within the OEM embedded products family. This reflects the growing trend of our Wireless LAN and Bluetooth plug-in card revenues being driven by customers of our OEM embedded products segment. Revenue declines of $0.3 million in connectivity sales in the first quarter 2007 are due to reduced sales of our Bluetooth plug-in card products compared to the first quarter of 2006 reflecting this wireless technology being already built-in by PDA manufacturers. Revenue reductions of $0.5 million in the first quarter of 2007 reflects the reclassification of sales of our Wireless LAN and Bluetooth plug-in card products in the first quarter of 2007, now included in our OEM Embedded products family. Additional revenue declines of $0.3 million resulting from reduced sales of our Modem plug-in products, and revenue declines totaling $0.2 million were from reduced sales of our Ethernet plug-in products, our accessory products including our Mobile Power Pack, and our Cordless GPS receiver with navigation kit which was discontinued.

Our OEM embedded product revenues in the first quarter of 2007 were $1.1 million compared to $1.5 million in the first quarter of 2006. Revenue declines of $0.8 million in sales of our Bluetooth modules was due to increased competition our customers experienced in the industrial ruggedized market segment in the first quarter of 2007, continuing a trend which began in the fourth quarter of 2006, a trend which is expected to improve in the second quarter of 2007. Beginning with the first quarter of 2007, sales of our Wireless LAN plug-in cards and Bluetooth plug-in cards, the majority of which has historically been included in our connectivity products category, are now included in the OEM embedded products family. This reflects the growing trend that our overall Wireless LAN and Bluetooth plug-in card revenues are being driven by customers within our OEM embedded products segment. The remaining OEM embedded product revenues are comprised of $0.3 million in sales related to our Wireless LAN plug-in cards which was flat compared to total Wireless LAN plug-in card sales in the comparable quarter a year ago, and $0.2 million in sales related to our Bluetooth plug-in cards, which reflects a decline of $0.3 million from total sales of Bluetooth plug-in cards in the comparable quarter a year ago reflecting this wireless technology being built-in by PDA manufacturers.

(Index)

Our serial product revenues in the first quarter of 2007 were $0.5 million, a decline of 35% compared to revenues of $0.7 million in the first quarter of 2006. Revenue declines of $0.2 million were from sales of our standard serial PC Card products. Our standard peripheral connection cards are primarily sold to connect peripheral devices or other electronic equipment to notebook computers. Sales of our CompactFlash Card product and cordless Bluetooth serial adapter product were flat in the comparable periods. Overall serial product revenues continue to decline, continuing a trend reflecting the gradual replacement of serial technology with USB and other newer connection technologies.

Gross Margins

Our gross margins for the first quarter of 2007 and 2006 were 50% in both periods. We generally price our products as a markup from our cost, and we offer discount pricing for higher volume purchases.

Research and Development Expense
Research and development expense in the first quarter of 2007 was $1.4 million, an increase of 26% compared to $1.1 million in the first quarter of 2006. The increase of $0.3 million is attributable to the costs incurred in the first quarter of 2007 related to the development of our initial mobile handheld computer, the development of which was begun in the fourth quarter of 2006. Expenses are expected to decrease in the second quarter of 2007 from first quarter levels due to development completion of our mobile handheld computer followed by initial shipments scheduled to begin in the second quarter.

Sales and Marketing Expense
Sales and marketing expense for the first quarter of 2007 and 2006 was $1.8 million in both periods. Increases in personnel costs and outside services were offset by reductions in advertising and promotion expenses. Expenses are expected to increase in the second quarter of 2007.

General and Administrative Expense
General and administrative expense for the first quarter of 2007 was $857,000, an increase of 2% compared to $842,000 in the first quarter of 2006. Increases of $0.1 million in personnel costs were primarily from stock-based compensation expense recognized in the first quarter of 2007 due to timing of grants compared to the same period in 2006. Partially offsetting these increases were reduced business insurance costs and consulting and professional fees. Expenses are expected to decline in the second quarter of 2007 from first quarter levels due to lower professional fees related to costs of our annual audit historically charged over the fourth and first quarters.

Amortization of Intangibles
In July 2004 we acquired a patent which covers the design and functioning of plug-in bar code scanners, bar code imagers and RFID products. The patent was purchased for $600,000 and has been capitalized as an intangible asset. The patent is being amortized on a straight line basis over a ten-year period. Intangible assets of $570,750 remaining from a prior acquisition in 2000 consist of developed software and technology with estimated lives at the time of acquisition of 8.5 years. At December 31, 2004, a licensing agreement with a book value of $38,000 was reclassified as an intangible asset and is being amortized over its remaining life of three years. Amortization charges for the first quarter of 2007 for all acquired intangibles were $34,000 compared to $36,000 for the first quarter 2006. The lower amortization charges in 2007 are due to components of intangible property becoming fully amortized.

(Index)

Interest Income and Expense
Interest income reflects interest earned on cash balances. Interest income of $37,900 in the first quarter of 2007 as compared to interest income of $36,700 in the first quarter of 2006, reflects higher rates of return in the first quarter of 2007 compared to the first quarter of 2006.

Interest expense in the first quarter of 2007 of $3,400 compares to interest expense of $2,200 in the first quarter of 2006. Interest expense is related to interest on equipment lease financing obligations and interest on amounts drawn on our bank lines of credit. We used our bank lines of credit only at the end of the first quarter 2007 and at the end of each quarter in 2006. Higher interest expense in the first quarter of 2007 as compared to the first quarter of 2006 is due to higher interest rates on our lines of credit in the first quarter of 2007.

Preferred Stock Dividends
Preferred stock dividends in the first quarter of 2006 reflect dividends of $10,700 accrued at the rate of 8% per annum on Series F Preferred Stock issued in March 2003. Series F dividends were payable quarterly in cash or in common

stock, at the option of the Company. Dividends in 2006 reflect dividends on Series F Preferred Stock through the date of mandatory conversion in the first quarter 2006, and were paid prior to the end of the first quarter. On March 21, 2006 the outstanding shares of Series F Preferred Stock automatically converted into common stock resulting in the issuance of 823,300 shares of common stock.

Taxes

Deferred income tax reflects the net tax effects of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amount used for income tax purposes. Deferred tax expense of $7,988 for the quarter ended March 31, 2007 and the corresponding deferred tax liability shown on the Company's balance sheet, is related 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, and furthermore, this deferred tax liability may never reverse. The Company maintains a full valuation allowance for all other components of deferred tax assets. The Company has not generated taxable income in any periods in any jurisdiction, foreign or domestic.

Liquidity and Capital Resources

We were unprofitable in the first quarter of 2007. We were unprofitable in each of the quarters in fiscal 2006. We were profitable in two quarters in 2005, but unprofitable for fiscal year 2005. Fiscal year 2004 was the first profitable year in our history, but only to the extent of $288,000. Prior to 2004, we incurred significant operating losses in each financial period since our inception. 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 $51 million in equity capital. Prior to the first quarter of 2004, we incurred significant quarterly and annual operating losses in every fiscal period. We may continue to be unprofitable in the future.

(Index)

Cash used in operating activities was $0.5 million in the first quarter of 2007 compared to cash provided by operating activities of $0.1 million in the first quarter of 2006. Cash used in the first quarter of 2007 resulting from our net loss adjusted for non-cash items was $0.8 million compared to cash provided of $0.1 million in the first quarter of 2006 from our net loss adjusted for non-cash items. Adjustments for non-cash items, including depreciation and amortization, amortization of intangibles, gains and losses on foreign currency transactions, changes in deferred rent, deferred tax expense, and stock-based compensation, totaled $0.5 million in each of the first quarters of 2007 and 2006. Changes in working capital balances in the first quarter of 2007 resulted in a source of cash of $0.2 million, and were primarily from increases in accounts payable and accrued expenses attributable to accrued development costs related to our initial mobile handheld computer and increased levels of inventories, and increases in accrued payroll, partially offset by increases in accounts receivable due to a concentration of shipments in the latter month of the first quarter compared to the prior quarter, and increases in levels of inventory. Changes in working capital balances in the first quarter of 2006 resulted in a source of cash of $27,000, and were primarily from increases in payables due to increased overall expense levels and inventory purchases, and increases in accrued payroll, partially offset by increases in receivables due to increased levels of shipments during the quarter, increases in inventory to meet higher levels of shipments, and decreases in deferred revenue on shipments to distributors.

Cash used in investing activities was $0.5 million in the first quarter of 2007 as compared to $0.3 million in the first quarter of 2006. Increased investing activities in the first quarter of 2007 reflects the costs of leasehold improvements related to our new corporate headquarters. Remaining investing activities in each of the periods reflects the costs of new computer hardware and software, and tooling costs.

Cash provided by financing activities was $0.1 million in the first quarter of 2007 as compared to $0.8 million during the first quarter of 2006. Financing activities in the first quarter of 2007 consisted primarily of a net increase in the

amounts drawn on our bank lines of credit, proceeds from the exercise of stock options and additions of leased equipment. Financing activities in the first quarter of 2006 consisted primarily of a net increase in the amounts drawn on our bank lines of credit, proceeds from the exercise of Series F warrants and the exercise of stock options, partially offset by the final dividend payments on Series F Preferred Stock.

Our cash balances at March 31, 2007 were $5.2 million, including cash of $2.3 million drawn against our bank line of credit. In May of 2007, we extended our bank line of credit agreement which will now expire on March 3, 2009. We have warrants outstanding from our private placement financings and outstanding employee stock options that, if exercised, would further increase our cash and equity balances. We believe our existing cash, plus our ability to reduce costs, and our bank line will be sufficient to meet our funding requirements at least through March 31, 2008. If we can return to profitability and revenue growth, we anticipate requirements for cash will include funding of higher receivable and inventory balances, and increasing expenses, including more employees to support our growth and increases in salaries, benefits, and related support costs for employees. If we cannot return to 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. Should the need arise, we cannot assure you that additional capital will be available on acceptable terms, if at all, and any such terms may be dilutive to existing stockholders. Although we do not anticipate the need to raise additional capital at this time to fund our operations, we may raise additional capital if market conditions are appropriate.

(Index)

Our contractual cash obligations at March 31, 2007 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		$ 45,800	$ 10,500	$ 24,000	$ 11,300	$ ---
Operating leases		1,874,800	262,000	732,600	781,100	99,100
Unconditional purchase obligations with contract manufacturers		** ** 864,800	** ** 864,800	** ** ---	** ** ---	** ** ---
Total contractual cash obligations		$ 2,785,400	$ 1,137,300	$ 756,600	$ 792,400	$ 99,100

Off-Balance Sheet Arrangements
We have no off-balance sheet arrangements as defined in Item 303 of Regulation S-K.

Recent Accounting Pronouncements
In June 2006, the Financial Accounting Standards Board issued Interpretation No. 48, "Accounting for Uncertainty in Income Taxes - An Interpretation of FASB Statement No. 109" ("FIN 48"), to create a single model to address

accounting for uncertainty in tax positions. FIN 48 clarifies the accounting for income taxes by prescribing a minimum recognition threshold a tax position is required to meet before being recognized in the financial statements. FIN 48 also provides guidance on derecognition, measurement, classification, interest and penalties, accounting in interim periods, disclosure and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006. The Company adopted FIN 48 as of January 1, 2007, as required. There were no adjustments to the financial statements as a result of the adoption of FIN 48. See Note 9 - Taxes, for additional information.

(Index)

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, 2007, a decline of 1% in interest rates would reduce our quarterly interest income by approximately $7,200.

Our bank credit line facilities of up to $4.0 million have variable interest rates based upon the lender's index rate plus 0.5% for both the domestic line (up to $2.5 million) and the international line (up to $1.5 million). Accordingly, interest rate increases would increase our interest expense on outstanding credit line balances. We utilized our credit line facility only at the end of the quarter in the first quarter of 2007 and the end of each quarter in 2006, and therefore did not subject ourselves to interest rate exposure. Based on a sensitivity analysis, an increase of 1% in the interest rate would increase our borrowing costs by $10,000 for each $1 million of borrowings, if outstanding for the entire year, against our bank credit facility or a maximum of $40,000 if we utilized our entire credit line.

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 subsidiary in Euros, and we expect to enter into selected future purchase commitments with foreign suppliers that may be paid in the local currency of the supplier. To date these balances have been small, 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 subsidiary expenses at the beginning, during and at the end of the quarter ended March 31, 2007, an adverse change of 10% in exchange rates would result in a decrease in our net income for the first quarter of approximately $71,000, if left unprotected. For the first quarter of 2007 the total net adjustment for the effects of changes in foreign currency on cash balances, collections, payables, and derivatives was a net gain of $13,500. We hedge a significant portion of our European receivable balances denominated in Euros to reduce the foreign currency risk associated with these assets. We will continue to monitor, assess, and mitigate through hedging activities, the risk associated with these exposures.

(Index)

Item 4. Controls and Procedures

(a) Evaluation 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.

(b) 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.

Item 4T. Controls and Procedures

(a) Management's quarterly report on internal control over financial reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. There are inherent limitations in the effectiveness of any internal control, including the possibility of human error and the circumvention or overriding of controls. Accordingly, even effective internal controls can provide only reasonable assurances with respect to financial statement preparation. Further because of changes in conditions, the effectiveness of internal controls may vary over time.

We assessed the effectiveness of the Company's internal control over financial reporting as of March 31, 2007. In making this assessment, we used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control - Integrated Framework.

Based on our assessment using those criteria, we believe that, as of March 31, 2007, our internal control over financial reporting is effective.

This quarterly report does not include an attestation report of the Company's registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Company's registered public accounting firm pursuant to temporary rules of the Securities and Exchange Commission that permit the Company to provide only management's report in this quarterly report.

(Index)

(b) 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.

PART II. OTHER INFORMATION

Item 1A. Risk Factors

There are no material changes to the risk factors described in Part I, "Item 1A. Risk Factors," in our Annual Report on Form 10-K for the fiscal year ended December 31, 2006. The risk factor below titled, *"Our Common Stock may become ineligible for listing on the Nasdaq Global Market or alternatively the Nasdaq Capital Market, which would materially adversely affect the liquidity and price of our Common Stock,"* has been added as our Common Stock has traded below $1.00 from time to time during the last seven months. The risk factor below titled, *"We may become subject to claims of intellectual property rights infringement, which could result in substantial liability,"* has been updated with additional information regarding the lawsuit filed by the Washington Research Foundation against selected companies which have incorporated Bluetooth wireless technology into their products. We also incorporate the same technology into many of our products. We have not been named in the lawsuit. The presentation of numerical amounts and percentages in the following risk factors below titled: *"A significant portion of our revenue currently comes from two distributors, and any decrease in revenue from these distributors could harm our business;" "Our operating results could be harmed by economic, political, regulatory and other risks associated with export sales;" "The sale of a substantial number of shares of Common Stock could cause the market price of our Common Stock to decline;"* and *"Volatility in the trading price of our Common Stock could negatively impact the price of our Common Stock,"* have been updated to reflect first quarter 2007 information.

The risks described in our Annual Report on Form 10-K and updated in this 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.

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

We were unprofitable in the first quarter of 2007. We were unprofitable in each of the quarters in fiscal 2006. We were profitable in two quarters in 2005, but unprofitable for fiscal year 2005. Fiscal year 2004 was the first profitable year in our history, but 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 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.

(Index)

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.

Although we do not anticipate the need to raise additional capital during the next twelve months to fund our operations, we may incur operating losses in future quarters and may need to raise capital to fund these losses. Our forecasts are highly dependent on factors beyond our control, including market acceptance of our products and sales of handheld computers. 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. In addition, the availability of our bank line is dependent upon our meeting certain covenants, including a tangible net worth covenant. Future operating losses could cause us to lose the availability of our bank line as a result of becoming non-compliant with these covenants.

If third-parties do not produce and sell innovative products with which our products are compatible, or if our line of 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 personal computer industry to complete development of 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 handheld computers, our ability to generate increased revenue depends significantly on the commercial success of Windows-mobile handheld devices, particularly the Pocket PC and other devices such as the line of handhelds with expansion options offered by Palm, and the adoption of handheld computers for business use. If manufacturers are unable or choose not to ship new products such as Pocket PC and other Windows-mobile devices or Palm devices on schedule, or experience difficulties with new product transitions that cause delays in the market as we experienced in 2005 and 2006, or if these products fail, including our new line of handheld computers, to achieve or maintain market acceptance, the number of our potential new customers would be reduced and we would 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.

(Index)

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:

- identify emerging standards in the field of mobile computing products;
- enhance our products by adding additional features;
- invest significant resources in research and development, sales and marketing, and customer support;

- 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 Corp. and Ingram Micro, Inc., which together represented approximately 37 and 40 percent of our worldwide revenue in the first quarter of 2007 and fiscal year 2006, respectively. We expect that a significant portion of our revenue will continue to depend on sales to Tech Data Corp. and Ingram Micro, Inc. We do not have long-term commitments from Tech Data Corp. or Ingram Micro, Inc. to carry our products. Either 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 Corp. or Ingram Micro, Inc., we would experience disruption and delays in marketing our products. Revenues related to these two major distributors fell markedly in the third quarter 2006 to 32 percent, due primarily to a reduction in the level of corporate handheld deployments by one of our key North American channel partners.

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

Substantially all of our products are designed for use with mobile personal computers, including handhelds, notebook computers, tablets and smartphones. If the mobile personal 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, as we experienced in 2006 and 2005, or if the markets for our mobile handheld computers do not grow, we will 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 2D bar code scanning and RFID, 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.

(Index)

Our Common Stock may become ineligible for listing on the Nasdaq Global Market or alternatively the Nasdaq Capital Market, which would materially adversely affect the liquidity and price of our Common Stock.

We are listed on the Nasdaq Global Market. Our continued listing is contingent on meeting specific quantitative standards, including a minimum closing bid price of $1.00. Our Common Stock has traded below $1.00 for significant periods during the last seven months. We may not be able to meet these requirements in the future, particularly if our Common Stock fails to trade at or above $1.00 per share for an extended period of time. In particular, if our stock fails to maintain a minimum closing bid price of at least $1.00 for 30 consecutive business days, we will receive a staff deficiency notice from Nasdaq, and our stock will have to achieve a minimum closing bid price of at least $1.00 for at least 10 consecutive business days within the 180 calendar days thereafter, or else we may be delisted from the Nasdaq Global Market. In addition, Nasdaq has the discretion to extend the foregoing 10 consecutive business day

requirement to up to 20 business days. In the last seven months our Common Stock once traded below $1.00 for over 30 consecutive business days. However, our stock price has then traded above $1.00 for the requisite time period and, we have maintained our Nasdaq Global Market listing. Should we be delisted from the Nasdaq Global Market, we may be eligible for listing on the Nasdaq Capital Market, subject to meeting specific quantitative standards, including maintaining a minimum closing bid price of $1.00, and would have to achieve that within the 180 calendar days of initial listing on the Nasdaq Capital Market.

If our Common Stock becomes ineligible for listing on either the Nasdaq Global Market or the Nasdaq Capital Market, and is thereafter traded only on the over-the-counter market, our stockholders' ability to purchase and sell our Common Stock could be less orderly and efficient and more costly. Furthermore, a delisting of our Common Stock could have a materially adverse impact on our business operations by damaging our general business reputation, impairing our ability to obtain additional capital, reducing the incentives that equity ownership is intended to provide to our employees, and causing a loss of confidence by investors, suppliers and employees. As a result of the negative impact on the liquidity of our Common Stock and on our business, a delisting would also likely decrease the market price of our Common Stock and increase the volatility of our stock price.

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

The market for 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 original equipment manufacturers of personal computers, mobile phones and handheld computers offer 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.

(Index)

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 as we introduce and support more products and as competition in the market for our products intensifies. 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.

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. 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.

We rely primarily on distributors, resellers, and original equipment manufacturers 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, and original equipment manufacturers, 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.

Our agreements with distributors, resellers, and original equipment manufacturers are generally nonexclusive and may be terminated on short notice by them without cause. Our distributors, resellers, and original equipment manufacturers 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, particularly since we seek to continually introduce new and enhanced products and are likely to face increasing price competition.

(Index)

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 personal 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 activities for Windows-mobile products, Palm devices, smartphones using Windows Mobile and Symbian System 60 and 80 operating systems, handheld computers from Research-in-Motion, and more recently, to developing our own family of handheld mobile 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, Palm, Symbian or Research-in-Motion 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.

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.

(Index)

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. In January 2007, the Washington Research Foundation filed a patent lawsuit against Nokia, Samsung, and Panasonic, alleging these wireless device makers of using infringing Bluetooth microprocessors in their products.

In March of 2007, Apple, Dell, Sony, Logitech, Motorola, SonyEricsson, Toshiba, and Plantronics were added by Washington Research Foundation to the list of defendants. The companies are accused of infringing four patents covering technology that lets users exchange data among mobile phones, personal computers and other devices without using cables. The Washington Research Foundation is asking for money damages and a court order barring the sale of products that use the patented technology. We have not been named in the lawsuit, and we do not plan to make any changes to our current business at this time. The outcome of this lawsuit may result in future changes to our business, including potential increased costs for those products of ours that make use of the related technology.

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.

(Index)

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 original equipment manufacturers, 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.

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 revenue 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 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 of new products that work with our connection products;
- changes in the proportion of 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; and
- timing of distributors' shipments to their customers.

Because we base our staffing and other operating expenses on anticipated revenue, 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.

(Index)

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 ten to fourteen years by us, including our President, Chief Financial Officer, Chief Technical Officer, Vice President of Marketing, and Senior Vice President for Business Development/General Manager Development Services. 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.

Beginning January 1, 2006 we began to expense options granted under our employee stock plans as compensation, and as a result our net income and earnings per share were negatively affected, we may continue to have net losses as a result of the requirement to expense options, and 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. The expensing of employee stock options adversely affected our net income and earnings per share in the first quarter of 2007 and each of the quarters in fiscal 2006, will continue to adversely affect future quarters, and will make profitability harder to achieve or make our net losses worse. 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.

If we are unable to attract and retain highly skilled sales and marketing and product development personnel, our ability to develop 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 connection 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 new products and product enhancements.

(Index)

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

Our accounts receivable are derived primarily from distributors and original equipment manufacturers. 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.

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, and our bar code scanning modules, and our new line of 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. If we are unable to procure certain component parts, 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.

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 41 percent of our revenue in the first quarter of 2007 and 32 percent of our revenue in the fiscal year 2006. Accordingly, our operating results are subject to the risks inherent in export sales, including:

- 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.

(Index)

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

Our corporate headquarters are 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 controls 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 controls 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 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 April 30, 2007, we had 31,913,386 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.

As of April 30, 2007, we had 10,007,043 shares subject to outstanding options under our stock option plans, and 911,815 shares 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, shares underlying

vested options will be eligible for resale in the public market as soon as the options are exercised.

As of April 30, 2007, we had warrants outstanding to purchase a total of 933,368 shares of our common stock at exercise prices ranging from $0.722 to $2.73. These outstanding warrants have expiration dates ranging from October of 2007 to August of 2008. All such warrants may be exercised at any time, and the shares issuable upon exercise may be resold, either without restrictions or subject, in some cases, only to S-3 prospectus delivery requirements, and, in some cases, only to manner of sale, volume, and notice requirements of Rule 144.

(Index)

Volatility in the trading price of our common stock could negatively impact the price of our common stock.

During the period from January 1, 2006 through April 30, 2007, our common stock price fluctuated between a high of $1.75 and a low of $0.72. 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.

32

(Index)

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

At the Annual Meeting of Stockholders of the Company, held at the Company's Newark, California, facilities on April 18, 2007, the stockholders elected seven directors to serve until the next annual meeting of stockholders (Item 1), and ratified the appointment of Moss Adams LLP to serve as the independent public accountants of the Company for the fiscal year ending December 31, 2007 (Item 2). Total voting shares on the record date of February 20, 2007 consisted of 31,882,365 common shares. Each share of common stock was entitled to one vote. A total of 27,338,070 shares or 85.75% of outstanding shares were present or voting by proxy. Results of the stockholder vote were as follows:

ITEM 1:	FOR	WITHHELD	RESULT
Election of Directors:			
Charlie Bass (1)(3)	26,523,885	814,185	Elected
Kevin Mills	25,858,680	1,479,390	Elected
Micheal Gifford	26,482,630	855,440	Elected
Gianluca Rattazzi (1)(3)	26,487,630	850,400	Elected
Leon Malmed (1)(3)	26,486,622	851,448	Elected
Enzo Torresi (2)(3)	26,492,130	845,940	Elected
Peter Sealey (2)(3)	25,942,785	1,395,285	Elected
(1) Denotes member of Audit Committee (2) Denotes member of Compensation Committee (3) Denotes member of Nominating Committee			

ITEM 2:	FOR	AGAINST	ABSTAIN	RESULT
Appoint Moss Adams LLP as the Company's independent auditors for the 2007 fiscal year. Required approval of a majority of votes cast for approval.	27,154,780	149,573	33,717	Approved

Item 6. Exhibits

Exhibits

31.1 Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.2 Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 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.

(Index)

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 COMMUNICATIONS, INC.
Registrant

Date: May 11, 2007

/s/ Kevin J. Mills
Kevin J. Mills
President and Chief Executive Officer
(Duly Authorized Officer and Principal Executive Officer)

Date: May 11, 2007

/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)

(Index)

Index to Exhibits

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