

SOCKET MOBILE, INC.  
Form 10-Q  
November 14, 2014

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

**FORM 10-Q**

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

For the quarterly period ended September 30, 2014

OR

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

For the transition period \_\_\_\_\_ to \_\_\_\_\_.

Commission file number 1-13810

**SOCKET MOBILE, INC.**

(Exact name of registrant as specified in its charter)

**Delaware**

**94-3155066**

(State of incorporation) (IRS Employer Identification No.)

**39700 Eureka Drive, Newark, CA 94560**

(Address of principal executive offices including zip code)

**(510) 933-3000**

(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer [ ] Accelerated filer [ ] Non-accelerated filer [ ] Smaller reporting company [X]

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

The number of shares of Common Stock (\$0.001 par value) outstanding as of November 7, 2014 was 5,301,558 shares.



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Index**PART I****Item 1. Financial Statements**SOCKET MOBILE, INC.  
CONDENSED BALANCE SHEETS

	September 30, 2014	December 31, 2013
	(Unaudited)	
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$739,560	\$606,255
Accounts receivable, net	1,717,899	1,427,590
Inventories	866,038	1,105,088
Prepaid expenses and other current assets	113,082	93,647
Total current assets	3,436,579	3,232,580
Property and equipment:		
Machinery and office equipment	2,007,836	1,918,187
Computer equipment	989,632	1,059,943
	2,997,468	2,978,130
Accumulated depreciation	(2,749,371 )	(2,683,193 )
Property and equipment, net	248,097	294,937
Intangible assets, net	—	30,000
Goodwill	4,427,000	4,427,000
Other assets	117,518	117,518
Total assets	\$8,229,194	\$8,102,035
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable and accrued expenses	\$3,125,558	\$3,489,311
Accrued payroll and related expenses	384,729	580,665
Bank line of credit	815,820	763,487
Deferred income on shipments to distributors	867,176	1,006,057
Related party and other short term notes payable	650,000	650,000
Related party convertible notes payable including related interest	414,516	418,482
Short term portion of deferred service revenue	139,862	172,474
Short term portion of capital leases and deferred rent	24,538	22,818
Total current liabilities	6,422,199	7,103,294
Related party convertible notes payable including related interest	449,437	393,980
Long term portion of deferred service revenue	87,356	95,049

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Long term portion of capital leases and deferred rent	275,258	265,002
Deferred income taxes	135,289	111,334
Total liabilities	7,369,539	7,968,659
Commitments and contingencies		
Stockholders' equity:		
Common stock, \$0.001 par value: Authorized – 20,000,000 shares, Issued and outstanding – 5,015,782 shares at September 30, 2014 and 4,867,063 shares at December 31, 2013	5,016	4,867
Additional paid-in capital	61,524,803	61,251,183
Accumulated deficit	(60,670,164)	(61,122,674)
Total stockholders' equity	859,655	133,376
Total liabilities and stockholders' equity	\$8,229,194	\$8,102,035

See accompanying notes.

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

	Three Months Ended		Nine Months Ended	
	September 30, 2014	2013	September 30, 2014	2013
Revenues	\$4,921,596	\$3,291,639	\$13,108,007	\$11,992,245
Cost of revenues	2,777,735	2,008,701	7,440,521	7,196,632
Gross profit	2,143,861	1,282,938	5,667,486	4,795,613
Operating expenses:				
Research and development	611,851	577,609	1,751,908	1,696,499
Sales and marketing	545,654	498,820	1,548,434	1,643,107
General and administrative	466,745	395,317	1,499,495	1,305,074
Total operating expenses	1,624,250	1,471,746	4,799,837	4,644,680
Operating income (loss)	519,611	(188,808 )	867,649	150,933
Interest expense and other, net	(80,506 )	(124,075 )	(329,684 )	(329,535 )
Loss on extinguishment of debt	—	—	(61,500 )	—
Net income (loss) before income taxes	439,105	(312,883 )	476,465	(178,602 )
Income tax expense	(7,985 )	(7,985 )	(23,955 )	(23,955 )
Net income (loss)	\$431,120	\$(320,868 )	\$452,510	\$(202,557 )
Net income per share:				
Basic	\$0.09	\$(0.07 )	\$0.09	\$(0.04 )
Diluted	\$0.08	\$(0.07 )	\$0.09	\$(0.04 )
Weighted average shares outstanding:				
Basic	4,934,591	4,867,063	4,916,066	4,864,360
Diluted	5,416,574	4,867,063	5,100,344	4,864,360

See accompanying notes.

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

	Nine Months Ended September 30,	
	2014	2013
Operating activities		
Net income (loss)	\$452,510	\$(202,557 )
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Stock-based compensation	164,370	201,974
Depreciation and amortization	196,010	203,193
Deferred income tax expense	23,955	23,955
Accrued interest on convertible notes	79,911	62,137
Loss on extinguishment of debt	61,500	—
Changes in operating assets and liabilities:		
Accounts receivable	(290,309)	(264,110 )
Inventories	239,050	(115,326 )
Prepaid expenses and other current assets	(19,435 )	7,791
Accounts payable	(363,753)	(412,336 )
Accrued payroll and related expenses	(195,936)	(6,232 )
Deferred income on shipments to distributors	(138,881)	234,565
Deferred service revenue	(40,306 )	(82,846 )
Change in deferred rent	28,970	38,716
Net cash provided by (used in) operating activities	197,656	(311,076 )
Investing activities		
Purchases of equipment	(119,170)	(133,203 )
Net cash used in investing activities	(119,170)	(133,203 )
Financing activities		
Payments on capital leases	(16,993 )	(15,189 )
Proceeds from borrowings under bank line of credit agreement	973,927	6,280,846
Repayments of borrowings under bank line of credit agreement	(921,594)	(6,245,072)
Stock options exercised	35,399	6,480
Warrants exercised	12,500	—
Proceeds from the issuance of related party and other short term notes payable	—	600,000
Repayment of short term note payable	—	(145,289 )
Redemption of related party convertible notes payable	(28,420 )	(26,216 )
Net cash provided by financing activities	54,819	455,560
Net increase in cash and cash equivalents	133,305	11,281

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Cash and cash equivalents at beginning of period	606,255	390,513
Cash and cash equivalents at end of period	\$739,560	\$401,794