



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

(Address of principal executive offices including zip code)

**(510) 933-3000**

(Registrant's telephone number, including area code)

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

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

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

None

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

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

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

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

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

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

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

As of June 30, 2018, the aggregate market value of the registrant's Common Stock (\$0.001 par value) held by non-affiliates of the registrant was \$11,322,170 based on the closing sale price as reported on the NASDAQ Marketplace system.

Number of shares of Common Stock (\$0.001 par value) outstanding as of March 25, 2019: 5,999,159 shares

DOCUMENTS INCORPORATED BY REFERENCE

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Items 10, 11, 12, 13, and 14 of Part III are incorporated by reference from the Registrant's Proxy Statement for the Annual Meeting of Stockholders to be held on May 22, 2019. Such Proxy Statement will be filed within 120 days after the end of the fiscal year covered by this Annual Report on Form 10-K.

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**PART I**

**Forward Looking Statements**

This Annual Report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These statements include statements forecasting our future financial condition and results, our future operating activities, market acceptance of our products, expectations for general market growth of mobile computing devices, growth in demand for our data capture products, expansion of the markets that we serve, expansion of the distribution channels for our products, 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: weakness in the world economy generally and in the markets we serve in particular; the risk of delays in the availability of our products due to technological, market or financial factors including the availability of product components and necessary working capital; our ability to successfully develop, introduce and market future products; our ability to effectively manage and contain our operating costs; the availability of third-party 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 barcode scanners; market acceptance of emerging standards such as RFID/Near Field Communications and of our related data capture products; the ability of our strategic relationships to benefit our business as expected; our ability to enter into additional distribution relationships; or other factors described in this Form 10-K including “Item 1A. Risk Factors” and recent Form 8-K and Form 10-Q reports filed with the Securities and Exchange Commission. We assume no obligation to update such forward-looking statements or to update the reasons why actual results could differ materially from those anticipated in such forward-looking statements.

You should read the following discussion in conjunction with the financial statements and notes included elsewhere in this report, and other information contained in other reports and documents filed from time to time with the Securities and Exchange Commission.

**Item 1. Business**

**The Company and its Products**

We are a leading innovator of data capture and delivery solutions for enhanced productivity in workforce mobilization. Our products are incorporated into mobile applications used in point of sale (POS), enterprise mobility (field workers), asset tracking, manufacturing process and quality control, transportation and logistics (goods tracking and movement), event management (ticketing, entry, access control, and identification), medical and education. Our primary products are cordless data capture devices incorporating barcode scanning or RFID/Near Field Communications (NFC) technologies that connect over Bluetooth. All products work with applications running on smartphones, mobile computers and tablets using operating systems from Apple® (iOS), Google™ (Android™) and Microsoft® (Windows®). We offer an easy-to-use software developer kit (Capture SDK) to application developers to enable them to provide their users with our advanced barcode scanning features. Our products become an ingredient of the application solution. Our products are marketed by the application developers or the resellers of their applications as part of that solution. The number of our registered developers for data capture applications continues to grow.

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*Durable companion cordless barcode scanners.* Our DuraScan® 700 Series Linear Barcode Scanner (D700), Laser Barcode Scanner (D730) and Universal Barcode Scanner (D740, D750, D760, D790), are designed to be durable barcode scanners with IP54-rated outer casing to withstand tougher environments. Universal Barcode Scanners (D740, D750, D760, D790) read all common 1D, stacked, 2D and postal codes. D740 is priced competitively with a 1D barcode scanner, making D740 the affordable 2D option available in the market. D760 includes MRZ (machine readable support zone) support, making it capable of scanning passports, visas, and other travel documents. D790 is designed to read DPM (Direct Part Marking) codes.

*Standard companion cordless barcode scanners.* In April 2018, we introduced SocketScan® 700 Series barcode scanners to replace the Series 7 scanners which have been discontinued. The SocketScan® 700 Series include 1D linear imaging (S700), 1D laser (S730) and 2D (S740) barcode scanners, available in five vivid colors: blue, green, red, white and yellow. S740 reads all common 1D, stacked, 2D and postal codes.

*Attachable cordless barcode scanners.* Our SocketScan 800 Series cordless barcode scanners, 1D linear imaging (S800) and 2D (S840, S860) are attachable to smartphones, tablets and other mobile devices with an easily detachable clip or DuraCase, creating a one-handed solution. DuraCase sled enables both devices to be used and charged simultaneously and protects from common drops or bumps. DuraCase models support iPhone 6/7/8, iPhone 6/7/8 Plus, iPod touch, Samsung J3/J5 and Samsung S7. New DuraCase models are introduced from time to time as new mobile phones are released. S860 includes MRZ (machine readable support zone) support, making it capable of scanning passports, visas, and other travel documents in addition to barcodes. SocketScan 800 Series scanners may be used stand-alone as well.

*Contactless RFID/NFC reader/writer.* Our contactless product line includes the D600 Contactless Reader/Writer and the S500 Token Exchange. The D600, an ergonomically handheld model with IP54-rated outer casing, can read and write many different types of electronic SmartTags or transfer data with near field communication. The S500 Token Exchange facilitates tap-and-go NFC user experiences with mobile wallets and consumer engagements, applicable for payment applications, contactless passes, identifications, ticketing and others which leverage the exchange of electronic “tokens”. These tokens can be exchanged via NFC enabled devices. Many smartphones support NFC communications and are expected to enable third party applications to transfer tokens utilizing NFC. The S500 Token Exchange is designed to be stationary on the counter top.

*Software Developer Kit (Capture SDK).* Our Software Developer Kit (Capture SDK) supports all our data capture devices with a single installation, making it easy for a developer to integrate our data capture capabilities into their application. Installing our data capture software enables their customers to choose any of our products that work best for them. Our Capture SDK enables the developer to modify captured data, control the placement of the barcoded or RFID data in their application, and control the feedback to the user that the transaction and transmission was successfully completed. Our Capture SDK also supports the built-in camera in a customer’s smartphone or tablet to be used for occasional or lower volume data collection requirements. The Capture SDK uses tools integrated with software build environments such as CocoaPods, Maven and NuGet, adds support for high level frameworks such as

Xamarin, Cordova and Java, and adds other features to make it easier for developers to integrate our data capture software into their applications.

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Socket Mobile designs its own products and is responsible for all associated test equipment. Socket Mobile uses third party contract manufacturers to make many components. We perform final product assembly, test, package and distribute our products at and from our Newark, California facility. We offer our products worldwide through two-tier distribution enabling customers to purchase from large numbers of on-line resellers around the world including application developers who resell their own products along with our data capture products. We believe growth in mobile applications and the mobile workforce are resulting from technical advances in mobile technologies, cost reductions in mobile devices and the growing adoption by businesses of mobile applications for smartphones and tablets, building a growing demand for our products. Our data capture products address the need for speed and accuracy by today's mobile workers and by the systems supporting those workers, thereby enhancing their productivity and allowing them to exploit time sensitive opportunities and improve customer satisfaction.

### **Our Mission, Vision and Core Values**

Our *mission* is to supply innovative and cost-effective data capture tools for businesses that use mobile platforms to conduct business in mobile environments.

Our *vision* is to manage the complexity of capturing and delivering data across a spectrum of data sources, network technologies and mobile systems so that our customers can concentrate on applications of the data. Our customers are application developers and their customers in need of data capture solutions.

We have embraced the following *core values*:

*Accountability:* We take ownership and responsibility for our actions and performance. We learn from our mistakes and celebrate our successes.

*Customer Focus:* We live by and for our customers' success. We want to earn their top-of-mind choice, enhance their final customer experience, and create value through our relationship.

*Excellence:* We take pride in what we make and do and value the creativity, talent, ambition, and drive of each employee to be his or her best and to achieve superior results.

*Integrity:* We are honest and ethical in all our dealings with each other, customers, business partners, suppliers, competitors and other stakeholders. We say what we mean and mean what we say.

*Mutual Respect:* We value people's differences and diverse opinions and we treat each other fairly.

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### **General**

Total employee headcount at December 31, 2018 and 2017 was 56. We subcontract the manufacturing of all our product components to independent third-party contract manufacturers located in the United States, Mexico, Taiwan, Singapore, China and Malaysia that have the equipment, know-how and capacity to manufacture products to our specifications. We assemble, test and distribute our products from our facilities in Newark, California. Our products are sold through a worldwide network of distributors and on-line resellers, application developers, and value-added resellers.

We were founded in March 1992 as Socket Communications, Inc. and reincorporated in Delaware in 1995 prior to our initial public offering in June 1995. We have financed our operations since inception primarily from the sale of equity capital or convertible debt, receivables-based revolving lines of credit and in February 2018, a term loan with our bank. We began doing business as Socket Mobile, Inc. in January 2007 to better reflect our market focus on the mobile business market and changed our legal name to Socket Mobile, Inc. in April 2008. Our common stock trades on the NASDAQ Capital Market under the symbol "SCKT". Our principal executive offices are located at 39700 Eureka Drive, Newark, CA 94560, and our phone number is (510) 933-3000. Our Internet home page is located at <http://www.socketmobile.com>; however, the information on, or that can be accessed through, our home page is not part of this Annual Report. Our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and any amendments to such reports are available free of charge on or through our internet home page as soon as reasonably practical after we electronically file such material with, or furnish it to, the Securities and Exchange Commission.

### **Marketing Dynamics**

*Developer Relationships.* We actively support software application developers to integrate our products into their applications through our registered developer program. We provide an easy to use software developer kit (Capture SDK) and training and technical support to our registered developers. We support the marketing activities of our registered developers in promoting the applications that include our products. Once our data collection products are integrated into a developer's application, our products become an ingredient of the application solution and part of the developer's marketing program for that application. We provide regular Capture SDK updates including updates that support the latest operating system updates provided by Apple, Google and Microsoft. We spend extensive engineering time and resources to ensure that our cordless data capture products are compatible with a wide variety of the most popular smartphones, tablets and mobile computers running a variety of operating systems. We comply with the standards set by the standard-setting bodies whose technologies are used in our products such as Bluetooth SIG and NFC Forum.

*Mobile Markets.* Our revenues in 2018 and 2017 were primarily driven by sales of barcode scanners integrated into retail point of sale applications for use with Apple tablets and other mobile devices. Many point of sale application

providers were funded by venture capital organizations to develop software for smaller retailers using tablets as cash registers. Small retailers are an underserved market for point of sale applications, enabling development and growth. Other mobile markets being addressed by registered developers include commercial services (field workers), asset tracking, manufacturing process and quality control, transportation and logistics (goods tracking and movement), event management (ticketing, entry, access control, and identification), medical and education. We expect these markets to increase the availability and use of mobile applications and the demand for mobile barcode scanners.

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*Expanded and improved product offerings.* We offer a wide range of products that enable application developers and their customers to design their mobile systems to meet their specific requirements, and we encourage our distributors to support the full range of our products. The goal is for customers to view Socket Mobile as a primary source for their mobile data capture needs. Our products include stand-alone barcode scanners in both durable and standard cases, attachable barcode scanners and RFID/NFC reader and reader/writer. We provide a software developer kit to registered developers to enable our advanced data capture software to be easily integrated into developer applications. See “Item 1 Business. The Company and its Products” for a more detailed description of our products.

We design our products to comply with the regulations of the many worldwide agencies that regulate the safety, performance and use of electronic products.

*Competitive pricing.* We have designed our products to be priced competitively although we are subject to changes in component pricing by our suppliers. We update our products from time to time and work with our vendors to achieve reductions in component pricing.

*Worldwide product availability.* We distribute our products through a worldwide distribution network that places products into geographic regions to shorten purchasing times and provides a credit shield to us. Our largest distributors are Ingram Micro®, ScanSource® and Blue Star. They support a worldwide network of on-line resellers including Amazon.com, CDW®, Barcodes, Inc and our own online store.

*Strong Brand Name.* We believe that our products make a difference in the daily work life of mobile workers and the people they serve. We are building a brand image focused on business mobility. This image closely associates us with business mobility solutions and to reflect this image, we began doing business as Socket Mobile, Inc. in January 2007 and changed our legal name to Socket Mobile, Inc. in April 2008. We stress with customers the design of our products for the markets they serve, emphasizing quality and standards-based connectivity. Mobility requires products that are compact and designed to be handled while mobile, with low power consumption to extend time between charges, and easy to use. We strive to offer high performance products in a wide range of competitive prices. Through our developer support program, we work closely with application developers who are developing productivity enhancing applications for the mobile workforce. Our overall company brand identity and positioning goal is to be a leading provider of easy-to-deploy business mobility data capture systems to the business mobility market.

**Competition and Competitive Risks**

The overall market for mobile handheld data capture solutions is both complex and competitive. Our barcode scanning hardware products compete with similar hardware products in all our markets in the United States, Europe and Asia

and we differentiate our products with our software developer kit and our underlying data capture software designed to work with smartphones, tablets and other mobile computers running the Apple, Android and Windows operating systems. Our longtime focus on creating innovative mobile solutions for the mobile workforce has resulted in good brand name recognition and reputation. We believe that our brand name identifies our products as durable, dependable, ergonomic, and easy to use, all features designed for a mobile worker while mobile, and the breadth of our product offerings, including the extensive advanced features of our software and software developer kit, will continue to differentiate us relative to our competitors.

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*Cordless Barcode Scanning.* We offer a full range of handheld cordless barcode scanners connecting to smartphones, tablets and other computing devices over Bluetooth. Our Software Developer Kit (Capture SDK) enables registered third-party application developers to integrate the features of our Data Capture software into their applications and helps differentiate our products. Our Cordless Barcode Scanners face competition from similar products from Koamtec, Code Corporation and Opticon (Japan). Barcodes may also be scanned using the built-in camera in smartphones or tablets with applications from Scandit or Manatee Works. However, scanning using the built-in camera is typically slower and harder to aim, especially as the camera pixel count gets larger. Users may choose a barcode scanner that connects directly to an Apple tablet, iPhone or computer such as offered by Infinite Peripherals and Honeywell. Users also may choose more rugged barcode scanners as an alternative, some of which are integrated into computing devices from manufacturers such as Datalogic, Honeywell®, and Zebra Technologies. Many of these devices are not Apple certified. Many connect to Apple devices over Bluetooth in keyboard emulation mode and do not offer extensive tools for software developers such as our software developer kit (Capture SDK) to integrate features of our sophisticated data collection scanning software into data capture applications.

*Contactless RFID/NFC Reader/Writer.* Socket Mobile developed and commenced sales in 2017 of a Contactless RFID/NFC Reader/Writer, D600 version of our durable handheld barcode scanner. The D600 can read and write many different types of electronic SmartTags which are used in many applications today, like digital wallet applications for loyalty cards, identification cards, payment cards, coupons and event tickets. We have also introduced a token exchanger S500 to facilitate transfer of electronic tokens. We are an early entrant into this market and do not face significant head to head competition from alternative reader and reader/writer devices.

## **Proprietary Technology and Intellectual Property**

We have been granted 37 U.S. patents and 11 design patents and have other patent applications under review. We have registered trademarks with the U.S. Patent and Trademark Office for the mark “Socket”, our logo, DuraScan, and SocketScan.

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

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

We have developed software programs that provide unique functions and features for our data collection products. For example, our data collection software enables our barcode scanning products to scan a variety of barcodes and to route the data to many different types of data files on operating systems used in Apple, Android and Windows mobile devices. We use Bluetooth technology to provide a completely functional Bluetooth solution enabling connections and data transfers between Bluetooth-enabled devices. We recently introduced companion applications to assist Apple iOS and Android users with the proper setup and use of our data capture products.

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

**Personnel**

Our future success will depend in significant part upon the continued service of certain of our key technical and senior management personnel, and our continuing ability to attract, assimilate and retain highly qualified technical, managerial and sales and marketing personnel. Our total employee headcount as of December 31, 2018 and 2017 was 56. Our employees are not represented by a union, and we consider our employee relationships to be good. As of December 31, 2018, we had 16 persons in sales, marketing and customer service, 13 persons in development engineering, 8 persons in finance and administration, and 19 persons in operations.

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**Item 1A. Risk Factors**

**We may not return to profitability.**

To return to profitability, we must accomplish numerous objectives, including continued growth in our business, ongoing support to registered developers whose applications support the use of our data capture products, and the development of successful new products. We cannot foresee with any certainty whether we will be able to achieve these objectives in the future. Accordingly, we may not generate sufficient net revenue or manage our expenses sufficiently to maintain ongoing profitability. If we cannot maintain ongoing profitability, we will not be able to support our operations from positive cash flows, and we would use our existing cash to support operating losses. If we are unable to secure the necessary capital to replace that cash, we may need to suspend some or all of our current operations.

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

We may need to raise capital to fund our growth or operating losses in future periods. Our forecasts are highly dependent on factors beyond our control, including market acceptance of our products and delays in deployments by businesses of applications that use our data capture products. Even if we maintain profitable operating levels, we may need to raise capital to provide sufficient working capital to fund our growth. If capital requirements vary materially from those currently planned, we may require additional capital sooner than expected. There can be no assurance that such capital will be available in sufficient amounts or on terms acceptable to us, if at all.

**If application developers are not successful in their efforts to develop, market and sell their applications into which our software and products are incorporated, we may not achieve our sales projections.**

We are dependent upon application developers to integrate our scanning and software products into their applications designed for mobile workers using smartphones, tablets and mobile computers, and to successfully market and sell those application products and solutions into the marketplace. We focus on serving the needs of application developers as sales of our data capture products are application driven. However, these developers may take considerable time to complete development of their applications, may experience delays in their development timelines, may develop competing applications, may be unsuccessful in marketing and selling their application products and solutions to customers, or may experience delays in customer deployments and implementations, which would adversely affect our ability to achieve our revenue projections.

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

We have evaluated and will continue to evaluate our internal control procedures in order to satisfy the requirements of Section 404 of the Sarbanes-Oxley Act, which requires an annual management assessment of the design and effectiveness of our internal control over financial reporting. If we fail to maintain the adequacy of our internal controls, as such standards are modified, supplemented or amended from time to time, we may not be able to ensure that we can conclude on an ongoing basis that we have effective internal control over financial reporting in accordance with Section 404 of the Sarbanes-Oxley Act. Moreover, effective internal controls, particularly those related to revenue recognition and access to assets, 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.

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**Despite security protections, our business records and information could be hacked by unauthorized personnel**

We protect our business records and information from access by unauthorized personnel and are not aware of any instances where such data has been compromised. We maintain adequate segregation of duties in safeguarding our assets and related records and monitor our systems to detect any attempts to bypass our controls and procedures which we evaluate and update from time to time. We are aware that unauthorized efforts to access our business records and information with sophisticated tools could bypass our controls and procedures and we remain alert to that possibility.

**Global economic conditions may have a negative impact on our business and financial condition in ways that we currently cannot predict and may further limit our ability to raise additional funds.**

Global economic conditions may have an impact on our business and our financial condition. We may face significant challenges if global economic growth slows down and conditions in the financial markets worsen. In particular, should these conditions cause our revenues to be materially less than forecast, we may find it necessary to initiate reductions in our expenses and defer product development program. In addition, our ability to access the capital markets and raise funds required for our operations may be severely restricted at a time when we would like, or need, to do so, which could have an adverse effect on our ability to meet our current and future funding requirements and on our flexibility to react to changing economic and business conditions.

**The decision by British voters to exit the European Union (“Brexit”) may negatively impact our financial results and cause realignment of our European and U.K. distribution channels.**

Our products sold in Europe are primarily sold online through third party distributors and resellers operating within the European Common Market, some of whom are based in the U.K. and others whom are based outside of the U.K. All distributors within the European Common Market including the U.K. prior to exit may sell our products anywhere within the common market. Our distributors’ customers may purchase our products from any of these distributors. The outcome of Brexit negotiations remain uncertain, but the UK’s exit will likely change the trading relationship between the U.K. and the European Union which could affect the cost of goods imported into and exported from the U.K., could increase currency volatility that could drive a weaker British pound which could cause prices of our products sold in the U.K. to increase or profit margins to decline, may affect the ability of our distributors operating within the U.K. to sell our products into the European Common Market on competitive terms, and may affect the ability of our distributors operating within the European Common Market but outside of the U.K. to sell our products into the U.K. on competitive terms. With a range of outcomes still possible, the impact from Brexit remains uncertain and will depend, in part, on the final outcome of tariff, trade, regulatory and other negotiations.



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

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

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

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

**In order to maintain the availability of our bank lines of credit we must remain in compliance with the covenants as specified under the terms of the credit agreements and the bank may exercise discretion in making advances to us.**

Our credit agreements with our bank requires us to maintain compliance with an asset coverage ratio measured monthly. The agreements contain customary affirmative and negative covenants, including covenants that limit or restrict our ability to, among other things, grant liens, make investments, incur indebtedness, merge or consolidate, dispose of assets, make acquisitions, pay dividends or make distributions, repurchase stock, enter into transactions with affiliates and enter into restrictive agreements, in each case subject to customary exceptions for a credit facility of this size and type. The agreement also contains customary events of default including, among others, payment defaults, breaches of covenants, bankruptcy and insolvency events, cross defaults with certain material indebtedness,

judgment defaults, and breaches of representations and warranties. Upon an event of default, our bank may declare all or a portion of our outstanding obligations payable to be immediately due and payable and exercise other rights and remedies provided for under the agreement. During the existence of an event of default, interest on the obligations could be increased. The agreement may be terminated by us or by our bank at any time. Upon such termination, our bank would no longer make advances under the credit agreement and outstanding advances would be repaid as receivables are collected. All advances are at our bank's discretion and our bank is not obligated to make advances.

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**Deferred tax assets comprise a significant portion of our assets and are dependent upon future tax profitability to realize the benefits.**

We have recorded deferred tax assets on our balance sheet because we believe that it is more likely than not that we will generate sufficient tax profitability in the future to realize the tax savings our deferred tax assets represent. If we do not achieve and maintain sufficient profitability, the tax savings represented by our deferred tax assets may never be realized and we would need to recognize a loss for those deferred tax assets.

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

We review our goodwill for impairment at least annually as of September 30th, and more often if factors suggest potential impairment. Many factors are considered in evaluating goodwill including our market capitalization, comparable companies within our industry, our estimates of our future performance, and discounted cash flow analysis. Many of these factors are highly subjective and may be negatively impacted by our financial results and market conditions in the future. We may incur goodwill impairment charges in the future and any future write-downs of our goodwill would adversely affect our operating results, make it more difficult to maintain profitability, and as a result the market price of our common stock could be adversely affected.

**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 are produced by one or a limited number of suppliers. Shortages or delays could occur in these essential components due to an interruption of supply or increased demand in the industry. Suppliers may choose to restrict credit terms or require advance payment causing delays in the procurement of essential materials. 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.

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**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, conform 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.

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 for smartphones and tablets expose our products to the risk of obsolescence and require frequent new product upgrades and introductions. We will be unable to introduce new products and services into the market on a timely basis and compete successfully, if we fail to:

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

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

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

A significant portion of our revenue comes from a limited number of distributors. In 2018 and 2017, Ingram Micro®, ScanSource® and BlueStar together represented approximately 63% and 70%, respectively, of our worldwide revenues. We expect that a significant portion of our revenue will continue to depend on sales to a limited number of distributors. We do not have long-term commitments from our distributors to carry our products, and any of our distributors may from quarter to quarter comprise a significant concentration of our revenues. Any could choose to stop selling some or all of our products at any time, and each of these companies also carries our competitors' products. If we lose our relationship with any of our significant distributors, we would experience disruption and delays in marketing our products.

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

Our accounts receivables are derived primarily from distributors. 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. If global financial conditions have an impact on our customers' ability to pay us in a timely manner, and consequently, we may experience increased difficulty in collecting our accounts receivable, and we may have to increase our reserves in anticipation of increased uncollectible accounts.

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

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

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

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

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

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

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

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**We rely primarily on distributors to sell our products, and our sales would suffer if any of these distributors stops selling our products effectively.**

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

Our agreements with distributors are generally nonexclusive and may be terminated on short notice by them without cause. Our distributors 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, to expand our sales channels, or to maintain our existing relationships could adversely impact our ability to grow our sales.

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

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

We have devoted significant research and development resources to design products to work with a number of operating systems used in mobile devices including Apple® (iOS), Google™ (Android™) and Microsoft® (Windows®). 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 Apple, Google or Microsoft is obligated to collaborate or to support the products produced from such collaboration. Consequently, these organizations may terminate their collaborations with us for a variety of reasons, including our failure to meet agreed-upon standards or for reasons beyond our control, such as changing market conditions, increased competition, discontinued product lines, and product obsolescence.

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

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

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

Effective copyright, trademark, and trade secret protection may be unavailable or limited in certain foreign countries.

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

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

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

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

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

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

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

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

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

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

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

Historically, we have used stock options as a key component of our employee compensation packages. We believe that stock options provide an incentive to our employees to maximize long-term stockholder value and, through the use of vesting, encourage valued employees to remain with us. The expensing of employee stock options adversely affects our net income and earnings per share, will continue to adversely affect future quarters, and will make profitability harder to achieve. In addition, we may decide in response to the effects of expensing stock options on our operating results to reduce the number of stock options granted to employees or to grant options to fewer employees. This could adversely affect our ability to retain existing employees and attract qualified candidates, and also could increase the cash compensation we would have to pay to them.

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

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

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

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

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

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

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**The sale of a substantial number of shares of our common stock could cause the market price of our common stock to decline.**

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

As of March 25, 2019, we had 5,999,159 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 March 25, 2019, we had 2,459,934 shares of common stock subject to outstanding options under our stock option plans, and 150,167 shares of common stock were available for future issuance under the plans. We have registered the shares of common stock subject to outstanding options and reserved for issuance under our stock option plans. Accordingly, the shares of common stock underlying vested options will be eligible for resale in the public market as soon as the options are exercised.

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

During the period from January 1, 2018 through March 25, 2019, our common stock price fluctuated between a high of \$4.16 and a low of \$1.35. We have experienced low trading volumes in our stock, and thus relatively small purchases and sales can have a significant effect on our stock price. The trading price of our common stock could be subject to wide fluctuations in response to many factors, some of which are beyond our control, including general economic conditions and the outlook of securities analysts and investors on our industry. In addition, the stock markets in general, and the markets for high technology stocks in particular, have experienced high volatility that has often been unrelated to the operating performance of particular companies. These broad market fluctuations may adversely affect the trading price of our common stock.

**Item 1B. Unresolved Staff Comments**

None.

**Item 2. Properties**

We lease a 37,100 square foot office facility in Newark, California under a lease expiring in June 2022. This facility houses our headquarters and manufacturing operations and is used by all segments of the Company. We believe that our current facilities are sufficient and adequate to meet our needs for the foreseeable future.

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**Item 3. Legal Proceedings**

We are currently not a party to any material legal proceedings.

**Item 4. Mine Safety Disclosures**

Not applicable.

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**PART II**

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

**Common Stock**

The Company’s common stock is traded on the NASDAQ Marketplace under the symbol “SCKT.”

On March 25, 2019, the closing sales price for our common stock as reported on the NASDAQ Marketplace was \$1.96. We had approximately 2,500 beneficial stockholders of record as of March 25, 2019. We have not paid dividends on our common stock, and we currently intend to retain future earnings for use in our business and do not anticipate paying dividends in the foreseeable future.

The information required by this item regarding equity compensation plans is incorporated by reference to the information set forth in Item 12 of this Annual Report on Form 10-K.

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**Performance Graph**

The performance graph shown below shall not be deemed “filed” for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to the liabilities under that section, and shall not be deemed to be incorporated by reference into any filing of Socket Mobile, Inc. under the Securities Act of 1933, as amended, or the Exchange Act. The performance graph below shows a five-year comparison of cumulative total stockholder return, calculated on a dividend reinvestment basis and based on a \$100 investment, from December 31, 2013 through December 31, 2018 comparing the return on the Company's common stock with the Russell 2000 Index and the NASDAQ Computer & Data Processing Index. No dividends have been declared or paid on the common stock during such period. Historical stock price performance is not necessarily indicative of future stock price performance.

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The following selected financial data should be read in conjunction with Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” and the financial statements and the notes thereto in Item 8, “Financial Statements and Supplementary Data.”

(Amounts in thousands except per share)	Years Ended December 31,				
	2014	2015	2016	2017	2018
<b>Income Statement Data:</b>					
Revenues	\$17,021	\$18,400	\$20,788	\$21,286	\$16,454
Gross profit	\$7,413	\$8,935	\$10,434	\$11,390	\$8,456
Operating expenses	\$6,482	\$6,806	\$7,871	\$8,972	\$9,042
Net income (loss) before income taxes	\$464	\$1,849	\$2,432	\$2,338	\$(715 )
Income tax benefit (expense)	\$(32 )	\$(32 )	\$9,715	\$(3,769 )	\$144
Net income (loss)	\$432	\$1,817	\$12,147	\$(1,431 )	\$(571 )
Net income (loss) per share:					
	\$0.09	\$0.33	\$2.10	\$(0.23 )	\$(0.09 )
Basic					
Diluted	\$0.08	\$0.30	\$1.80	\$(0.23 )	\$(0.09 )
<b>Weighted average shares outstanding:</b>					
Basic	5,006	5,555	5,793	6,293	6,095
Diluted	5,251	5,975	6,820	6,293	6,095
<b>At December 31,</b>					
	2014	2015	2016	2017	2018
<b>Balance Sheet Data:</b>					
Cash and cash equivalents	\$633	\$938	\$1,319	\$3,380	\$1,085
Total assets	\$8,370	\$9,688	\$21,587	\$19,854	\$17,331
Bank line of credit	\$816	\$—	\$—	\$—	\$1,317
Term loan	\$—	\$—	\$—	\$—	\$833
Related party convertible notes payable	\$753	\$753	\$753	\$—	\$—
Short term notes payable	\$600	\$500	\$—	\$—	\$—
Capital leases and deferred rent - long term portion	\$276	\$305	\$327	\$271	\$206
Total stockholders’ equity	\$1,029	\$3,343	\$16,170	\$17,230	\$12,405



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

**Liquidity and Capital Resources**

We generated \$16.5 million in revenue in 2018, a decrease of 23% compared to revenue of \$21.3 million in 2017. Net loss before tax in 2018 was \$0.7 million compared to net income before tax of \$2.34 million in 2017. As of December 31, 2018, we had approximately \$1.1 million cash including \$1.3 million advanced on our bank lines of credit and \$0.8 million term loan, compared to the cash of \$3.4 million in 2017 with no outstanding debts. At December 31, 2018, we had additional unused borrowing capacity of approximately \$0.2 million on our bank lines of credit. Sources of liquidity include cash on hand, cash generated from operations, and the revolving credit facility.

We reported operating profitability in 2013 through 2017. However, in 2018, we reported a net loss of \$0.6 million due to lower revenues caused by a longer than expected transition to the new SocketScan products.

We have taken actions to control our expenses, improve our efficiencies and promote revenue growth. We have the ability to further reduce and/or delay operating expenses as necessary. We believe we will be able to improve our liquidity and secure additional sources of financing by managing our working capital balances, use of our bank lines of credit, and raising additional capital as needed including the issuance of additional equity securities. However, there can be no assurance that additional capital will be available on acceptable terms, if at all, and any such terms may be dilutive to existing stockholders. Our bank lines of credit may be terminated at our or the bank's discretion. We cannot predict with certainty the ultimate impact on our revenues, operating costs and cash flow from operations. If we cannot return to profitable operating levels, we will not be able to generate cash to support our operations. If we are unable to secure the necessary capital for our business, we may need to suspend some or all of the current operations.

To maintain revenue growth and to return to profitability, we anticipate requirements for cash will include funding of higher receivable and inventory balances, and increased expenses, including an increase of costs relating to new employees to support our growth and increases in salaries, benefits, and related support costs for employees.

**Critical Accounting Policies**

Our significant accounting policies are described in Note 1 to our financial statements for the years ended December 31, 2018 and 2017. The application of these policies requires us to make estimates and judgments that affect the reported amount of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities.

We base our estimates on a combination of historical experience and reasonable judgment applied to other facts. Actual results may differ from these estimates, and such differences may be material to the financial statements. In addition, the use of different assumptions or judgments may result in different estimates. We believe our critical accounting policies that are subject to these estimates are: Revenue Recognition and Accounts Receivable Reserves, Inventory Valuation, Stock Based-Compensation, Income Taxes and Valuation of Goodwill.

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*Revenue Recognition and Accounts Receivable Reserves*

On January 1, 2017, we adopted ASC 606 “Revenue from Contracts with Customers” and implemented a new revenue recognition policy. Previously we deferred 100% of revenue and cost of revenue until products are sold by distributors. Under the new policy, we recognize revenue on sales to distributors when shipping of product is completed and title transfers to the distributor, less a reserve for estimated product returns (sales and cost of sales). The reserves are based on estimates of future returns calculated from actual return history, primarily from stock rotations, plus knowledge of pending returns outside of the norm. On January 1, 2017, we recorded a one-time reduction (debit) to net deferred revenue in the amount of \$836,000 less the deferred tax effects of \$333,000 for a net improvement in retained deficit of \$503,000. At December 31, 2018, the deferred revenue and deferred cost on shipments to distributors were approximately \$397,000 and \$165,000 respectively, compared to approximately \$493,000 and \$204,000, respectively, at December 31, 2017.

We generally recognize revenues on sales to customers other than distributors upon shipment provided that contract with customer is identified, performance obligations in the contract are satisfied, and the price is determined. Most of our customers other than distributors do not have rights of return except under warranty.

We earn revenue from an extended warranty service program offered on select products. Revenues from the extended warranty service program are recognized ratably over the life of the extended warranty contract. The amount of unrecognized warranty service revenue is classified as deferred service revenue and presented on our balance sheet in its short and long-term components.

We also earn revenue from services performed in connection with consulting and engineering development arrangements. For those contracts that include contract milestones or acceptance criteria we recognize revenue as such milestones are achieved or as such acceptance occurs. In some instances, the acceptance criteria in the contract requires acceptance after all services are complete and all other elements have been delivered, in which case revenue recognition is deferred until those requirements are met.

We estimate the amount of uncollectible receivables at the end of each reporting period based on the aging of the receivable balance, historical trends, and communications with our customers. If actual bad debts are significantly different from our estimates our operating results will be affected.

*Inventory Valuation*

Our inventories primarily consist of component parts used to assemble our products after we receive orders from our customers. We purchase or have manufactured the component parts required by our engineering bill of materials. The timing and quantity of our purchases are based on order forecasts, the lead time requirements of our vendors, and on

economic order quantities. At the end of each reporting period, we compare our inventory on hand to our forecasted requirements for the next nine-month period and reserve the cost of any inventory that is a surplus, less any amounts that we believe we can recover from disposal of goods or that we specifically believe will be saleable past a nine-month horizon. Our sales forecasts are based upon historical trends, communications from customers, and marketing data regarding market trends and dynamics. Surplus or obsolete inventory can also be created by changes to our engineering bill of materials. Charges for the amounts we record as surplus or obsolete inventory are included in cost of revenue.

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### *Stock-Based Compensation*

We account for share-based awards to employees, including grants of employee stock options, in our financial statements based on the grant date fair values of the share-based awards. We use a binomial lattice valuation model to estimate the fair value of stock option grants. The binomial lattice model incorporates calculations for expected volatility, risk-free interest rates, employee exercise patterns and post-vesting employment termination behavior, and these factors affect the estimate of the fair value of the stock option grants.

### *Valuation of Goodwill*

Goodwill is tested for impairment at least annually as of September 30th and between annual tests if indicators of potential impairment exist. We have determined that we have one reporting unit for purposes of goodwill testing and we test goodwill for impairment at the reporting unit level. Prior to performing the goodwill impairment test we determine whether any triggering events are present that could cause impairment of goodwill. We then perform a test to assess goodwill for impairment. The test requires a determination of whether the fair value of the reporting unit is less than its carrying value. If the fair value exceeds the carrying value, goodwill is not impaired, otherwise, we would recognize an impairment charge for the amount by which the carrying value exceeds the estimated fair value. Goodwill would not be reduced below zero.

If the carrying value of the reporting unit is zero or negative, no qualitative assessment is required.

We estimate the fair value of our reporting unit utilizing up to three valuation methods: market capitalization, income approach and market approach. Revenue and expense forecasts used in the evaluation of goodwill are based on trends of historical performance and our estimate of future performance. We determined that the fair value of the Company's reporting unit at September 30, 2018, the date of the Company's annual impairment test, exceeded its carrying value and as a result, goodwill is considered not impaired. Furthermore, we determined there were no indicators of impairment in the subsequent fourth quarter 2018.

### **Revenues**

Revenue for 2018 was \$16.5 million, a decrease of 23% compared to revenue of \$21.3 million for 2017. Revenue in 2018 was impacted by a longer than expected transition to the new SocketScan products and lack of corporate deployments. We released new SocketScan barcode scanner products in April 2018, about four months behind the original schedule, which impacted the sales throughout 2018 while customers evaluated the new products and reduced their purchases of the old. For most of 2018, we shipped both our old family of products and our new SocketScan series to allow a smooth transition. We discontinued our old products in December 2018.

2018 revenue from customers based in the Americas decreased by 24% and revenue from customers based in Europe decreased by 29% from 2017. Revenue from customers based in Asia Pacific regions increased by 25% from the prior year, primarily reflecting new third-party point of sale applications in Japan.

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As of the date of this report, we expect revenue for the first quarter of 2019 to be higher than the fourth quarter of 2018 driven primarily by the sales improvement followed the completion of the transition.

### **Gross Margins**

Annual gross margins on revenue decreased to 51.4% in 2018 from 53.5% in 2017. The lower margins in 2018 reflected absorption of fixed manufacturing costs over a smaller number of units sold.

### **Research and Development Expense**

Research and development expenses in 2018 were \$3.6 million, an increase of 5% compared to expense of \$3.5 million one year ago. Increase in the level of research and development expenses was due to slightly increased personnel-related costs and equipment costs.

Research and Development expenses as a percentage of revenue were 22% in 2018 compared to 16% in 2017. We believe that a continued commitment to Research and Development activities is essential to maintain or achieve a leadership position for our existing products, to provide innovative new product offerings, and to provide engineering support for key customers. In addition, we consider our ability to accelerate time to market for new products to be critical to our revenue growth. Therefore, we expect to continue to make significant Research and Development investments in the future. The investment percentage is impacted by revenue levels and investing cycles.

### **Sales and Marketing Expense**

Sales and marketing expense in 2018 remained flat compared to 2017. Increase in personnel-related costs in 2018 resulting from headcount additions was offset by lower expenses related to incentive compensation plans resulting from lower levels of achievement on performance plans in 2018.

### **General and Administrative Expense**

General and administrative expense in 2018 was \$2.4 million, a decrease of 5% compared to \$2.5 million in 2017. Decreases in general and administrative expense were primarily due to lower expenses related to incentive compensation plans resulting from lower levels of achievement on performance plans in 2018.

### **Interest Expense, net of Interest Income**

Interest expense and other, net of interest income and other, was \$129,000 in 2018 compared to \$79,000 in 2017. Interest expense in 2018 was primarily related to interest on bank term loan and credit line facilities (see “NOTE 3 — Bank Financing Arrangements” for more information). Average total outstanding balance of bank term loan and credit lines during 2018 was \$1.94 million. Interest expense in 2017 was primarily related to interest on subordinated convertible notes payable issued in 2012 and reissued in September of 2013 (see “NOTE 2 — Short-Term Related Party Convertible Notes Payable” for more information). Additionally, interest expense in each of the comparable periods includes interest on equipment lease financing obligations.

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Interest income reflects interest earned on cash balances. Interest income was nominal in each of the comparable periods, reflecting low average rates of return.

**Income Taxes**

The Tax Cuts and Jobs Act of 2017, effective on January 1, 2018, eliminates alternative minimum taxes and lowers the U.S. federal corporate income tax from 34% to 21%. We estimate our Federal and State effective tax rate to be 20%. On December 31, 2017, we remeasured the net deferred tax assets and recorded a one-time reduction of \$2.6 million in deferred tax assets to reflect the lower realization rate to be applied commencing in 2018.

Net loss in 2018 resulted in a setup of additional deferred tax asset (tax loss carryforwards) with a 20-year expiration. Net operating loss carryforwards do not begin expiring until the end of 2023 if not used. We expect a return to profitable operating results and full utilization of the NOL benefits. We recorded income tax benefits of \$143,000 for 2018 compared to income tax expense of \$3.77 million for 2017. Our deferred tax asset, primarily representing future income tax savings from the application of net operating loss carry forwards, was valued at \$5,781,000 at December 31, 2018.

**Quarterly Results of Operations**

The following table sets forth summary quarterly statements of operations data for each of the quarters in 2017 and 2018. This unaudited quarterly information has been prepared on the same basis as the annual information presented elsewhere herein, and, in our opinion, includes all adjustments (consisting only of normal recurring entries) necessary for a fair presentation of the information for the quarters presented. The operating results for any quarter are not necessarily indicative of results for any future period.

(amounts in thousands, except per share amounts)	Quarter Ended							
	(unaudited)							
	Mar 31,	Jun 30,	Sep 30,	Dec 31,	Mar 31,	Jun 30,	Sep 30,	Dec 31,
	<u>2017</u>	<u>2017</u>	<u>2017</u>	<u>2017</u>	<u>2018</u>	<u>2018</u>	<u>2018</u>	<u>2018</u>
Summary Quarterly Data:								
Revenue	\$5,622	\$5,806	\$5,475	\$4,383	\$3,981	\$4,192	\$4,137	\$4,144
Cost of revenue	2,709	2,696	2,429	2,062	1,917	2,060	1,960	2,061
Gross profit	2,913	3,110	3,046	2,321	2,064	2,132	2,177	2,083

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Operating expenses:								
Research and development	797	859	874	944	947	917	884	892
Sales and marketing	759	742	737	715	738	734	739	771
General and administrative	689	601	660	596	664	625	584	546
Total operating expenses	2,245	2,202	2,271	2,255	2,349	2,276	2,207	2,209
Interest income (expense) and other, net	(30 )	(31 )	(21 )	2	(20 )	(48 )	(32 )	(29 )
Income tax (expense) benefit	(252 )	(387 )	(340 )	(2,789)	80	54	17	(8 )
Net income (loss)	\$386	\$490	\$414	\$(2,721)	\$(225 )	\$(138 )	\$(45 )	\$(163 )
Basic net income (loss) per share	\$0.07	\$0.08	\$0.07	\$(0.39 )	\$(0.03 )	\$(0.02 )	\$(0.01 )	\$(0.03 )
Fully diluted net income (loss) per share	\$0.05	\$0.07	\$0.06	\$(0.39 )	\$(0.03 )	\$(0.02 )	\$(0.01 )	\$(0.03 )

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We generally ship orders as received and therefore quarterly revenue and operating results depend on the volume and timing of orders received during the quarter, which are difficult to forecast. Historically, we have recognized a substantial portion of our revenue in the last month of the quarter. Operating results may also fluctuate due to factors such as the demand for our products, the size and timing of customer orders, the introduction of new products and product enhancements by us or our competitors, product mix, timing of software enhancements, manufacturing supply shortages, changes in the level of operating expenses, and competitive conditions in the industry. Because our staffing and other operating expenses are based on anticipated revenue, a substantial portion of which is not typically generated until the end of each quarter, delays in the receipt of orders can cause significant variations in operating results from quarter to quarter.

## **Cash Flows and Contractual Obligations**

As reflected in our Statements of Cash Flows, net cash provided by operating activities in 2018 was \$0.75 million, compared to \$2.38 million in 2017. We calculate net cash provided by or used in operating activities by reducing our net loss (\$0.6 million in 2018 and \$1.4 million in 2017) by the expenses, such as stock-based compensation expense, depreciation, amortization of intangible assets, and deferred tax expense, that did not require the use of cash, and by increasing our net loss by the benefits, such as deferred tax benefits, that did not generate cash. The net amounts were \$0.8 million and \$4.5 million in 2018 and 2017, respectively. The significantly high non-cash amount in 2017 was related to a one-time reduction in deferred tax assets to reflect a lower deferred tax realization rate resulted from the adoption of the Tax Cuts and Jobs Act of 2017 law.

In addition, we report increases in assets and reductions in liabilities as uses of cash and decreases in assets and increases in liabilities as sources of cash, together referred to as changes in operating assets and liabilities.

In 2018, changes in operating assets and liabilities resulted in a net source of cash of \$0.54 million which was primarily from an increase in accounts payable due to deferred payments at year end and a reduction in accounts receivable due to lower levels of shipments in the second half of Q4 2018 compared to Q4 2017. The source of cash was partially offset by a decrease of accrued payroll and related expense. In 2017, changes in operating assets and liabilities resulted in a net use of cash of \$651,000 which was primarily due to the buildup of inventories to support rising sales and to provide economic order quantity savings on orders. Cash was also used in prepaid expenses and product certification costs which are capitalized and amortized over the shorter of the certification period or the useful life of the product. The uses of cash were partially offset by decreases of the accounts receivable balance and increases of the inventory levels in our distribution channel.

In 2018 and 2017, we used \$0.4 million each in investing activities related to expenditures on production tooling for new products and purchases of computer software and hardware. In 2017, we also invested \$0.2 million in software development for product Contactless RFID Reader Writer D600 and the investment is amortized over the life of the product started from Q1 2018.

Net cash used in financing activities was \$2.6 million in 2018, compared to net cash provided of \$0.3 million in 2017. Financing activities in 2018 consisted primarily of the \$5.0 million use of cash related to repurchase of company stock, partially offset by net \$0.8 million borrowed on our term loan, net \$1.3 million borrowed on our bank lines of credit, and \$0.3 million proceeds from the exercise of stock options. Financing activities in 2017 consisted primarily of the proceeds from the exercise of stock options.

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Our contractual obligations at December 31, 2018 are outlined in the table shown below:

Contractual Obligations	Payments Due by Period				
	Total	1 year	2 to 3 years	4 to 5 years	More than 5 years
Unconditional purchase obligations with contract manufacturers	\$5,922,000	\$5,922,000	\$—	\$—	\$ —
Operating leases	1,690,000	460,000	976,000	254,000	—
Capital leases	24,000	16,000	8,000	—	—
Total contractual obligations	\$7,636,000	\$6,398,000	\$984,000	\$254,000	\$ —

**Off-Balance Sheet Arrangements**

As of December 31, 2018, we had no off-balance sheet arrangements as defined in Item 303 of Regulation S-K.

**Recent Accounting Pronouncements**

See Note 1 of "Notes to Financial Statements" of this Annual Report for additional information regarding the status of recent accounting pronouncements.



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

**Interest Rate Risk**

Our exposure to market risk for changes in interest rates relates primarily to our bank term loan and credit line facilities. Amounts outstanding under the term loan bear interest at lender's prime rate (minimum of 4.25%) plus 1.75%. Our bank credit line facilities of up to \$2.5 million have variable interest rates based upon the lender's prime rate (minimum of 4.25%) plus 0.75%, for both the domestic line (up to \$2.0 million) and the international line (up to \$0.5 million). Accordingly, interest rate increases could increase our interest expense on outstanding term loan and credit line balances. Based on a sensitivity analysis during the three months ended December 31, 2018, an increase of 1% in the interest rate would have increased our fourth quarter borrowing costs by approximately \$3,600.

**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 and we pay the expenses of our European employees in Euros and British pounds. We may enter into selected future purchase commitments with foreign suppliers that may be paid in the local currency of the supplier. We hedge a significant portion of our European receivables balance denominated in Euros to reduce the foreign currency risk associated with these assets, and we have not been subject to significant losses from material foreign currency fluctuations. Based on a sensitivity analysis of our net foreign currency denominated assets and expenses at the beginning, during and at the end of the quarter ended December 31, 2018, an adverse change of 10% in exchange rates would have resulted in a decrease in our net income for the fourth quarter 2018 of approximately \$42,500 if left unprotected. For the fourth quarter of 2018, the total net adjustment for the effects of changes in foreign currency on cash balances, collections, payables, and derivatives used to hedge foreign currency risks, was a net loss of \$5,800. We will continue to monitor, assess, and mitigate through hedging activities, our risks related to foreign currency fluctuations.

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

The supplementary information required by this item is included in Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations."



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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Shareholders of Socket Mobile, Inc.:

Opinion on the Financial Statements

We have audited the accompanying balance sheets of Socket Mobile, Inc. (“the Company”) as of December 31, 2018 and 2017, the related statements of operations, stockholders’ equity, and cash flows for each of the years in the two-year period ended December 31, 2018 and the related notes (collectively referred to as the “financial statements”). In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the years in the two-year period ended December 31, 2018, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (“PCAOB”) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provides a reasonable basis for our opinion.

*/s/ Sadler, Gibb & Associates, LLC*

We have served as the Company's auditor since 2013.

Salt Lake City, UT

March 28, 2019

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Table of ContentsSOCKET MOBILE, INC.  
BALANCE SHEETS

	December 31,	
	2018	2017
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$1,084,991	\$3,379,508
Accounts receivable, net	2,367,177	2,687,325
Inventories, net	2,272,328	2,198,266
Prepaid expenses and other current assets	307,832	385,508
Deferred cost on shipments to distributors	165,024	204,405
Total current assets	6,197,352	8,855,012
Property and equipment:		
Machinery and office equipment	2,188,835	2,052,091
Computer equipment	992,531	851,823
	3,181,366	2,903,914
Accumulated depreciation	(2,492,154 )	(2,241,010 )
Property and equipment, net	689,212	662,904
Goodwill	4,427,000	4,427,000
Other long-term assets	236,565	271,650
Deferred tax assets	5,780,938	5,637,480
Total assets	\$17,331,067	\$19,854,046

**LIABILITIES AND STOCKHOLDERS' EQUITY**

Current liabilities:		
Accounts payable and accrued expenses	\$1,533,456	\$1,112,234
Accrued payroll and related expenses	512,307	630,999
Deferred revenue on shipments to distributors	396,974	492,611
Short term portion of deferred service revenue	33,644	31,536
Bank lines of credit	1,316,778	—
Term loan – current portion	500,000	—
Short term portion of capital leases and deferred rent	62,917	55,382
Total current liabilities	4,356,076	2,322,762
Long term portion of deferred service revenue	31,291	29,447
Long term portion of capital leases and deferred rent	205,932	271,414
Term loan – long-term portion	333,333	—
Total liabilities	4,926,632	2,623,623

## Commitments and contingencies

## Stockholders' equity:

Common stock, \$0.001 par value: Authorized – 20,000,000 shares,

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Issued and outstanding – 5,883,109 shares at December 31, 2018 and 7,011,128 shares at December 31, 2017	5,883	7,011
Additional paid-in capital	60,523,901	64,777,620
Accumulated deficit	(48,125,349)	(47,554,208)
Total stockholders' equity	12,404,435	17,230,423
Total liabilities and stockholders' equity	\$17,331,067	\$19,854,046

See accompanying notes.

Table of Contents**SOCKET MOBILE, INC.**  
**STATEMENTS OF OPERATIONS**

	Years Ended December 31,	
	2018	2017
Revenues	\$ 16,454,426	\$ 21,285,800
Cost of revenues	7,998,018	9,895,791
Gross profit	8,456,408	11,390,009
Operating expenses:		
Research and development	3,640,296	3,473,610
Sales and marketing	2,981,902	2,952,898
General and administrative	2,420,198	2,545,786
Total operating expenses	9,042,396	8,972,294
Operating income (loss)	(585,988 )	2,417,715
Interest expense and other, net	(128,612 )	(79,443 )
Net income (loss) before income taxes	(714,600 )	2,338,272
Income tax benefit (expense)	143,459	(1,122,189 )
Deferred taxes revaluation	—	(2,646,814 )
Net (loss)	\$(571,141 )	\$(1,430,731 )
Net (loss) per share:		
Basic and diluted	\$(0.09 )	\$(0.23 )
Weighted average shares outstanding:		
Basic and diluted	6,094,709	6,292,898

See accompanying notes.

Table of ContentsSOCKET MOBILE, INC.  
STATEMENTS OF STOCKHOLDERS' EQUITY

	Common Stock		Additional	Accumulated	Total
	Shares	Amount	Paid-In Capital	Deficit	Stockholders' Equity
Balance at December 31, 2016	5,878,405	\$5,878	\$62,889,851	\$(46,725,797)	\$16,169,932
Exercise of stock options	159,839	160	331,563	—	331,723
Conversion of notes payable	972,884	973	1,215,132	—	1,216,105
Stock-based compensation	—	—	426,950	—	426,950
Cost of tender offer	—	—	(85,876 )	—	(85,876 )
Net effect of deferred revenue adjustment	—	—	—	602,320	602,320
Net loss	—	—	—	(1,430,731 )	(1,430,731 )
Balance at December 31, 2017	7,011,128	7,011	64,777,620	(47,554,208)	17,230,423
Exercise of stock options	121,981	122	279,055	—	279,177
Stock-based compensation	—	—	487,806	—	487,806
Cost of tender offer	(1,250,000)	(1,250)	(5,020,580 )	—	(5,021,830 )
Net loss	—	—	—	(571,141 )	(571,141 )
Balance at December 31, 2018	5,883,109	\$5,883	\$60,523,901	\$(48,125,349)	\$12,404,435

See accompanying notes.

Table of ContentsSOCKET MOBILE, INC.  
STATEMENTS OF CASH FLOWS

	Years Ended December 31,	
	2018	2017
Operating activities		
Net loss	\$(571,141	) \$(1,430,731)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Stock-based compensation	487,806	426,950
Depreciation and amortization	432,042	313,653
Changes in deferred taxes	(143,459	) 3,717,926
Changes in operating assets and liabilities:		
Accounts receivable	320,148	179,552
Inventories	(74,062	) (660,827 )
Prepaid expenses and other current assets	77,677	(126,044 )
Other long-term assets	435	12,169
Accounts payable and accrued expenses	421,222	(91,384 )
Accrued payroll and related expenses	(118,692	) (1,932 )
Net deferred revenue on shipments to distributors	(56,256	) 61,886
Deferred service revenue	3,952	(12,403 )
Change in deferred rent	(29,527	) (12,512 )
Net cash provided by operating activities	750,145	2,376,303
Investing activities		
Purchase of equipment	(423,700	) (412,674 )
Capitalized software costs	—	(207,901 )
Net cash used in investing activities	(423,700	) (620,575 )
Financing activities		
Payments on capital leases	(28,420	) (26,945 )
Proceeds from borrowings under bank line of credit agreement	13,546,964	—
Repayments of borrowings under bank line of credit agreement	(12,230,186)	—
Proceeds from bank term loan	4,000,000	—
Repayments of bank term loan	(3,166,667	) —
Common stock repurchases and related expenses	(5,021,830	) —
Stock options exercised	279,177	331,719
Net cash provided by (used in) financing activities	(2,620,962	) 304,774
Net increase (decrease) in cash and cash equivalents	(2,294,517	) 2,060,502
Cash and cash equivalents at beginning of year	3,379,508	1,319,006
Cash and cash equivalents at end of year	\$1,084,991	\$3,379,508
Supplemental cash flow information		
Cash paid for interest	\$105,082	\$2,759
Cash paid for income taxes	\$—	\$82,577
Supplemental disclosure of non-cash investing activities		
Conversion of notes payable and accrued interest into common stock	\$—	\$1,216,109

See accompanying notes.

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**SOCKET MOBILE, INC.  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 — Organization and Summary of Significant Accounting Policies**

*Organization and Business*

Socket Mobile, Inc. (the “Company”) is a leading producer of data capture products for mobile applications used in Retail, Commercial Services, Industrial & Manufacturing, Transportation & Logistics, and Health Care. The Company produces a family of data capture products that connect over Bluetooth and work with applications running on smartphones, tablets and mobile computers using operating systems from Apple® (iOS), Google™ (Android™) and Microsoft® (Windows®). The Company focuses on serving the needs of software application developers as the scanner sales are primarily driven by the deployment of barcode and RFID/NFC enabled mobile applications.

The Company designs its own products and subcontracts the manufacturing of product components to independent third-party contract manufacturers who are in the U.S., Mexico, Singapore, China, Malaysia and Taiwan and who have the equipment, know-how and capacity to manufacture products to the Company’s specifications. Final products are assembled, tested, packaged, and distributed at and from its Newark, California facility. The Company offers its products worldwide through two-tier distribution enabling customers to purchase from a large number of on-line resellers around the world including some application developers. The geographic regions served by the Company include the Americas, Europe, Asia Pacific and Africa.

The Company was founded in March 1992 as Socket Communications, Inc. and reincorporated in Delaware in 1995 prior to the Company’s initial public offering in June 1995. The Company began doing business as Socket Mobile, Inc. in January 2007 to better reflect its market focus on the mobile business market, and changed its legal name to Socket Mobile, Inc. in April 2008. The Company’s common stock trades on the NASDAQ Marketplace under the symbol “SCKT.” The Company’s principal executive offices are located at 39700 Eureka Drive, Newark, CA 94560.

*Use of Estimates*

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

*Cash and Cash Equivalents*

The Company considers all highly liquid investments purchased with a maturity date of 90 days or less at date of purchase to be cash equivalents. For the years ended December 31, 2018 and 2017, all of the Company's cash and cash equivalents consisted of amounts held in demand deposit accounts in banks. The aggregate cash balance on deposit in these accounts are insured by the Federal Deposit Insurance Corporation up to \$250,000. The Company's cash balance on deposit in these accounts may, at times, exceed the federally insured limits. The Company has never experienced any losses in such accounts.

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**SOCKET MOBILE, INC.**  
**NOTES TO FINANCIAL STATEMENTS**

*Fair Value of Financial Instruments*

The carrying value of the Company's cash and cash equivalents, accounts receivable, accounts payable and foreign exchange contracts approximate fair value due to the relatively short period of time to maturity.

*Derivative Financial Instruments*

The Company's primary objective for holding derivative financial instruments is to manage foreign currency risks. The Company's derivative financial instruments are recorded at fair value and are included in other current assets, other assets, other accrued liabilities or long-term debt depending on the contractual maturity and whether the Company has a gain or loss. The Company's accounting policies for these instruments are based on whether they meet the Company's criteria for designation as hedging transactions, either as cash flow or fair value hedges. A hedge of the exposure to variability in the cash flows of an asset or a liability, or of a forecasted transaction, is referred to as a cash flow hedge. A hedge of the exposure to changes in fair value of an asset or a liability, or of an unrecognized firm commitment, is referred to as a fair value hedge. The criteria for designating a derivative as a hedge include the instrument's effectiveness in risk reduction and, in most cases, a one-to-one matching of the derivative instrument to its underlying transaction. Gains and losses on derivatives that do not qualify for hedge accounting are recognized immediately in earnings. The Company regularly enters into forward foreign currency contracts to reduce exposures related to rate changes in certain foreign currencies.

The Company records its forward foreign currency contracts at fair value. At December 31, 2018 and 2017, the Company had no open forward foreign currency contracts.

*Foreign Currency*

The functional currency for the Company is the U.S. dollar. However, the Company requires European distributors to purchase products in Euros and British pounds and pays the expenses of European employees in Euros and British pounds. The Company hedges a significant portion of the European receivables balance denominated in Euros to reduce the foreign currency risk associates with these assets. In 2018, the total net adjustment for the effects of changes in foreign currency on cash balances, collections, payables, and derivatives used to hedge foreign currency risks, was a net loss of \$20,000 compared to a net loss of \$3,400 in 2017.

*Accounts Receivable Allowances*

The Company estimates the amount of uncollectible accounts receivable at the end of each reporting period based on the aging of the receivable balance, current and historical customer trends, and communications with its customers. Amounts are written off only after considerable collection efforts have been made and the amounts are determined to be uncollectible. The following describes activity in the allowance for doubtful accounts for the years ended December 31, 2018 and 2017:

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NOTES TO FINANCIAL STATEMENTS**

Year	Balance at Beginning of Year	Charged to Costs and Expenses	Amounts Written Off	Balance at End of Year
2018	\$ 89,058	\$ —	\$ —	\$ 89,058
2017	\$ 89,058	\$ —	\$ —	\$ 89,058

*Inventories*

Inventories consist principally of raw materials and sub-assemblies stated at the lower of standard cost, which approximates actual costs (first-in, first-out method), or market. Market is defined as replacement cost, but not in excess of estimated net realizable value or less than estimated net realizable value less a normal margin. At the end of each reporting period, the Company compares its inventory on hand to its forecasted requirements for the next nine-month period and reserves the cost of any inventory that is surplus, less any amounts that the Company believes it can recover from the disposal of goods or that the Company specifically believes will be saleable past a nine-month horizon. The Company's sales forecasts are based upon historical trends, communications from customers, and marketing data regarding market trends and dynamics. Changes in the amounts recorded for surplus or obsolete inventory are included in cost of revenue. Inventories, net of write-downs, at December 31, 2018 and 2017 consisted of the following:

	December 31,	
	2018	2017
Raw materials and sub-assemblies	\$2,785,154	\$3,016,327
Finished goods	335,335	67,120
Inventory reserves	(848,161 )	(885,181 )
Inventory, net	\$2,272,328	\$2,198,266

*Prepaid Expenses and Other Current Assets*

Prepaid expenses and other current assets consist of various payments that the Company has made in advance for goods or services to be received in the future. Prepaid expenses and other current assets at December 31, 2018 and 2017 consisted of the following:

	December 31,	
	2018	2017
Prepaid insurance	\$18,061	\$37,496
Product certification costs	74,919	58,755
Prepaid inventory purchases	110,301	114,927
Others	104,551	174,330
Prepaid expenses and other current assets	\$307,832	\$385,508

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**SOCKET MOBILE, INC.  
NOTES TO FINANCIAL STATEMENTS**

*Property and Equipment*

Property and equipment are stated at cost. Depreciation and amortization are computed using the straight-line method, over the estimated useful lives of the assets ranging from one to five years. Assets under capital leases are amortized in a manner consistent with the Company's normal depreciation policy for owned assets, or the remaining lease term as applicable. Depreciation expense in the years ended December 31, 2018 and 2017, was \$397,392 and \$313,653, respectively.

*Goodwill*

Goodwill is tested for impairment annually as of September 30th or more frequently when events or circumstances indicate that the carrying value of the Company's single reporting unit more likely than not exceeds its fair value. The Company performed its annual goodwill impairment analysis as of September 30, 2018. The Company used the two-step test as required to assess goodwill for impairment. The first step of the goodwill impairment test consisted of comparing the carrying value of the reporting unit to its fair value. Management estimated the fair value of the Company's reporting unit using various methods and compared the fair value to the carrying amount (net book value) to ascertain if potential goodwill impairment existed. The Company utilized methods that focused on its ability to produce income ("Income Approach") and the Company's market capitalization ("Market Capitalization Approach"). Key assumptions utilized in the determination of fair value in step one of the test included the following: the Company's market capitalization; revenue and expense forecasts used in the evaluation were based on trends of historical performance and management's estimate of future performance; cash flows utilized in the discounted cash flow analysis were estimated using a weighted average cost of capital determined to be appropriate for the Company. No impairment of goodwill was recorded in the years ended December 31, 2018 and 2017.

*Deferred Rent*

The Company operates its headquarters under a non-cancelable operating lease. The Company recognizes rent expense under its lease on a straight-line basis measured over the term of the lease. The excess of accumulated rental expense measured on a straight-line basis over actual accumulated rent paid is recorded as a liability on the Company's balance sheet in its short- and long-term components. Deferred rent at December 31, 2018 and December 31, 2017 was \$244,862 and \$274,388 respectively.

*Concentration of Credit Risk*

Financial instruments that potentially subject the Company to significant concentrations of credit risk include cash, cash equivalents and accounts receivable. The Company invests its cash in demand deposit accounts in banks. To date, the Company has not experienced losses on the investments. The Company's trade accounts receivables are

primarily with distributors. The Company performs ongoing credit evaluations of its customers' financial condition, but the Company generally requires no collateral. Reserves are maintained for potential credit losses, and such losses have been within management's expectations. Customers who accounted for at least 10% of the Company's accounts receivable balances at December 31, 2018 and December 31, 2017 were as follows:

Table of Contents**SOCKET MOBILE, INC.  
NOTES TO FINANCIAL STATEMENTS**

	December 31,	
	2018	2017
Ingram Micro Inc.	41%	37%
Bluestar, Inc.	19%	23%
ScanSource, Inc.	*	10%
Ingram Micro Pan Europe GmbH	*	10%

\*Customer accounts for less than 10% of accounts receivable balances

*Concentration of Suppliers*

Several of the Company's component parts are produced by a sole or limited number of suppliers. Shortages could occur in these essential materials due to increased demand, or to an interruption of supply. Suppliers may choose to restrict credit terms or require advance payments causing delays in the procurement of essential materials. If the Company were unable to procure certain of such materials, it could have a material adverse effect upon its results. At December 31, 2018, 25% of the Company's accounts payable balances were concentrated with top two suppliers. For the years ended December 31, 2018 and 2017, top two suppliers accounted for 49% and 52%, respectively, of the inventory purchases in each of these years.

*Revenue Recognition and Deferred Revenue*

On January 1, 2017, the Company adopted ASC 606 "Revenue from Contracts with Customers" and implemented a new revenue recognition policy. Instead of deferring 100% of revenue and cost of revenue until products are sold by distributors, the new policy recognizes revenue on sales to distributors when shipping of product is completed and title transfers to the distributor, less a reserve for estimated product returns (sales and cost of sales). The reserves are based on estimates of future returns calculated from actual return history, primarily from stock rotations, plus knowledge of pending returns outside of the norm. On January 1, 2017, the Company recorded a one-time reduction (debit) to net deferred revenue in the amount of \$836,000 less the deferred tax effects of \$333,000 for a net improvement in retained deficit of \$503,000. At December 31, 2018, the deferred revenue and deferred cost on shipments to distributors were approximately \$397,000 and \$165,000 respectively, compared to approximately \$493,000 and \$204,000, respectively, at December 31, 2017.

The Company defers revenue on advance payments from customers when performance obligations have yet to be completed and/or services performed.

The Company earns revenue from services performed in connection with consulting and engineering development arrangements. For those agreements that include contract milestones or acceptance criteria, revenue is recognized as such milestones are achieved or as such acceptance occurs.

The Company also earns revenue from its SocketCare services program which provides for extended warranty and accidental breakage coverage for selected products. Service purchased at the time of product purchase provides for coverage in three-year and five-year terms. The Company additionally offers comprehensive coverage and program term extensions. Revenues from the SocketCare services program are recognized ratably over the life of the extended warranty contract. The amount of unrecognized warranty service revenue is classified as deferred service revenue and presented on the Company's balance sheet in its short- and long-term components.

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NOTES TO FINANCIAL STATEMENTS***Warranty*

The Company's products typically carry a one-year warranty. The Company reserves for estimated product warranty costs at the time revenue is recognized based upon the Company's historical warranty experience, and additionally for any known product warranty issues. If actual costs differ from initial estimates, the Company records the difference in the period they are identified. Actual claims are charged against the warranty reserve. The following describes activity in the reserves for product warranty costs for the years ended December 31, 2018 and 2017:

Year	Balance at Beginning of Year	Additional Warranty Reserves	Amounts Charged to Reserves	Balance at End of Year
2018	\$ 78,871	\$ 56,383	\$(56,383)	\$78,871
2017	\$ 78,871	\$ 53,115	\$(53,115)	\$78,871

*Research and Development*

Research and development expenditures are charged to operations as incurred. The major components of research and development costs include salaries and employee benefits, stock-based compensation expense, third party development costs including consultants and outside services, and allocations of overhead and occupancy costs.

*Software Development Costs*

Costs incurred to develop computer software to be sold or otherwise marketed are charged to expense until technological feasibility of the product has been established. Once technological feasibility has been established, computer software development costs (consisting primarily of internal labor costs) are capitalized and reported at the lower of amortized cost or estimated realizable value. Purchased software development cost is recorded at cost. When a product is ready for general release, its capitalized costs are amortized on a product-by-product basis. The annual amortization is the straight-line method over the remaining estimated economic life (a period of three to five years) of the product. Amortization of capitalized software development costs is included in the cost of revenues line on the statements of operations. If the future revenue of a product is less than anticipated, impairment of the related unamortized development costs could occur, which could impact the Company's results of operations. Amortization expense on software development costs included in costs of revenues for 2018 and 2017 was \$34,650 and \$0, respectively. The amount of unamortized capitalized software costs as of December 31, 2018 and 2017 was \$173,000

and \$208,000, respectively.

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**SOCKET MOBILE, INC.**  
**NOTES TO FINANCIAL STATEMENTS**

*Advertising Costs*

Advertising costs are charged to sales and marketing as incurred. The Company incurred \$75,286 and \$61,262, in advertising costs during 2018 and 2017, respectively.

*Income Taxes*

The Company uses the asset and liability method to account for income taxes. Deferred tax assets and liabilities are determined based on differences between financial reporting and tax bases of assets and liabilities and are measured using enacted tax rates and laws that will be in effect when the differences are expected to reverse. The Company records a valuation allowance against deferred tax assets when it is more likely than not that such assets will not be realized. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

The Company recognizes the tax benefit from uncertain tax positions if it is more likely than not that the tax positions will be sustained on examination by the tax authorities, based on the technical merits of the position. The tax benefit is measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. It is the Company's policy to include interest and penalties related to tax positions as a component of income tax expense.

*Shipping and handling costs*

Shipping and handling costs are included in the cost of revenues in the statement of operations.

*Net Loss Per Share*

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

Years Ended December  
31,

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	2018	2017
Numerator:		
Net loss	\$(571,141 )	\$(1,430,731 )
Denominator:		
Weighted average shares outstanding used in computing net loss per share:		
Basic and diluted	6,094,709	6,292,898
Net loss per share applicable to common stockholders:		
Basic and diluted	\$(0.09 )	\$(0.23 )

Due to the net loss for 2018 and 2017, options to purchase 2,374,124 and 2,247,026 shares, respectively, of the Company's Common Stock were excluded from the calculation of the diluted earnings per share because they are anti-dilutive. Basic and diluted EPS are the same for 2018 and 2017.

Table of Contents**SOCKET MOBILE, INC.  
NOTES TO FINANCIAL STATEMENTS***Stock-Based Compensation Expense*

The Company has incentive plans that reward employees with stock options. The amount of compensation cost for these stock-based awards is measured based on the fair value of the awards as of the date that the awards are issued. The fair values of stock options are generally determined using a binomial lattice valuation model which incorporates assumptions about expected volatility, risk-free interest rate, dividend yield, and expected life. Compensation cost for stock-based awards is recognized on a straight-line basis over the vesting period.

*Segment Information*

Operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief executive officer in deciding how to allocate resources and in assessing performance.

The Company operates in the mobile barcode scanning and RFID reader/writer market. Mobile scanning typically consists of mobile devices such as smartphones or tablets, with mobile scanning peripherals for data collection, and third-party vertical applications software. The Company distributes its products in the United States and foreign countries primarily through distributors and resellers. The Company markets its products primarily through application developers whose applications are designed to work with Company's products.

Revenues for the geographic areas for the years ended December 31, 2018 and 2017 are as follows:

Revenues: (in thousands)	Years Ended	
	December 31,	
	2018	2017
United States	\$12,562	\$16,621
Europe	2,526	3,572
Asia and rest of world	1,366	1,093
	\$16,454	\$21,286

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*

Customers who accounted for at least 10% of total revenues for the years ended December 31, 2018 and 2017 were as follows:

	Years Ended December 31,	
	2018	2017
Ingram Micro Inc.	32%	37%
BlueStar, Inc.	21%	17%
ScanSource, Inc.	10%	16%

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**SOCKET MOBILE, INC.  
NOTES TO FINANCIAL STATEMENTS**

*Recently Issued Financial Accounting Standards*

From time to time, new accounting pronouncements are issued by the FASB or other standards setting bodies that are adopted by the Company as of the specified effective date. Unless otherwise discussed, management believes that the impact of recently issued standards that are not yet effective will not have a material impact on the Company's financial position or results of operations upon adoption.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842) and subsequent amendments to the initial guidance: ASU 2017-13, ASU 2018-10, ASU 2018-11, ASU 2018-20 and ASU 2019-01 (collectively, Topic 842). Topic 842 requires lessees to classify leases as either finance or operating leases and to record a right-of-use asset and a lease liability for all leases with a term greater than 12 months regardless of the lease classification. We expect to adopt Topic 842 using the effective date, January 2019, as the date of our initial application of the standard. Consequently, financial information for the comparative periods will not be updated. We expect that our finance and operating lease commitments will be subject to the new standard and recognized as finance and operating lease liabilities and right-of-use assets upon our adoption of Topic 842, which will increase our total assets and total liabilities that we report relative to such amounts prior to adoption.

In June 2018, the FASB issued ASU 2018-07 Compensation – Stock Compensation (Topic 718), Improvements to Nonemployee Share-Based Payment Accounting. This ASU is intended to simplify aspects of share-based compensation issued to non-employees by making the guidance consistent with the accounting for employee share-based compensation. It was effective for annual reporting periods, and interim periods within those years, beginning after December 15, 2018 and did not have a significant impact on the Company's financial statements.

In August 2018, the FASB issued ASU 2018-15, Intangibles - Goodwill and Other-Internal-Use Software ("ASU 2018-15"), which aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. This guidance is effective for interim and annual reporting periods beginning after December 15, 2019 and is not expected to have a significant impact on the Company's financial statements.

**NOTE 2 — Short Term Related Party Convertible Notes Payable**

The Company's Subordinated Convertible Notes of \$752,625 matured on September 4, 2017. At the option of the note holders, note payable principal and accrued interest totaling \$1,216,109 was converted into 972,884 shares of common stock at a conversion rate of \$1.25 per share. The conversion reduced current liabilities and increased stockholders' equity by \$1,216,109. These 4-year notes were originally issued on September 4, 2013 to officers and directors of the company and converted into common stock at maturity pursuant to the terms of the notes. Interest expense on these convertible notes for 2017 was \$80,676.

### **NOTE 3 — Bank Financing Arrangements**

#### *Third Financing Agreement*

On January 31, 2018, the Company entered into an Amended and Restated Business Financing Agreement (the "Third Financing Agreement") with Western Alliance Bank (the "Bank"), that provides for a \$2.5 million revolving line of credit and a \$4.0 million term loan that the Company may use to repurchase shares of common stock. Pursuant to the revolving line of credit, the Company is permitted to borrow up to the lesser of \$2.5 million or 80% of eligible accounts receivables. Amounts outstanding under the line of credit bear interest at the "U.S. Prime Rate" published by the Wall Street Journal plus 0.75%. Interest is payable monthly on the line of credit, and the principal is due upon the maturity date of January 31, 2020. Amounts outstanding under the term loan bear interest at the "U.S. Prime Rate" published by the Wall Street Journal plus 1.75%. Following a three-month interest only period, the term loan is payable in 45 equal monthly installments of principal and interest (see "Fourth Financing Agreement" and "Fifth Financing Agreement" for subsequent changes affecting the term loan and financial covenants). The loans are secured by all of the Company's present and future assets, including intellectual property and general intangibles. Termination of the revolving line of credit or term loan prior to its termination date may be subject to early termination fees, subject to certain exceptions. Amounts repaid or prepaid under the term loan may not be reborrowed. At the end of each quarter through the quarter ending December 31, 2018, the Company is required to prepay outstanding term loan principal in an amount equal to 25% of excess cash flow, as set forth in the Third Financing Agreement, for the most recent quarter ended. The Company is also obligated to pay customary fees for a loan facility of this size and type.

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**SOCKET MOBILE, INC.  
NOTES TO FINANCIAL STATEMENTS**

The Third Financing Agreement contains customary affirmative and negative covenants, including covenants that limit or restrict the Company's ability to, among other things, grant liens, make investments, incur indebtedness, merge or consolidate, dispose of assets, make acquisitions, pay dividends or make distributions, repurchase stock, enter into transactions with affiliates and enter into restrictive agreements, in each case subject to customary exceptions for a credit facility of this size and type. The Company is also required to maintain compliance with an asset coverage ratio (unrestricted cash maintained with the Bank plus Eligible Receivables, divided by the total amount of the Obligations) measured monthly, which requirements increase during the term of the Financing Agreement, a fixed charge coverage ratio of no less than 1.75 to 1.0, measured quarterly, and a total funded debt to trailing twelve months EBITDA multiple of not more than 1.75 to 1.0, measured monthly.

The Third Financing Agreement also contains customary events of default including, among others, payment defaults, breaches of covenants, bankruptcy and insolvency events, cross defaults with certain material indebtedness, judgment defaults, and breaches of representations and warranties. Upon an event of default, the Bank may declare all or a portion of the Company's outstanding obligations payable to be immediately due and payable and exercise other rights and remedies provided for under the Financing Agreement. During the existence of an event of default, interest on the obligations could be increased.

On March 1, 2018, the Company received proceeds of \$4.0 million under the provisions of the term loan for a common stock repurchase. On March 9, 2018, the Company completed a tender offer to purchase and retire 1,250,000 shares of common stock from multiple investors at a purchase price of \$3.90 per share, for an aggregate cost of approximately \$4.9 million, excluding fees and expenses relating to the tender offer.

On April 12, 2018, the Company advised the Bank that its operating results for the quarter ended March 31, 2018 were not expected to be in compliance with two financial covenants, the first a Fixed Charge Coverage Ratio and the second a Total Funded Debt to EBITDA ratio. The Company reported the non-compliance in its Form 10-Q for the quarter ended March 31, 2018. The Bank verbally agreed to forbear the events of default subject to further modification of the Financing Agreement. The Company subsequently paid down the term loan from \$4.0 million at March 31, 2018 to \$1.0 million at June 30, 2018. The paydowns were made from its cash and revolving lines of credit.

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NOTES TO FINANCIAL STATEMENTS***Fourth Financing Agreement*

On June 4, 2018, the Company entered into an Amended and Restated Business Financing Agreement (the “Fourth Financing Agreement”) with the Bank. In the Fourth Financing Agreement, the Bank recognizes the repayment of the outstanding term loan balance to \$1.0 million by June 30, 2018. The remaining balance is repayable in 24 equal monthly installments. The Fixed Charge Coverage Ratio is replaced with a commitment to maintain cash plus available credit at or above the term loan balance. The Total Funded Debt to EBITDA ratio and the excess cash flow application provisions that were designed to accelerate the pay down of the term loan balance are removed. The Bank permanently waived the defaults resulting from March 31, 2018 results when paydown of the term loan balance to \$1.0 million by June 30, 2018 was achieved. In the Fourth Financing Agreement, the Company is required to maintain compliance with the Asset Coverage Ratio measured monthly.

*Fifth Financing Agreement*

On July 30, 2018, the Company entered into an Amended and Restated Business Financing Agreement (the “Fifth Financing Agreement”) with the Bank. The Company is required to maintain daily cash plus available credit at or above 90% of the outstanding principal balance of the term loan until the Asset Coverage Ratio is at 1.25 to 1.0. The minimum Asset Coverage Ratio increased to 1.2 to 1.0 on October 1, 2018. From December 31, 2018 onwards, the ratio increased to 1.25 to 1.0.

The Company was in complete compliance with all the required covenants during Q3 and Q4 2018. On December 31, 2018, the sum of Company’s unrestricted cash on deposit with the Bank plus availability was \$1.24 million, \$0.49 million more than 90% of the outstanding principal balance of the term loan, or \$0.75 million, and the Asset Coverage Ratio was 1.48 to 1.0.

In 2018, the total amount borrowed under the term loan was \$4.0 million and total repayments was \$3.17 million. Total amount borrowed under the domestic and international lines was \$13.55 million and the total repayments was \$12.23 million. Amounts outstanding under the term loan and bank credit facilities at December 31, 2018 are as follows:

	December
	31, 2018
Term loan	833,333
Less: current-portion of term loan	(500,000)
Long-term portion of term loan	\$333,333

	December 31, 2018
Lines of credit - domestic line	906,549
Lines of credit - EXIM line	410,229
Total lines of credit	\$1,316,778

Total interest expenses on the term loan and on the amounts drawn under the Company's bank credit lines for 2018 were \$94,594 and \$37,201, respectively. Accrued interest payable related to the amounts outstanding under the term loan and the bank credit facilities at December 31, 2018 was \$13,546. At December 31, 2018, the Company's unused available line of credit was approximately \$0.2 million.

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NOTES TO FINANCIAL STATEMENTS**

No amount was borrowed under the lines of credit with Western Alliance Bank during 2017, and the total borrowing capacity was approximately \$1,583,000 at December 31, 2017.

**NOTE 4 — Commitments and Contingencies***Operating Lease*

The Company leases office space under a non-cancelable operating lease that provides the Company approximately 37,100 square feet in Newark, California. The lease agreement expires on June 30, 2022. Monthly base rent increases four percent per year annually on July 1<sup>st</sup> of each year.

Future minimum lease payments under the operating lease at December 31, 2018 are shown below:

Annual minimum payments:	Amount
2019	\$460,053
2020	478,455
2021	497,594
2022	253,675
Total minimum payments	\$1,689,777

Rental expense under all operating leases for the years ended December 31, 2018 and 2017 was \$438,680 and \$435,686, respectively. The amount of deferred rent at December 31, 2018 and December 31, 2017 was \$244,862 and \$274,388, respectively.

*Capital Lease Obligations*

The Company leases certain of its equipment under capital leases. The leases are collateralized by the underlying assets. At December 31, 2018 and 2017, property and equipment with costs of \$100,584, were subject to such

financing arrangements. The accumulated depreciation of the assets associated with the capital leases as of December 31, 2018 and December 31, 2017, amounted to \$76,546 and \$51,400 respectively.

Future minimum payments under capital lease and equipment financing arrangements as of December 31, 2018 are as follows:

Annual minimum payments:	Amount
2019	\$16,838
2020	8,454
Total minimum payments	25,292
Less amount representing interest	(1,305 )
Present value of net minimum payments	\$23,987
Short term portion of capital leases	(15,697)
Long term portion of capital leases	\$8,290

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**SOCKET MOBILE, INC.  
NOTES TO FINANCIAL STATEMENTS**

*Purchase Commitments*

At December 31, 2018, the Company's non-cancelable purchase commitments for inventory to be used in the ordinary course of business during 2019 were approximately \$5,922,000.

*Legal Matters*

The Company is subject to disputes, claims, requests for indemnification and lawsuits arising in the ordinary course of business. Under the indemnification provisions of the Company's customer agreements, the Company routinely agrees to indemnify and defend its customers against infringement of any patent, trademark, copyright, trade secrets, or other intellectual property rights arising from customers' legal use of the Company's products or services. The exposure to the Company under these indemnification provisions is generally limited to the total amount paid for the indemnified products. However, certain indemnification provisions potentially expose the Company to losses in excess of the aggregate amount received from the customer. To date, there have been no claims against the Company by its customers pertaining to such indemnification provisions, and no amounts have been recorded. The Company is currently not a party to any material legal proceedings.

**NOTE 5 — Stock-Based Compensation Plan**

*Stock Option Plan*

The Company has one Stock Option Plan in effect in the two years presented: the 2004 Equity Incentive Plan (the "2004 Plan"). The 2004 Plan provides for the grant of incentive stock options, non-statutory stock options, restricted stock, stock appreciation rights, and performance awards to employees, directors, and consultants of the Company. Upon ratification of the 2004 Plan by the shareholders in June 2004, shares in the 1995 Plan that had been reserved but not issued, as well as any shares issued that would otherwise return to the 1995 Plan as a result of termination of options or repurchase of shares, were added to the shares reserved for issuance under the 2004 Plan. The Company grants incentive stock options and non-statutory stock options at an exercise price per share equal to the fair market value per share of common stock on the date of grant. The vesting and exercise provisions are determined by the Board of Directors, with a maximum term of ten years. The 2004 Plan expires on April 23, 2024.

The Company calculates the value of each stock option grant, estimated on the date of grant, using binomial lattice option pricing model. The weighted-average estimated fair value of stock options granted during 2018 and 2017 was \$1.62 and \$2.60, respectively, using the following weighted-average assumptions:

	Years Ended	
	December 31,	
	2018	2017
Risk-free interest rate (%)	2.96 %	2.34 %
Dividend yield	—	—
Volatility factor	56.02 %	69.62 %
Expected option life (years)	6.4	5.9

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NOTES TO FINANCIAL STATEMENTS**

The table below presents the information related to stock option activity for the years ended December 31, 2018 and 2017:

	Years Ended	
	December 31, 2018	2017
Total intrinsic value of stock options exercised	\$197,130	\$333,849
Cash received from stock option exercises	\$279,176	\$331,719

Changes in stock options for the years ended December 31, 2018 and 2017 are as follows:

	Outstanding Options			Remaining Contractual Term (in years)	Intrinsic Value
	Options Available For Grant	Number of Shares	Weighted Average Price Per Share		
Balance at December 31, 2016	95,981	2,161,085	\$2.27		
Increase in shares authorized	235,136	—			
Granted	(275,300 )	275,300	\$4.13		
Exercised	—	(159,839 )	\$2.08		
Canceled	29,520	(29,520 )	\$2.98		
Balance at December 31, 2017	85,337	2,247,026	\$2.50		
Increase in shares authorized	280,445	—			
Granted	(281,300 )	281,300	\$2.86		
Exercised	—	(121,981 )	\$2.29		
Canceled	32,221	(32,221 )	\$3.61		
Balance at December 31, 2018	116,703	2,374,124	\$2.54	4.75	\$166,266

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Exercisable	1,894,933	\$2.37	3.75	166,266
Unvested	479,191	\$3.19	8.58	—

The 2004 Plan provides for an annual increase in the number of shares authorized under the plan to be added on the first day of each fiscal year equal to the least amount of 400,000 shares, 4% of the outstanding shares on that date, or an amount as determined by the Board of Directors. On January 1, 2018 and 2017, a total of 280,445 and 235,136 additional shares, respectively, became available for grant from the 2004 Plan.

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NOTES TO FINANCIAL STATEMENTS**

The following table summarizes information about stock options outstanding and exercisable at December 31, 2018:

Range of Exercise Prices	Options Outstanding		Weighted Average Exercise Price	Options Exercisable	
	Number of Options Outstanding	Weighted Average Remaining Life (Years)		Number of Options Exercisable	Weighted Average Exercise Price
\$0.95 - \$1.25	364,874	4.58	\$1.04	364,874	\$1.04
\$1.50 - \$1.82	141,855	3.08	\$1.73	141,855	\$1.73
\$1.89 - \$2.27	392,509	4.67	\$2.13	376,620	\$2.13
\$2.36 - \$2.92	525,742	4.00	\$2.63	392,414	\$2.62
\$2.93 - \$3.54	677,769	4.33	\$3.05	476,003	\$3.08
\$3.70 - \$4.49	271,375	8.25	\$4.12	143,167	\$4.05
\$0.95 - \$4.49	2,374,124	4.75	\$2.54	1,894,933	\$2.37

*Stock-Based Compensation Expense*

The stock-based compensation expense included in the Company's statements of income for the years ended December 31, 2018 and 2017, consisted of the following:

Income Statement Classification	Years Ended December 31,	
	2018	2017
Cost of revenues	\$81,141	\$64,834
Research and development	128,552	104,205
Sales and marketing	126,312	111,087
General and administrative	151,801	146,824

\$487,806 \$426,950

As of December 31, 2018, the total remaining unamortized stock-based compensation expense was \$906,605 and is expected to be amortized over a weighted average period of 2.41 years.

**NOTE 6 — Shares Reserved**

Common stock reserved for future issuance was as follows:

	December 31,	
	2018	2017
Stock option grants outstanding (see Note 5)	2,374,124	2,247,026
Reserved for future stock option grants (see Note 5)	116,703	85,337
	2,490,827	2,332,363

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NOTES TO FINANCIAL STATEMENTS****NOTE 7 — Retirement Plan**

The Company has a tax-deferred savings plan, the Socket Mobile, Inc. 401(k) Plan (“401(k) Plan”), for the benefit of qualified employees. The 401(k) Plan is designed to provide employees with an accumulation of funds at retirement. Qualified employees may elect to make contributions to the 401(k) Plan on a monthly basis. No contributions were made by the Company during the years ended December 31, 2018 and 2017. Administrative expenses relating to the 401(k) Plan are not significant.

**NOTE 8 — Income Taxes**

The Company recorded income tax benefit of \$143,000 for 2018 compared to income tax expense of \$3.77 million for 2017. Net loss in 2018 results in a setup of additional deferred tax asset (tax loss carryforwards) with a 20-year expiration. Net operating loss carryforwards do not begin expiring until the end of 2023 if not used. We expect a return to profitable operating results and full utilization of the NOL benefits. The 2017 income tax expense included deferred tax expense of \$1.07 million and federal and state alternative minimum tax expense of \$51,000.

The Tax Cuts and Jobs Act was enacted on December 22, 2017. The Tax Act eliminates alternative minimum taxes and lowers the U.S. federal corporate income tax from 34% to 21% effective January 1, 2018. The Company remeasured its net deferred tax assets as of December 31, 2017 at the new enacted tax rate, and accordingly, recorded tax expense of \$2.6 million from the write-down of deferred tax assets in 2017.

The components of income taxes for the periods ended December 31, 2018 and 2017 are as follows:

	Years Ended December	
	31,	2017
	2018	
<u>Current:</u>		
Federal	\$—	\$39,274
State	—	11,803
Total Current	—	51,077
<u>Deferred:</u>		

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Federal	(50,858 )	3,758,849
State	(92,601 )	(40,923 )
Total Deferred	(143,459)	3,717,926
Income tax (benefit) expense	\$(143,459)	\$3,769,003

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NOTES TO FINANCIAL STATEMENTS**

Reconciliation of the statutory federal income tax rate to the Company's effective tax rate:

	Years Ended	
	December 31,	
	2018	2017
Federal tax at statutory rate	21.00%	34.00 %
State income tax rate	6.98 %	5.83 %
Remeasurement of deferred taxes	—	(155.41 %)
Expenses and credits not benefited	(7.90 %)	—
Provision for taxes	20.08%	(115.58 %)

As of December 31, 2018, the Company did not recognize deferred tax assets relating to an excess tax benefit for stock-based compensation deduction of \$2,523,000. Unrecognized deferred tax benefits will be accounted for as a credit to additional paid-in capital when realized through a reduction in income taxes payable.

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. At December 31, 2018, the Company released valuation allowance against substantially all deferred tax assets. Significant components of net deferred tax assets are as follows:

	December 31,	
	2018	2017
Deferred tax assets:		
Net operating loss carryforwards	\$4,849,000	\$4,777,000
Credits	942,000	806,000
Capitalized research and development costs	—	—
Other acquired intangibles	6,000	17,000
Accruals not currently deductible	648,000	677,000
Depreciation	75,000	44,000
Total deferred tax assets	6,520,000	6,321,000
Valuation allowance for deferred tax assets	(569,000 )	(506,000 )
Net deferred tax assets	5,951,000	5,815,000

Deferred tax liability:

Acquired intangibles	(170,000 )	(178,000 )
Net deferred tax assets	\$5,781,000	\$5,637,000

As of December 31, 2018, the Company had net operating loss carryforwards for federal income tax purposes of approximately \$21,619,000 which will expire at various dates beginning in 2023 and through 2038. Full valuation allowance is maintained for federal research and development tax credits of approximately \$568,000. As of December 31, 2018, the Company had net operating loss carryforwards for California state income tax purposes of approximately \$12,018,000, which will expire at various dates in 2029 and through 2038, and state research and development tax credits of approximately \$374,000, which can be carried forward indefinitely.

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NOTES TO FINANCIAL STATEMENTS**

The Company has determined that utilization of existing net operating losses against future taxable income is not limited by Section 382 of the Internal Revenue Code. Future ownership changes, however, may limit the Company's ability to fully utilize its existing net operating loss carryforwards against any future taxable income.

A reconciliation of the beginning and ending amount of unrecognized tax benefits ("UTBs"), excluding interest and penalties, is as follows:

	Amount
Beginning balance at January 1, 2018	\$866,000
Decreases in UTBs taken in prior years	—
Decreases in UTBs taken in current years	76,000
Ending balance at December 31, 2018	\$942,000

It is the Company's policy to include interest and penalties related to tax positions as a component of income tax expense. No interest was accrued for the period ended December 31, 2018. The Company estimates that the unrecognized tax benefit will not change significantly within the next twelve months.

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.

**NOTE 9— Subsequent Events**

As of March 25, 2019, 165,600 stock options and 116,050 restricted stock units at an average price of \$1.90 per share have been granted from the 2004 Equity Incentive Plan subsequent to December 31, 2018.



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**SOCKET MOBILE, INC.  
NOTES TO FINANCIAL STATEMENTS**

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

Not Applicable.

**Item 9A. Controls and Procedures**

*Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures*

Our management evaluated, with the participation of our Chief Executive Officer and our Chief Financial Officer, the effectiveness of our disclosure controls and procedures as of the end of the period covered by this Annual Report on Form 10-K. 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.

*Management's Annual 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 control can provide only reasonable assurances with respect to financial statement preparation. Further, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

We assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2018. 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* issued in 2013. This assessment included review of

the documentation of controls, testing of operating effectiveness of controls and a conclusion on this assessment.

Based on our assessment using those criteria, we believe that, as of December 31, 2018, our internal control over financial reporting is effective.

This annual 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 the Dodd-Frank Wall Street Reform and Consumer Protection Act, which exempts non-accelerated filers from Section 404(b) of the Sarbanes-Oxley Act of 2002.

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**SOCKET MOBILE, INC.  
NOTES TO FINANCIAL STATEMENTS**

*Changes in Internal Control Over Financial Reporting*

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

**Item 9B. Other Information**

None.

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**PART III**

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

The information required hereunder is incorporated by reference from our Proxy Statement to be filed in connection with our annual meeting of stockholders to be held on May 22, 2019.

**Item 11. Executive Compensation**

The information required hereunder is incorporated by reference from our Proxy Statement to be filed in connection with our annual meeting of stockholders to be held on May 22, 2019.

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

Certain information required hereunder is incorporated by reference from our Proxy Statement to be filed in connection with our annual meeting of stockholders to be held on May 22, 2019.

The following table provides information as of December 31, 2018 about our common stock that may be issued under the Company's existing equity compensation plans. For additional information about the equity compensation plans see Note 5 to the Company's Financial Statements.

	Number of securities	Number of securities	Weighted-average exercise price of
		remaining	
	to be issued	available	

	upon exercise of	outstanding options	for future issuance
		outstanding options	under equity compensation plans
Equity compensation plans approved by security holders (1)	2,374,124	\$2.54	116,703

(1) Consists of the 2004 Equity Incentive Plan. Pursuant to an affirmative vote by security holders in June 2004, an annual increase in the number of shares authorized under the 2004 Equity Incentive Plan is added on the first day of each fiscal year equal to the least of (a) 400,000 shares, (b) four percent of the total outstanding shares of the Company's common stock on that date, or (c) a lesser amount as determined by the Board of Directors. As a result, a total of 235,524 shares became available for grant under the 2004 Equity Incentive Plan on January 1, 2019, in addition to those set forth in the table above.

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

Certain information required hereunder is incorporated by reference from our Proxy Statement to be filed in connection with our annual meeting of stockholders to be held on May 22, 2019.

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**Item 14. Principal Accounting Fees and Services**

Certain information required hereunder is incorporated by reference from our Proxy Statement to be filed in connection with our annual meeting of stockholders to be held on May 22, 2019.

PART IV

**Item 15. Exhibits, Financial Statement Schedules**

(a) Documents filed as part of this report:

1. All financial statements.

INDEX TO FINANCIAL STATEMENTS	<u>PAGE</u>
Report of Sadler Gibb, Independent Registered Public Accounting Firm	32
Balance Sheets	33
Statements of Income	34
Statements of Stockholders' Equity	35
Statements of Cash Flows	36
Notes to Financial Statements	37

2. Financial statement schedules.

All financial statement schedules are omitted because they are not applicable or not required or because the required information is included in the financial statements or notes herein.

3. Exhibits.

See Index to Exhibits on page 60. The Exhibits listed on the accompanying Index to Exhibits are filed or incorporated by reference as part of this report.

(b) Exhibits:

See Index to Exhibits on page 60. The Exhibits listed on the accompanying Index to Exhibits are filed or incorporated by reference as part of this report.

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**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, hereunto duly authorized.

SOCKET MOBILE, INC.

Registrant

Date: March 28, 2019 /s/ Kevin J. Mills  
Kevin J. Mills  
President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

<u>/s/ Kevin J. Mills</u> Kevin J. Mills	President and Chief Executive Officer (Principal Executive Officer) and Director	March 28, 2019
<u>/s/ Charlie Bass</u> Charlie Bass	Chairman of the Board	March 28, 2019
<u>/s/ David W. Dunlap</u> David W. Dunlap	Vice President of Finance and Administration and Chief Financial Officer (Principal Financial and Accounting Officer) and Director	March 28, 2019
<u>/s/ Bill Parnell</u> Bill Parnell	Director	March 28, 2019
<u>/s/ Brenton E. MacDonald.</u> Brenton E. MacDonald	Director	March 28, 2019
<u>/s/ Nelson C. Chan</u> Nelson C. Chan	Director	March 28,



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**Index to Exhibits**

<u>Exhibit Number</u>	<u>Description</u>
3.1 (1)	Amended and Restated Certificate of Incorporation.
3.2 (2)	Bylaws, as amended February 17, 2008.
10.1 (3)	Form of Indemnification Agreement entered into between the Company and its directors and officers.
10.2 (4)*	2004 Equity Incentive Plan and forms of agreement thereunder.
10.3 (5)*	Form of Management Incentive Variable Compensation Plan between the Company and certain eligible participants.
10.4 (6)	Standard Industrial /Commercial Multi-Tenant Lease by and between Del Norte Farms, Inc. and the Company dated October 24, 2006 (assigned to Newark Eureka Industrial Capital, LLC September 17, 2007).
10.5 (7)	Second Amendment to Standard Industrial/Commercial Multi-Lessee Lease – Net dated August 30, 2010.
10.6 (8)	Third Amendment to Standard Industrial /Commercial Multi-Tenant Lease – Net dated December 28, 2012.
10.7 (9)	Warrants for the Purchase of Shares of Common Stock Issued November 19, 2010 to the Investor and the Placement Agent in connection with a private placement.

10.8 Loan and Security Agreement dated February 27, 2014 by and between the Company and Bridge Bank,  
(10) National Association.

10.9 (11) Form of Employment Agreement dated May 1, 2017 between the Company and the officers of the Company.

10.10 Business Financing Modification Agreement dated February 26, 2016 by and between the Company and  
(12) Western Alliance Bank, an Arizona corporation.

10.11 Business Financing Modification Agreement dated March 20, 2017 by and between the Company and  
(13) Western Alliance Bank, an Arizona corporation.

10.12 Business Financing Modification Agreement dated January 31, 2018 by and between the Company and  
(14) Western Alliance Bank, an Arizona corporation.

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- 10.13 Tender Offer Statement to purchase up to 1,250,000 shares of common stock at a price not greater than \$4.25  
(15) nor less than \$3.75 per share.
- 10.14 Business Financing Modification Agreement dated June 7, 2018 by and between the Company and Western  
(16) Alliance Bank, an Arizona corporation.
- 11.1 Computation of Earnings per Share (see Statements of Operations in Item 8).
- 14.1 (17) Code of Business Conduct and Ethics.
- 23.1 Consent of Sadler Gibb & Associates, LLC, Independent Registered Public Accounting Firm.
- 31.1 Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1 Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the  
Sarbanes-Oxley Act of 2002.

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\* Executive compensation plan or arrangement.

- (1) Incorporated by reference to exhibits filed with the Company's Form 10-K filed on March 16, 2009.
- (2) Incorporated by reference to exhibits filed with the Company's Form 8-K filed on February 20, 2008.
- (3) Incorporated by reference to exhibits filed with the Company's Form 8-K filed on March 12, 2012.
- (4) Incorporated by reference to Appendix C filed with the Company's Form DEF 14A filed on April 29, 2004 and  
Item 4 on Form 8-K filed on June 5, 2013 reporting extension of the Plan to April 23, 2024.
- (5) Incorporated by reference to Appendix B filed with the Company's Form DEF 14A filed on March 16, 2011.
- (6) Incorporated by reference to exhibits filed with the Company's Form 10-Q filed on November 13, 2006.



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- (7) Incorporated by reference to exhibits filed with the Company's Form 8-K filed on August 30, 2010.
- (8) Incorporated by reference to exhibits filed with the Company's Form 8-K filed on January 4, 2013.
- (9) Incorporated by reference to exhibits filed with the Company's Form 8-K filed on November 19, 2010.
- (10) Incorporated by reference to exhibits filed with the Company's Form 8-K filed on March 7, 2014.
- (11) Incorporated by reference to exhibits filed with the Company's Form 8-K filed on May 4, 2017.
- (12) Incorporated by reference to exhibits filed with the Company's Form 8-K filed on March 3, 2016.
- (13) Incorporated by reference to exhibits filed with the Company's Form 8-K filed on March 21, 2017.
- (14) Incorporated by reference to exhibits filed with the Company's Form 8-K filed on February 2, 2018.
- (15) Incorporated by reference to the Company's Schedule TO filed on February 2, 2018.
- (16) Incorporated by reference to exhibits filed with the Company's Form 8-K filed on June 8, 2018.
- (17) Incorporated by reference to exhibits filed with the Company's Form 10-K filed on March 10, 2006.

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