UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-K

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

For the fiscal year ended December 31, 2020

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

Commission file number 1-13810

SOCKET MOBILE, INC.

(Exact name of registrant as specified in its charter)

Delaware	**94-3155066**
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

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

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

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common stock, $0.001 Par Value per Share	SCKT	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 [X]

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule405 of Regulation

S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES [X] NO [ ]

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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, 2020, the aggregate market value of the registrant's Common Stock ($0.001 par value) held by non-affiliates of the registrant was $7,360,553 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 19, 2021: 6,941,384 shares.

DOCUMENTS INCORPORATED BY REFERENCE

Items 10, 11, 12, 13, and 14 of Part III are incorporated by reference from the Registrant's Proxy Statement for the Annual Meeting of Stockholders to be held on May 13, 2021. 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

During 2020, we undertook several actions to contain costs and strengthen our financial position and balance sheet including instituting a hiring freeze, furloughing non-essential roles from July 1, 2020 through the end of 2020, tightening discretionary spending and issuing debt. While the negative effects from the COVID-19 global pandemic in the first half of 2020 were material to our operating results, we saw positive momentum, which included sales growth during the second half of the year and improved liquidity with over $2.1 million in cash as of December 31, 2020.

We continue to monitor developments of the COVID-19 pandemic. The extent of the impact of the COVID-19 pandemic to our businesses, operating results, cash flows, liquidity and financial condition will be primarily driven by the severity and duration of the pandemic, the impact of new strains and variants of the coronavirus, the pandemic's impact on the economies and the administration of vaccines. Those primary drivers are beyond our knowledge and control, and as a result, it is difficult to predict the cumulative impact that pandemic will have on our future sales, operating results, cash flows and financial condition. Furthermore, the impact to our businesses, operating results, cash flows, liquidity and financial condition may be further adversely impacted if the COVID-19 global pandemic continues to exist or worsens for a prolonged period of time or if plans to administer vaccines are delayed.

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), 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. 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, which enables them to provide their users with our advanced barcode scanning features. Our products are integrated in their application solutions and are marketed by the application developers or the resellers of their applications. The number of our registered developers for data capture applications continues to grow.

Companion SocketScan family. Our Companion SocketScan family consists of the ergonomic and independent S700 series, including 1D Linear Imaging (S700), 1D Laser (S730), 1D/2D Universal Barcode (S740) and 1D/2D/MRZ Ultimate Barcode Scanner(S760), available in multiple vivid colors: blue, green, red, white, yellow and black.

Companion DuraScan Family. Our DuraScan® 700 Series Linear Barcode Scanner (D700), Laser Barcode Scanner (D730) and Universal Barcode Scanner (D740, D745, D750, D755, D760), are designed to be durable barcode scanners with IP54-rated outer casing to withstand tougher environments. Universal Barcode Scanners (D740, D750, D760) 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 zone) support, making it capable of scanning passports, visas and other travel documents. D745 and D755 are medical-grade, universal scanners.

Attachable Family. Our attachable scanners include DuraSled and SocketScan 800 Series scanners. DuraSled is a barcode scanning sled designed for durability. It combines a phone with a scanner to create a one-handed solution. DuraSled protects phones from impact damage and provides a robust charging solution for all environments. It is easy-to-use and ideal for delivery services, stock counting, ticketing and other application-driven, mobile solutions. The DuraSled series is compatible with iPod, iPhone Samsung and Windows devices.

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. S860 includes MRZ (machine-readable 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 D600 and S550. 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 S550, a contactless membership card reader/writer, is designed to facilitate tap-and-go smart card and NFC applications. It combines the latest 13.56 MHz contactless technology with Bluetooth LE connectivity

Software Developer Kit (Capture SDK). Our Software Developer Kit (Capture SDK) supports all our data capture devices with a single integration, making it easier for a developer to integrate our data capture capabilities into their application. With the installation of our data capture software, the developers' customers can 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 building 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.

We design our own products and are responsible for all associated test equipment. We use third party contract manufacturers to make many components. We perform final product assembly, test and packaging at, and distribute our products 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 solutions 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.

General

Total employee headcount at December 31, 2020 was 48 and at December 31, 2019 it 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 term loans 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 are 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 develop software for smaller retailers, an underserved market, using tablets as cash registers. Other mobile markets 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 use of mobile applications and the demand for barcode scanners.

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/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 time and provides a credit shield to us. Our largest distributors are Ingram Micro®, ScanSource® and Blue Star, and they support a worldwide network of on-line resellers including Shopify®, Amazon.com, and CDW®. We also offer products on our own online stores.

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.

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. We 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. In 2020, we launched a Contactless Membership Card Reader/Writer, S550 which enables us to expand our business into the emerging market for tap-and-go solutions that have traditionally been limited to payment solutions, such as Apple Pay, but can now be used for ticketing, access and identification applications. We believe we are an early entrant into this market and do not face significant head to head competition from alternative reader/writer devices.

Proprietary Technology and Intellectual Property

We have been granted 45 U.S. patents and 13 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. Our companion applications assist Apple iOS and Android users with the proper setup and use of our data capture products.

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, 2020 was 48 and 56 in 2019. Our employees are not represented by a union, and we consider our employee relationships to be good. As of December 31, 2020, we had 13 persons in sales, marketing and customer service, 12 persons in development engineering, 8 persons in finance and administration, and 15 persons in operations.

Item 1A. Risk Factors

Ownership of the Company's securities involves a number of risks and uncertainties. Potential investors should carefully consider the risks and uncertainties described below and the other information in this Annual Report on Form 10-K before deciding whether to invest in the Company's securities. The Company's business, financial condition or results of operations could be materially adversely affected by any of these risks. The risks described below are not the only ones facing the Company. Additional risks that are currently unknown to the Company or that the Company currently considers immaterial may also impair its business or adversely affect its financial condition or results of operations.

We could be materially adversely affected by the ongoing COVID-19 pandemic for which we are unable to predict the ultimate impact as the extent and duration of the COVID-19 pandemic is uncertain.

The ongoing COVID-19 pandemic has resulted in widespread impacts on the global economy, and the unfavorable impacts we may experience include:

- Reductions or volatility in demand for one or more of our products which may be caused by the temporary inability of consumers to purchase our products due to illness, business closures, or financial hardship; and shifts in demand away from one or more of our higher priced products to lower priced products. If prolonged, such impacts can further increase the difficulty in planning our operations, which may adversely impact our results, liquidity and financial condition.
- Inability to meet our customers' needs due to disruptions in our manufacturing operations.
- Failure of third parties on which we rely, including our suppliers, contract manufacturers, distributors, to meet their obligations to the Company, or significant disruptions in their ability to do so, which may be caused by their own financial or operational difficulties, which may adversely impact our operations, liquidity and financial condition.

Despite our efforts to manage and remedy these impacts to the Company, there is considerable uncertainty regarding the extent to which COVID-19 will spread and the extent and duration of measures to try to contain the virus. The ultimate impact of the COVID-19 pandemic depends on factors beyond our knowledge or control. As a result, we cannot predict the ultimate impact of the COVID-19 pandemic and whether it will have a material impact on our liquidity, financial position, results of operations and cash flows.

A deterioration in global economic conditions may have adverse impacts on our business and financial condition in ways that we currently cannot predict and may limit our ability to raise additional funds.

If global economic conditions deteriorate, it may have a negative impact on our business and our financial condition. We may face significant challenges if conditions in the financial markets worsen. The future developments and the impact of COVID-19 on our business are highly uncertain and cannot be predicted. If the overall economy is impacted for an extended period, our results of operations, financial position and cash flows may be materially adversely affected. In addition, a severe prolonged economic downturn could result in a variety of risks to the business, including weakening our ability to develop potential businesses and a decreased ability to raise additional capital when needed on acceptable terms, if at all.

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 revenue or control our expenses 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.

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.

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 remain in compliance with the covenants specified under the terms of the agreement. The agreement also contains 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.

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.

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.

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 2020 and 2019, Ingram Micro® and BlueStar together represented approximately 54% and 59%, 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 of our distributors 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.

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.

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

Because we distribute and fulfil resellers' orders for 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.

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.

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 and restricted stocks will continue to reduce our operating results such that we may find it necessary to change our business practices to attract and retain employees.

We have been using stock options and restricted stocks as a key component of our employee compensation packages. We believe that stock options and restricted stocks 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 and restricted stocks 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 or restricted stocks granted to employees or to grant to fewer employees. This could adversely affect our ability to retain existing employees and attract qualified candidates, and also could increase the cash compensation we would have to pay to them.

If we are unable to attract and retain highly skilled sales and marketing and product development personnel, our ability to develop 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 facilities or operations could be adversely affected by events outside out control, such as natural disasters or health epidemics.

Our corporate headquarters is located in a seismically active region in Northern California. If major disasters such as earthquakes occur, or our information system or communications network breaks down or operates improperly, our headquarters and production facilities may be seriously damaged, or we may have to stop or delay production and shipment of our products. In addition, we may be affected by the current health epidemic, COVID-19 if such an epidemic persists for an extended period of time. We may incur expenses or delays relating to such events outside of our control, which could have a material adverse impact on our business, operating results and financial condition.

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 19, 2021, we had 6,941,384 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 19, 2021, we had 1,281,887 shares of common stock subject to outstanding options under our stock option plans, and 351,986 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, 2020 through March 19, 2021, our common stock price fluctuated between a high of $35.00 and a low of $0.76. 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.

Item 3. Legal Proceedings

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

Item 4. Mine Safety Disclosures

Not applicable.

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."

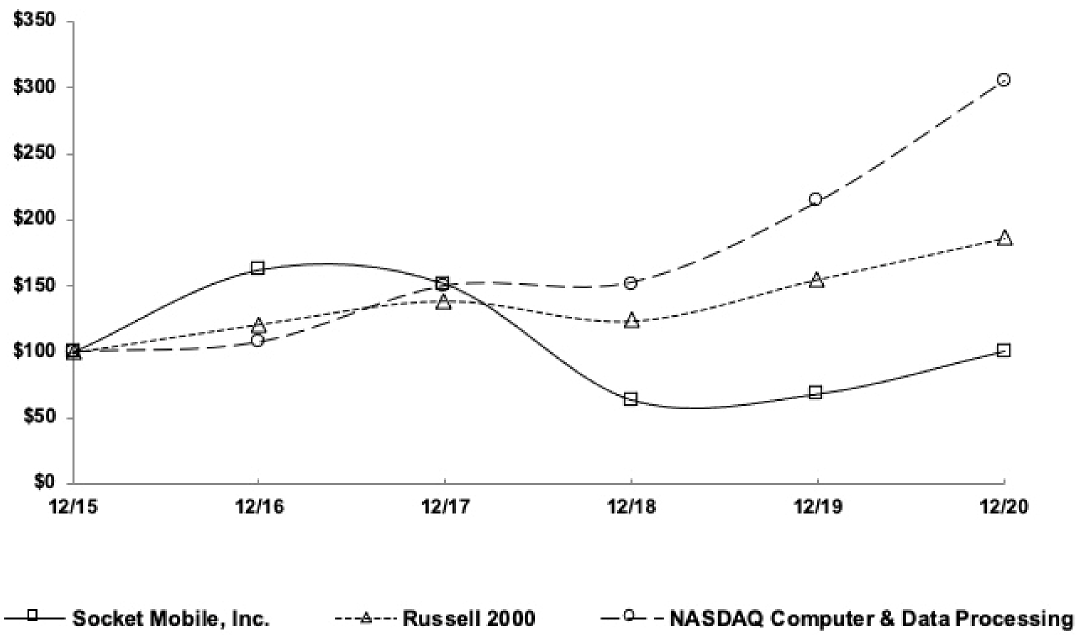
On March 19, 2021, the closing sales price for our common stock as reported on the NASDAQ Marketplace was $9.45. We had approximately 15,000 beneficial stockholders of record as of March 19, 2021. We have not paid dividends on our common stock, and we currently intend to retain future earnings for use 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.

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, 2015 through December 31, 2020 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.

COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN*
Among Socket Mobile, Inc., the Russell 2000 Index
and the NASDAQ Computer & Data Processing Index



*$100 invested on 12/31/15 in stock or index, including reinvestment of dividends.
Fiscal year ending December 31.

Item 6. Selected Financial Data

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."

	Years Ended December 31,				
(Amounts in thousands except per share)	**2016**	**2017**	**2018**	**2019**	**2020**
Income Statement Data:					
Revenues	$ 20,788	$ 21,286	$ 16,454	$ 19,253	$ 15,700
Gross profit	$ 10,434	$ 11,390	$ 8,456	$ 10,101	$ 8,335
Operating expenses	$ 7,871	$ 8,972	$ 9,042	$ 9,494	$ 12,686*
Net income (loss) before income taxes	$ 2,432	$ 2,338	$ (715)	$ 506	$ (3,330)
Income tax benefit (expense)	$ 9,715	$ (3,769)	$ 144	$ (219)	$ 51
Net income (loss)	$ 12,147	$ (1,431)	$ (571)	$ 287	$ (3,279)
Net income (loss) per share:					
Basic	$ 2.10	$ (0.23)	$ (0.09)	$ 0.05	$ (0.51)
Diluted	$ 1.80	$ (0.23)	$ (0.09)	$ 0.05	$ (0.51)
Weighted average shares outstanding:					
Basic	5,793	6,293	6,095	5,984	6,036
Diluted	6,820	6,293	6,095	6,208	6,036

	At December 31,				
	2016	**2017**	**2018**	**2019**	**2020**
Balance Sheet Data:					
Cash and cash equivalents	$ 1,319	$ 3,380	$ 1,085	$ 959	$ 2,122
Total assets	$ 21,587	$ 19,854	$ 18,597	$ 19,458	$ 15,059
Bank line of credit	$ —	$ —	$ 1,317	$ 1,413	$ —
Term loan	$ —	$ —	$ 833	$ 333	$ —
Related party convertible notes payable	$ 753	$ —	$ —	$ —	$ 1,272
Convertible notes payable	$ —	$ —	$ —	$ —	$ 170
Capital leases and deferred rent - long term portion	$ 327	$ 271	$ —	$ —	$ —
Operating lease	$ —	$ —	$ 1,511	$ 1,134	$ 741
Total stockholders' equity	$ 16,170	$ 17,230	$ 12,405	$ 13,234	$ 10,623

* Included a $4.4 million goodwill impairment charge.

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

Liquidity and Capital Resources

In light of the uncertainty in the economy during the COVID-19 global pandemic, the Company undertook several actions to strengthen its financial positions and balance sheet including issuing debt, reducing operating expenses, and prioritizing capital expenditures. While the Company has the ability to continue to take more of these actions, if needed, it also has the ability to borrow under its existing $2.5 million revolving credit facility that matures on January 31, 2023. At December 31, 2020, the Company had no outstanding drawings against the revolving credit facility and had cash of approximately $2.1 million. Overall, the Company believes that the available cash, cash flows generated from future operating activities and borrowing capacity will provide the Company with continued financial viability and adequate liquidity to fund its operations and support its growth. The Company’s cash requirements are subject to change as the business conditions change. As the COVID-19 global pandemic is complex and rapidly evolving, the Company's plans may change. Although the Company saw positive momentum and improved cash generated from operating activities over the second half of 2020, the Company is still unable to predict the duration and severity of this pandemic, which could have a material adverse impact on the Company’s future sales, results of operations, financial position and cash flows, particularly if the global pandemic continues to exist or worsens for a prolonged period of time, or if plans to administer vaccines are delayed. Any such material adverse impacts could result in the Company's inability to satisfy credit facility covenants and could limit the ability to make future borrowings under credit lines.

Critical Accounting Policies

Our significant accounting policies are described in Note 1 to our financial statements for the years ended December 31, 2020 and 2019. 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.

Use of Estimates

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

Earnings (Loss) Per Share

The basic computation of loss per share is based on the weighted average number of shares outstanding during the period presented in accordance with ASC 260, "Earnings Per Share". The computation of diluted earnings per common share is based on the weighted average number of shares outstanding during the period plus the common stock equivalents which would arise from the exercise of stock options and warrants outstanding using the treasury stock method and the average market price per share during the period. Common stock equivalents are not included in the diluted earnings per share calculation when their effect is antidilutive.

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. At December 31, 2020, the deferred revenue and deferred cost on shipments to distributors were approximately $451,000 and $170,000, respectively, compared to approximately $611,000 and $234,000, respectively, at December 31, 2019.

We generally recognize revenues on sales to customers other than distributors upon shipment provided that contract with the 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.

Stock-Based Compensation

We account for share-based awards to employees, including grants of employee stock options and restricted stocks, 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

In January 2017, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU) 2017-04, Intangibles – Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment. The amendments in this update eliminate Step 2 from the goodwill impairment test. The annual, or interim, goodwill impairment test is performed by comparing the fair value of a reporting unit with its carrying amount. An impairment charge should be recognized for the amount by which the carrying amount exceeds the reporting unit's fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. In addition, income tax effects from any tax-deductible goodwill on the carrying amount of the reporting unit should be considered when measuring the goodwill impairment loss, if applicable.

The Company tests its goodwill 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.

As of September 30, 2020, the Company experienced a triggering event due to a drop in its stock price, which had been negatively impacted by the economic downturn caused by COVID-19 pandemic and performed a quantitative analysis for potential impairment of its goodwill. The Company's fair value measurement approach combines the income approach, which estimates fair value based upon projections of future revenues, expenses, and cash flows discounted to its present value, and market valuation technique. The income valuation technique uses estimates and assumptions including the projected future cash flows, discount rate reflecting the risk attributable to the Company, perpetual growth rate, and projected future economic and market conditions. Under the market approach, the principal assumption included an estimate for a control premium. As a result of the analysis, the Company determined the carrying value exceeded its fair value and recorded a non-cash goodwill impairment charge of $4,427,000 at September 30, 2020. No income tax benefit related to this goodwill impairment charge is recorded at September 30, 2020.

Results of Operations for Years Ended December 31, 2020 and 2019

<u>*Revenues*</u>

Revenue for 2020 was $15.7 million, a decrease of 19% compared to revenue of $19.3 million for 2019. Although we saw positive momentum, which included sales growth during the second half of the year, the negative effects from the COVID-19 global pandemic in the first half of 2020 were material to the Company's operating results. Revenue of Companion SocketScan products represented 65% of our revenue and decreased 9% compared to 2019. Our Companion DuraScan products, which are weatherproof and ruggedized and primarily targeted at commercial, industrial, warehousing and outdoor application and their associated customers, represented about 17% of revenue and decreased 28% compared to 2019. We upgraded all our DuraScan products to support themed field-replaceable battery, increased the durability and added healthcare specific options. Our Attachable scanners, DuraSled and 800 Series, made up of approximately 11% of our 2020 revenue and decreased approximately 29% compared to 2019. In 2020, we expanded our support for Apple devices, and now DuraSled supports iPhone 6, 7, 8, iPhone X series, SE 2020, and the entire iPhone 11 and 12 series.

Gross Margins

Annual gross margins on revenue increased slightly to 53.1% in 2020 from 52.5% in 2019. The improvement in margins was primarily attributed to the reduction in manufacturing overhead, a cost-saving initiative implemented during the year.

Research and Development Expense

Research and development expenses in 2020 were approximately $3.1 million, a decrease of 19% compared to expenses of approximately $3.9 million one year ago. Decreases in the level of research and development expense was primarily due to a reduction in employee compensation, a short-term cost saving initiative implemented by the Company to cope with COVID-19 impacts.

Research and Development expenses as a percentage of revenue were 20% in 2020 and in 2019. 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 expenses in 2020 were approximately $2.8 million, a decrease of approximately 6% compared to $3.0 million in 2019. The decrease was primarily due to a reduction in employee compensation, a short-term cost saving initiative implemented by the Company to cope with COVID-19 impacts.

General and Administrative Expense

General and administrative expense in 2020 was $2.3 million, a decrease of 12% compared to $2.6 million in 2019. The decrease was primarily due to a reduction in employee compensation, a short-term cost saving initiative implemented by the Company to cope with COVID-19 impacts.

Interest Expense, net of Interest Income

Interest expense and other, net of interest income and other, was approximately $97,000 in 2020 compared to approximately $101,000 in 2019. Interest expense in 2020 were primarily related to the subordinated convertible notes to related parties and interest on bank term loan and credit line facilities. Interest expense in 2019 was primarily related to interest on bank term loan and credit line facilities (see "NOTE 2 — Bank Financing Arrangements" for more information). Average total outstanding balance of bank term loan and credit lines during 2020 was $0.48 million, compared to $1.49 million during 2019. Additionally, interest expense in each of the comparable periods includes interest on equipment lease financing obligations.

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

In 2020, the differences between the financial loss and taxable income included the goodwill impairment charge of $4.47 million and stock-based compensation of $0.51 million, partially offset by $1.06 million for PPP loan forgiveness, which arrived a Federal taxable income of $0.29 million. The State taxable income, however, was $1.3 million due to the expenses on which the PPP loan proceeds were spent on are non-deductible in California. No deferred tax expense or benefit was recorded in 2020. In 2019, our stock-based compensation of $519,891 is the primary permanent difference between financial and tax income, which increased our taxable income and the effective tax rate. We recorded a deferred tax expense of $274,000 in 2019 with the expectation of a return to profitable operating results and full utilization of our net operating loss carryforwards. Our net operating loss carryforwards do not begin expiring until the end of 2023 if not used. Our deferred tax asset, primarily representing future income tax savings from the application of net operating loss carry forwards, was valued at $5,507,000 at December 31, 2020 and 2019.

Quarterly Results of Operations

The following table sets forth summary quarterly statements of operations data for each of the quarters in 2019 and 2020. 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, 2019	Jun 30, 2019	Sep 30, 2019	Dec 31, 2019	Mar 31, 2020	Jun 30, 2020	Sep 30, 2020	Dec 31, 2020
Summary Quarterly Data:								
Revenue	$ 4,629	$ 5,060	$ 4,980	$ 4,584	$ 4,221	$ 2,715	$ 4,109	$ 4,655
Cost of revenue	2,229	2,430	2,344	2,149	1,997	1,354	1,835	2,179
Gross profit	2,400	2,630	2,636	2,435	2,224	1,361	2,274	2,476
Operating expenses:								
Research and development	894	998	1,015	987	881	859	681	719
Sales and marketing	756	771	785	703	768	722	658	700
General and administrative	703	643	707	533	666	590	486	529
Goodwill impairment charges	—	—	—	—	—	—	4,427	—
Total operating expenses	2,353	2,412	2,507	2,223	2,315	2,171	6,252	1,948
Extinguishment of debt income and other income	—	—	—	—	—	50	—	1,049
Interest income (expense) and other, net	(28)	(29)	(25)	(17)	1	(8)	(24)	(46)
Income tax (expense) benefit	(7)	(69)	(10)	(134)	—	—	(1)	52
Net income (loss)	$ 12	$ 120	$ 94	$ 61	$ (90)	$ (768)	$ (4,003)	$ 1,583
Basic net income (loss) per share	$ 0.00	$ 0.02	$ 0.02	$ 0.01	$ (0.01)	$ (0.13)	$ (0.62)	$ 0.24
Fully diluted net income (loss) per share	$ 0.00	$ 0.02	$ 0.01	$ 0.01	$ (0.01)	$ (0.13)	$ (0.62)	$ 0.22

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 2020 was $0.80 million, compared to $0.87 million in 2019. We calculate net cash provided by operating activities by reducing our net loss ($3.3 million in 2020) or increasing our net income ($0.3 million in 2019) by the expenses, such as our Goodwill impairment charges in 2020, stock-based compensation expense, depreciation, amortization of intangible assets, deferred tax expense, that did not require the use of cash, and by increasing our net loss by the PPP loan forgiveness in 2020. The net amounts were $4.48 million and $1.26 million in 2020 and 2019, respectively. 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 2020, changes in operating assets and liabilities resulted in a net use of cash of $0.4 million which was primarily due to a decrease of accounts payable and accrued expenses as well as accrued payroll and related expenses, partially offset by decrease in accounts receivable due to reduced levels of shipments in the second half of Q4 2020 compared to Q4 2019. In 2019, changes in operating assets and liabilities resulted in a net use of cash of $0.67 million which was primarily due to the buildup of inventories to support rising sales and to secure long lead time components, and due to increase in accounts receivables driven by higher levels of shipments in the second half of Q4 2019 compared.

In 2020 and 2019, we used $0.5 million and $0.6 million, respectively, in investing activities related to expenditures on production tooling for new products and purchases of computer software and hardware.

Net cash provided by financing activities was $0.89 million in 2020, compared $0.40 million of cash used in financing activities during 2019. Financing activities in 2020 consisted of the receipt of the PPP loan & EIDL loan for $1.21 million and proceeds of $1.43 million from convertible notes payable, partially offset by net $1.41 million paydown of our bank line of credit and a $0.33 million paydown of the bank term loan. Financing activities in 2019 consisted primarily a $0.5 million paydown of the bank term loan.

Our contractual obligations at December 31, 2020 are outlined in the table shown below:

	Payments Due by Period				
Contractual Obligations	Total	1 year	2 to 3 years	4 to 5 years	More than 5 years
Unconditional purchase obligations with contract manufacturers	$ 6,256,000	$ 6,256,000	$ —	$ —	$ —
Operating leases	779,000	516,000	263,000	—	—
Total contractual obligations	$ 7,035,000	$ 6,772,000	$ 263,000	$ —	$ —

Off-Balance Sheet Arrangements

As of December 31, 2020, 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.

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.

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, 2020, an adverse change of 10% in exchange rates would have resulted in a decrease in our net income for the fourth quarter 2020 of approximately $35,500 if left unprotected. For the fourth quarter of 2020, 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 gain of $10,700. 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."

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, 2020 and 2019, the related statements of operations, stockholders' equity, and cash flows for each of the years in the two-year period ended December 31, 2020 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, 2020 and 2019, and the results of its operations and its cash flows for each of the years in the two-year period ended December 31, 2020, 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 audit, 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 provide a reasonable basis for our opinion.

Critical Audit Matters

The critical audit matters communicated below are matters arising from the current-period audit of the financial statements that were communicated or required to be communicated to the audit committee and that: (1) relate to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing a separate audit opinion on the critical audit matters or on the accounts or disclosures to which they relate.

Deferred Tax Asset Valuation Allowance Assessment

Critical Audit Matter Description

As described in notes 1 and 6 to the consolidated financial statements, the Company uses the asset and liability method to account for income taxes. Deferred tax assets and liabilities 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 Company utilizes an undiscounted cash flow model to help determine the expected usage of the deferred tax asset and related need for a valuation allowance.

We identified the evaluation of the deferred tax asset valuation allowance assessment as a critical audit matter because of the significant estimates and assumptions management used in the undiscounted cash flow analysis. Performing audit procedures to evaluate the reasonableness of these estimates and assumptions required a high degree of auditor judgment and an increased extent of effort. In addition, the audit effort involved the use of professionals with specialized skill and knowledge.

How the Critical Audit Matter Was Addressed in the Audit

Our audit procedures consisted of the following:

- Testing management's process for developing the accounting estimate for the allowance.
- Evaluating the appropriateness of the undiscounted cash flow model used by management.
- Testing the completeness and accuracy of underlying data used in the undiscounted cash flow model.
- Evaluating the significant assumptions used by management related to revenues, gross margin, other operating expenses, and income taxes to discern whether they are reasonable considering (i) the current and past performance of the entity; (ii) the consistency with external market and industry data; and (iii) whether these assumptions were consistent with evidence obtained in other areas of the audit.
- Professionals with specialized skill and knowledge were utilized by the Firm to assist in the evaluation of the undiscounted cash flow model.

Goodwill Impairment Assessment

Critical Audit Matter Description

As described in note 1 to the financial statements, the Company tests goodwill for impairment annually at the reporting unit level, or more frequently, if events or circumstances indicate it is more likely than not that the fair value of a reporting unit is less than the carrying amount. Reporting units are tested for impairment by comparing the estimated fair value of each reporting unit with the carrying amount. If the carrying amount of a reporting unit exceeds its estimated fair value, an impairment loss is recorded based on the difference between the fair value and carrying amount, not to exceed the associated carrying amount of goodwill. The Company's annual impairment test occurred on September 30, 2020. The Company utilized a third-party valuations specialist to assist in the preparation of the goodwill impairment test. The Company primarily used a discounted cash flow income method and a guideline public company market method to estimate the fair value of the reporting unit.

We identified the evaluation of the impairment analysis for goodwill as a critical audit matter because of the significant estimates and assumptions management used in the discounted cash flow analysis performed by management to determine fair value of the reporting unit. Performing audit procedures to evaluate the reasonableness of these estimates and assumptions required a high degree of auditor judgment and an increased extent of effort. In addition, the audit effort involved the use of professionals with specialized skill and knowledge.

How the Critical Audit Matter Was Addressed in the Audit

Our audit procedures consisted of the following:

- Testing management's process for developing the fair value of the reporting unit.
- Evaluating the appropriateness of the discounted cash flow model utilized by the Company.
- Testing the completeness and accuracy of underlying data used in the fair value estimate.
- Evaluating the significant assumptions provided by management or developed by the third-party valuation specialist related to revenues, gross margin, other operating expenses, income taxes, long term growth rate, and discount rate to discern whether they are reasonable considering (i) the current and past performance of the entity; (ii) the consistency with external market and industry data; and (iii) whether these assumptions were consistent with evidence obtained in other areas of the audit.
- Evaluating: (1) the reasonableness of the comparable companies used; (2) the appropriateness of the market multiple used (enterprise value / revenue); and (3) the reasonableness of the market multiple applied
- Assessing the reasonableness of the correlation of the fair value of the reporting unit to market capitalization.
- In addition, professionals with specialized skill and knowledge were utilized by the Firm to assist in the evaluation of the discounted cash flow model and discount rate assumptions.

/s/ Sadler, Gibb & Associates, LLC

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

Draper, UT
March 23, 2021

SOCKET MOBILE, INC.
BALANCE SHEETS

	December 31, 2020	December 31, 2019
ASSETS		
Current assets:		
Cash and cash equivalents	$ 2,121,763	$ 958,860
Accounts receivable, net	2,112,514	2,837,006
Inventories, net	3,195,842	3,178,908
Prepaid expenses and other current assets	335,386	312,127
Deferred cost on shipments to distributors	170,016	233,823
Total current assets	7,935,521	7,520,724
Property and equipment:		
Machinery and office equipment	2,286,268	2,195,405
Computer equipment	1,412,030	1,336,445
	3,698,298	3,531,850
Accumulated depreciation	(2,850,635)	(2,667,340)
Property and equipment, net	847,663	864,510
Goodwill	—	4,427,000
Other long-term assets	159,039	202,611
Deferred tax assets	5,506,934	5,506,934
Operating lease right-of-use asset	609,331	936,708
Total assets	$ 15,058,488	$ 19,458,487
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	$ 1,372,701	$ 2,084,848
Accrued payroll and related expenses	375,511	566,350
Deferred revenue on shipments to distributors	450,591	611,029
Short term portion of deferred service revenue	25,522	32,900
Bank lines of credit	—	1,412,449
Notes payable – current portion	—	333,333
Subordinated convertible notes payable, net of discount	169,619	—
Subordinated convertible notes payable, net of discount-related party	1,272,138	—
Operating lease – current portion	483,254	419,288
Finance lease – current portion	—	8,291
Total current liabilities	4,149,336	5,468,488
Long term portion of operating lease	258,097	715,062
Long-term portion of deferred service revenue	28,794	40,711
Total liabilities	4,436,227	6,224,261
Commitments and contingencies	—	—
Stockholders' equity:		
Common stock, $0.001 par value: Authorized – 20,000,000 shares, Issued and outstanding – 6,102,630 shares at December 31, 2020 and 6,017,674 shares at December 31, 2019	6,103	6,018
Additional paid-in capital	61,733,522	61,066,971
Accumulated deficit	(51,117,364)	(47,838,763)
Total stockholders' equity	10,622,261	13,234,226
Total liabilities and stockholders' equity	$ 15,058,488	$ 19,458,487

See accompanying notes.

SOCKET MOBILE, INC.
STATEMENTS OF OPERATIONS

	Years Ended December 31, 2020	Years Ended December 31, 2019
Revenues	$ 15,700,036	$ 19,253,105
Cost of revenues	7,365,135	9,152,462
Gross profit	8,334,901	10,100,643
Operating expenses:		
Research and development	3,140,104	3,893,563
Sales and marketing	2,848,549	3,015,431
General and administrative	2,269,819	2,585,279
Goodwill impairment charges	4,427,000	—
Total operating expenses	12,685,472	9,494,273
Operating income (loss)	(4,350,571)	606,370
Interest expense, net	(97,488)	(100,656)
Other income	60,000	—
Extinguishment of debt	1,058,700	—
Net income (loss) before income taxes	(3,329,359)	505,714
Income tax benefit (expense)	50,758	(219,128)
Net income (loss)	$ (3,278,601)	$ 286,586
Net income (loss) per share:		
Basic	$ (0.51)	$ 0.05
Fully diluted	$ (0.51)	$ 0.05
Weighted average shares outstanding:		
Basic	6,036,310	5,984,381
Fully diluted	6,036,310	6,207,731

See accompanying notes.

SOCKET MOBILE, INC.
STATEMENTS OF STOCKHOLDERS' EQUITY

	Common Stock		Additional Paid-In	Accumulated	Total Stockholders'
	Shares	Amount	Capital	Deficit	Equity
Balance at December 31, 2018	5,883,109	5,883	60,523,901	(48,125,349)	12,404,435
Exercise of stock options	24,494	25	23,289	—	23,314
Stock-based compensation	—	—	519,891	—	519,891
Restricted stock grants	110,071	110	(110)	—	—
Net income	—	—	—	286,586	285,586
Balance at December 31, 2019	6,017,674	$ 6,018	$ 61,066,971	$ (47,838,763)	$ 13,234,226
Repurchase of common stock	(5,538)	(5)	(8,475)	—	(8,480)
Cancellation of restricted stock	(9,745)	(10)	10	—	—
Exercise of stock options	100,239	100	167,965	—	168,065
Stock-based compensation	—	—	507,051	—	507,051
Net loss	—	—	—	(3,278,601)	(3,278,601)
Balance at December 31, 2020	6,102,630	$ 6,103	$ 61,733,522	$ (51,117,364)	$ 10,622,261

See accompanying notes.

SOCKET MOBILE, INC.
STATEMENTS OF CASH FLOWS

	Years Ended December 31,	
	2020	2019
Operating activities		
Net income (loss)	$(3,278,601)	$ 286,586
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Stock-based compensation	507,051	519,891
Depreciation and amortization	596,900	462,930
Deferred tax expenses (benefits)	—	274,004
Forgiveness of PPP loan	(1,058,700)	—
Amortization of debt discount	11,030	—
Goodwill impairment charges	4,427,000	—
Changes in operating assets and liabilities:		
Accounts receivable	724,492	(469,829)
Inventories	(16,934)	(906,580)
Prepaid expenses and other current assets	(23,259)	(4,295)
Other long-term assets	—	(1,320)
Accounts payable and accrued expenses	(712,147)	551,392
Accrued payroll and related expenses	(190,839)	54,043
Net deferred revenue on shipments to distributors	(96,631)	145,256
Deferred service revenue	(19,295)	8,676
Net change in operating lease	(65,622)	(47,220)
Net cash provided by operating activities	804,445	873,534
Investing activities		
Purchase of equipment	(536,481)	(595,154)
Capitalized software costs	—	(7,800)
Net cash used in investing activities	(536,481)	(602,954)
Financing activities		
Payments on operating leases	(8,291)	(15,696)
Common stock repurchase and related expenses	(8,480)	—
Proceeds from borrowings under bank line of credit agreement	5,630,000	17,423,000
Repayments of borrowings under bank line of credit agreement	(7,042,449)	(17,327,329)
Repayments of bank term loan	(333,333)	(500,000)
Proceeds from notes payable	1,208,700	—
Repayments of notes payable	(150,000)	—
Proceeds from subordinated convertible notes payable, net of discount	168,321	—
Proceeds from subordinated convertible notes payable, net of discount-related party	1,262,406	—
Proceeds received from stock options exercised	168,065	23,314
Net cash provided by (used in) financing activities	894,939	(396,711)
Net increase (decrease) in cash and cash equivalents	1,162,903	(126,131)
Cash and cash equivalents at beginning of year	958,860	1,084,991
Cash and cash equivalents at end of year	$ 2,121,763	$ 958,860
Supplemental cash flow information		
Cash paid for interest	$ 94,417	$ 100,048
Cash paid for income taxes	$ 4,918	$ 800

See accompanying notes.

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 manufacturer 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 our 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, 2020 and 2019, 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.

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.

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 2020, 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 gain of $10,700 compared to a net loss of $2,300 in 2019.

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, 2020 and 2019:

Year	Balance at Beginning of Year	Charged to Costs and Expenses	Amounts Written Off	Balance at End of Year
2020	$ 40,651	$ —	$ —	$ 40,651
2019	$ 89,058	$ —	$ (48,407)	$ 40,651

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, 2020 and 2019 consisted of the following:

	December 31, 2020	December 31, 2019
Raw materials and sub-assemblies	$ 3,642,377	$ 3,767,588
Finished goods	281,104	241,681
Inventory reserves	(727,639)	(830,361)
Inventory, net	$ 3,195,842	$ 3,178,908

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, 2020 and 2019 consisted of the following:

	December 31,	
	2020	2019
Prepaid insurance	$ 82,296	$ 47,884
Product certification costs	75,592	83,749
Prepaid inventory purchases	93,859	77,606
Prepaid maintenance contracts and other prepaid expenses	83,639	102,888
Prepaid expenses and other current assets	$ 335,386	$ 312,127

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 finance 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, 2020 and 2019, was $553,328 and $419,856, respectively.

Goodwill

In January 2017, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU) 2017-04, Intangibles – Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment. The amendments in this update eliminate Step 2 from the goodwill impairment test. The annual, or interim, goodwill impairment test is performed by comparing the fair value of a reporting unit with its carrying amount. An impairment charge should be recognized for the amount by which the carrying amount exceeds the reporting unit's fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. In addition, income tax effects from any tax-deductible goodwill on the carrying amount of the reporting unit should be considered when measuring the goodwill impairment loss, if applicable.

The Company tests its goodwill 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.

As of September 30, 2020, the Company experienced a triggering event due to a drop in its stock price, which had been negatively impacted by the economic downturn caused by COVID-19 pandemic and performed a quantitative analysis for potential impairment of its goodwill. The Company's fair value measurement approach combines the income approach, which estimates fair value based upon projections of future revenues, expenses, and cash flows discounted to its present value, and market valuation technique. The income valuation technique uses estimates and assumptions including the projected future cash flows, discount rate reflecting the risk attributable to the Company, perpetual growth rate, and projected future economic and market conditions. Under the market approach, the principal assumption included an estimate for a control premium. As a result of the analysis, the Company determined the carrying value exceeded its fair value and recorded a non-cash goodwill impairment charge of $4,427,000 at September 30, 2020. No impairment of goodwill was recorded in the year ended December 31, 2019.

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, 2020 and December 31, 2019 were as follows:

	December 31,	
	2020	2019
Ingram Micro Inc.	34%	45%
Bluestar, Inc.	29%	32%
ScanSource, Inc.	13%	*
Bluestar Europe DistributionBV	11%	*

* Customer accounted for less than 10% of the Company's 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, 2020, 15% of the Company's accounts payable balances were concentrated with top two suppliers. For the years ended December 31, 2020 and 2019, top three suppliers accounted for 64% and 55%, respectively, of inventory purchases.

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. In 2020, distribution revenue was approximately $13.7 million, compared to $17.2 million in 2019. On December 31, 2020, the deferred revenue and deferred cost on shipments to distributors were approximately $451,000 and $170,000 respectively, compared to approximately $611,000 and $234,000, respectively, at December 31, 2019.

The Company also earns revenue from its SocketCare services program which provides for extended warranty and accidental breakage coverage for selected products. For the year ended December 31, 2020 and 2019, the SocketCare revenue was $35,000 and $42,000, respectively. 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 SocketCare service revenue is classified as deferred service revenue and presented on the Company's balance sheet in its short- and long-term components. At December 31, 2020, the balance of unrecognized SocketCare service revenue was $54,000.

Cost of Sales and Gross Margins

Cost of sales primarily consists of the costs to manufacture our products, including the costs of materials, contract manufacturing, shipping costs, personnel and related expenses including stock-based compensation, equipment and facility expenses, warranty costs and inventory excess and obsolete provisions. The factors that impact our gross margins are the cost of materials, the mix of products and the extent to which we are able to efficiently utilize our manufacturing capacity.

Leases

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842), which requires a lessee to recognize a liability representing future lease payments and a right-of-use asset representing its right to use the underlying asset for the lease term. For operating leases, a lessee is required to recognize at inception a right-of-use asset and a lease liability equal to the net present value of the lease payments, with lease expense recognized over the lease term on a straight-line basis. For leases with a term of twelve months or less, ASU 2016-02 allows a reporting entity to make an accounting policy election to not recognize a right-of-use asset and a lease liability, and to recognize lease expense on a straight-line basis. The Company adopted ASU 2016-02 effective January 1, 2019. At December 31, 2020, the balances of right-of-use assets and liabilities for the operating lease are approximately $0.60 million and $0.74 million, respectively, compared to approximately $0.93 million and $1.13 million, respectively, at December 31, 2019.

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, 2020 and 2019:

Year	Balance at Beginning of Year	Additional Warranty Reserves	Amounts Charged to Reserves	Balance at End of Year
2020	$ 78,871	$ 73,734	$ (73,734)	$ 78,871
2019	$ 78,871	$ 89,702	$ (89,702)	$ 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 2020 and 2019 was $43,572 and $43,074 respectively. The amount of unamortized capitalized software costs as of December 31, 2020 and 2019 was approximately $94,000 and $138,000, respectively.

Advertising Costs

Advertising costs are charged to sales and marketing as incurred. The Company incurred $19,863 and $17,539, in advertising costs during 2020 and 2019, 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 Income (Loss) Per Share

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

	Years Ended December 31,	
	2020	2019
Numerator:		
Net income (loss)	$(3,278,601)	$ 286,586
Net income (loss) allocated to restricted stock award	188,375	—
Adjusted net income (loss) for basic earnings per share	$(3,090,226)	$ 286,586
Denominator:		
Weighted average shares outstanding used in computing net income (loss) per share:		
Basic	6,036,310	5,984,381
Fully diluted	6,036,310	6,207,731
Net income (loss) per share applicable to common stockholders:		
Basic	$ (0.51)	$ 0.05
Fully diluted	$ (0.51)	$ 0.05

In 2020, the shares used in computing diluted net loss per share do not include 2,437,006 dilutive stock options and restricted stocks, nor 1,047,945 dilutive conversion shares as the effect is anti-dilutive given the Company's loss. In 2019, 2,169,436 stock options were excluded from the calculation of the diluted earnings per share because their effect would be anti-dilutive.

Stock-Based Compensation Expense

The Company has incentive plans that reward employees with stock options and restricted stocks. 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, 2020 and 2019 are as follows:

	Years Ended December 31,	
Revenues: (in thousands)	2020	2019
United States	$ 12,137	$ 14,558
Europe	2,209	2,431
Asia and rest of world	1,354	2,264
	$ 15,700	$ 19,253

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, 2020 and 2019 were as follows:

	Years Ended December 31,	
	2020	2019
Ingram Micro Inc.	31%	38%
BlueStar, Inc.	23%	21%

Recently Issued Financial Accounting Standards

In August 2020, the FASB issued ASU 2020-06, "Debt – Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging – Contracts in Entity's Own Equity (Subtopic 815 – 40)" ("ASU 2020-06"). ASU 2020-06 simplifies the accounting for certain financial instruments with characteristics of liabilities and equity, including convertible instruments and contracts on an entity's own equity. The ASU is part of the FASB's simplification initiative, which aims to reduce unnecessary complexity in U.S. GAAP. The ASU's amendments are effective for fiscal years beginning after December 15, 2023, and interim periods within those fiscal years. The Company is currently evaluating the impact ASU 2020-06 will have on its financial statements.

In October 2020, the FASB issued ASU 2020-08, Codification Improvements to Subtopic 310-20, Receivable-Nonrefundable fees and other costs. The amendments in that Update shortened the amortization period for certain purchased callable debt securities held at a premium by requiring that entities amortize the premium associated with those callable debt securities within the scope of paragraph 310-20-25-33 to the earliest call date. The amendments affect the guidance in Accounting Standards Update No. 2017-08, receivables—Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities. The amendments is this update become effective for fiscal years, and interim periods within those fiscal years beginning after December 15, 2020. Early adoption is not permitted. The Company is currently evaluating the impact ASU 2020-08 will have on its financial statements.

In October 2020, the FASB issued ASU 2020-10, Codification Improvements. This update ensures all disclosure guidance that requires or provides an option for an entity to provide notes to the financial statements is included in the Disclosure Section (Section 50) of the Codification. This update also provides various codification improvements in which the original guidance was unclear. This update becomes effective for annual periods beginning after December 15, 2020 and early adoption is permitted for any annual or interim period for which financial statements have not been issued. The Company does not expect the adoption of this new standard will have a material impact on its financial condition or results of operations.

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 all other recently issued accounting standards are not expected to have a material impact on the Company's financial position or results of operations upon adoption.

NOTE 2 — Bank Financing Arrangements

The Company entered the first Financing Agreement with Western Alliance Bank, an Arizona corporation in 2014, and the agreement has been amended and extended through the years.

Sixth Financing Agreement

On June 14, 2019, the Company entered into the Sixth Amended and Restated Business Financing Agreement with the Bank. The Bank waived the default which occurred for the month ended April 30, 2019 when the Company's Asset Coverage Ratio was 1.13 to 1.00, instead of the required 1.25 to 1.00. The Bank also increased the Eligible Receivable threshold for Ingram Micro from 50% to 60% of domestic receivables, and from 35% to 50% of all receivables (including both domestic and foreign receivables).

Seventh Financing Agreement

On January 8, 2020, the Company entered into the Seventh Amended and Restated Business Financing Agreement with the Bank which extends the maturity date of the Company's revolving line of credit to January 31, 2022.

Eighth Financing Agreement

On August 28, 2020, the Company entered into the Eighth Amended and Restated Business Financing Agreement with the Bank. The Bank consented to the issuance of subordinated debt in the amount less than $2,000,000, at the annual interest rate less than 10% and maturing no sooner than 3 years.

During the twelve months ended December 31, 2020, total repayments of the term loan was $333,333. Total amount borrowed under the domestic and international lines was $5,630,000 and the total repayments was $7,042,449. At December 31, 2020, the available borrowing capacity was approximately $1,487,000. There were no amounts outstanding under the term loan and bank credit facilities on December 31, 2020.

Total interest expenses on the term loan and on the amounts drawn under the Company's bank credit lines for 2020 were $6,152 and $20,461, respectively. Total interest expenses on the term loan and on the amounts drawn under the Company's bank credit lines for 2019 were $44,541 and $55,571, respectively. Accrued interest payable related to the amounts outstanding under the term loan and the bank credit facilities at December 31, 2020 and December 31, 2019 was zero and $14,466, respectively.

NOTE 3 — Term loans

PPP Loan

On April 20, 2020, the Company received $1,058,700 of loan proceeds under the Paycheck Protection Program ("PPP") which was established as part of the Coronavirus Aid, Relief, and Economic Act ("CARES Act") and is administered by the U.S. Small Business Administration ("SBA"). The application for these funds requires the Company to, in good faith, certify that the current economic uncertainty made the loan request necessary to support the ongoing operations of the Company. This certification further requires the Company to take into account the current business activity and the ability to access other sources of liquidity sufficient to support ongoing operations in a manner that is not significantly detrimental to the business. The receipt of these funds, and the forgiveness of the loan, is dependent on the Company having initially qualified for the loan and qualifying for the forgiveness of such loan based on its future adherence to the forgiveness criteria. The loan has a fixed interest rate of 1% and matures in two years. Payments of principal and interest are deferred for a period of six months from the date on which the PPP loan is distributed. The PPP loan was primarily used to cover payroll costs, rent, and utility costs during the covered period. On December 10, 2020, the Company received a notice from Western Alliance Bank that the full principal amount of the PPP loan and the accrued interest were forgiven.

Economic Injury Disaster Loan (EIDL)

On June 26, 2020, the Company executed the standard loan documents required for a securing loan of $150,000 offered by the U.S. Small Business Administration under its Economic Injury Disaster Loan ("EIDL") assistance program in light of the impact of the COVID-19 pandemic on the Company's business. Proceeds of the EIDL were used for working capital purposes. Interest accrues at the rate of 3.75% per annum and accrues from the date of inception. Installment payments, including principal and interest, are due monthly beginning June 26, 2021 (twelve months from the date of the EIDL) in the amount of $731. The balance of principal and interest is payable 30 years from the date of the EIDL. The EIDL is secured by a security interest on all of the Company's assets. On August 28, 2020, the Company paid off the Economic Injury Disaster Loan in full.

On June 23, 2020, the Company received $10,000 from US Small Business Administration as part of Economic Injury Disaster Loan ("EIDL"). This was a grant and does not need to be repaid. The Company recorded it as other income in Q2 2020.

NOTE 4 — Secured Subordinated Convertible Notes Payable

On August 31, 2020, the Company completed a secured subordinated convertible note financing of $1,530,000, including $1,350,000 from officers, directors, and family members. Because the Financing involved such parties related to the Company, a special committee of the Board comprising the Board's disinterested directors approved the Financing.

The funds raised are used to increase the Company's working capital balances. The notes have a three-year term that accrue interest at 10% per annum and mature on August 30, 2023. The interest on the notes is payable quarterly in cash. The holder of each note may require the Company to repay the principal amount of the note plus accrued interest at any time after August 31, 2021. The principal amount of each note is convertible at any time, at the option of the holder, into shares of the

Company's common stock at a conversion price of $1.46 per share, which was the market closing price of the common stock on Friday, August 28, 2020, the closing date of the financing. The notes did not contain a beneficial conversion feature because the conversion price is higher than the market closing price on the date of the notes payable. The notes are secured by the assets of the Company and are subordinated to amounts outstanding under the Company's working capital bank line of credit with Western Alliance Bank.

Total issuance costs associated with the financing is $96,515, and the costs are presented in the balance sheet as a direct deduction from the notes payable balance of $1,530,000 as a contra-liability. The issuance costs are amortized over three years, the term of the notes payable, and the amortization expense is reported as interest expense. The amortization of debt discount for the year ended December 31, 2020 was $11,030. The remaining debt discount of $88,243 will be amortized through August 30, 2023.

Total interest expense recognized related to the convertible note for the year ended December 31, 2020 was $62,172.

As of February 22, 2021, two noteholders elected to convert note principal of $130,000 into shares of Common Stock, $0.001 par value per shares, at the conversion price.

NOTE 5 — Commitments and Contingencies

Operating Lease Obligations

The Company adopted ASU 2016-02, Leases (Topic 842) effective January 1, 2019 and restated its reported results in January 2018, including the recognition of additional operating lease right-of-use assets and liabilities. On January 1, 2018, the Company recognized operating lease right-of-use assets and operating lease liabilities in the amount of approximately $1.57 million and $1.85 million, respectively, which represented the presented the present value of future lease payments using a discount rate of 6.25% per annum.

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 1st of each year. Operating lease expense is recognized on a straight-line basis over the lease term. In June 2020, the Company also signed a new two-year equipment operating lease agreement. The Company will pay $1,519 in monthly installments starting in September of 2020 through June 2022.

The operating lease expense was allocated in cost of goods sold and operating costs based on department headcount and amounted to $418,909 and $412,833 for the twelve-month periods ended December 31, 2020 and 2019, respectively.

On December 30, 2020, the balances of right-of-use assets and liabilities for the operating leases were approximately $0.61 million and $0.74 million, respectively, compared to approximately $0.94 million, and $1.13 million, respectively, on December 31, 2019.

Cash payments included in the measurement of our operating lease liabilities were $478,461 and $460,053 for the twelve-month periods ended December 30, 2020 and 2019, respectively.

Future minimum lease payments under the operating lease at December 31, 2020 are shown below:

Annual minimum payments:		Amount
2021		515,822
2022		262,789
Total minimum payments		778,611
Less: Present value factor		(37,260)
Total operating lease liabilities		741,351
Less: Current portion of operating lease		(483,254)
Long-term portion of operating lease	$	258,097

Finance Lease Obligations

The new standard, ASU 2016-02 classifies lessee leases into two types, operating and finance. The Company leases certain of its equipment under finance leases. The leases are collateralized by the underlying assets. On December 31, 2020, the Company has no equipment subject to financing arrangement, compared to equipment with a cost of $100,584 on December 31, 2019. The accumulated depreciation of the assets associated with the finance leases as of December 31, 2019 amounted $92,571.

Purchase Commitments

On December 31, 2020, the Company's non-cancelable purchase commitments for inventory to be used in the ordinary course of business during 2021 were approximately $6,256,000.

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 6 — Stock-Based Compensation Plan

Stock-Based Compensation Program

The Company has one share-based compensation 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 restricted stock 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 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, 2020 and 2019, a total of 240,707 and 235,324 additional shares, respectively, became available for grant from the 2004 Plan.

Stock-Based Compensation Information

The stock-based compensation expense included in the Company's statements of income for the years ended December 31, 2020 and 2019, consisted of the following:

	Years Ended December 31,	
Income Statement Classification	2020	2019
Cost of revenues	$ 86,649	$ 94,803
Research and development	137,537	151,121
Sales and marketing	121,802	121,633
General and administrative	161,063	152,334
	$ 507,051	$ 519,891

As of December 31, 2020, the remaining unamortized stock-based compensation expense was $935,882 and is expected to be amortized over a weighted average period of 2.61 years.

Stock Options – Stock option awards have an exercise price equal to the closing price on the date of grant, expire in ten years from the date of grant and vest over a four-year period at 25% per year. 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 2020 and 2019 was $0.50 and $1.08, respectively, using the following weighted-average assumptions:

	Years Ended December 31,	
	2020	2019
Risk-free interest rate (%)	0.68%	1.614%
Dividend yield	—	—
Volatility factor	43.62%	42.58%
Expected option life (years)	7.4	7.2

The risk-free rate is based on the U.S. Treasury yield curve in effect at the time of grant; the dividend yield is calculated as the ratio of dividends paid per share of common stock to the stock price on the date of grant; the expected life is based on historical and expected exercise behavior; and volatility is based on the historical volatility of the Company's stock price over the expected life of the option.

The table below presents the information related to stock option activity for the years ended December 31, 2020 and 2019:

	Years Ended December

	31,	
	2020	2019
Total intrinsic value of stock options exercised	$ 167,882	$ 16,568
Cash received from stock option exercises	$ 168,065	$ 23,314

The following summarizes stock option activity under the 2004 Plan as of and for the years ended December 31, 2020 and 2019:

	Outstanding Options			
	Number of Shares	Weighted Average Price Per Share	Remaining Contractual Term (in years)	Intrinsic Value
Balance at December 31, 2018	2,374,124	$ 2.54		
Granted	551,256	$ 2.20		
Exercised	(24,494)	$ 0.95		
Canceled	(508,100)	$ 2.92		
Balance at December 31, 2019	2,392,786	$ 2.40		
Granted	37,000	$ 1.08		
Exercised	(100,239)	$ 1.68		
Canceled	(334,741)	$ 2.84		
Balance at December 31, 2020	1,994,806	$ 2.42	5.50	$ 690,769
Exercisable	1,602,695	$ 2.34	4.75	$ 603,382
Unvested	392,111	$ 2.31	8.33	$ 87,387

Stock options outstanding as of December 31, 2020 are summarized below:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number of Options Outstanding	Weighted Average Remaining Life (Years)	Weighted Average Exercise Price	Number of Options Exercisable	Weighted Average Exercise Price
$0.95 - $1.25	352,081	3.25	$ 1.06	325,873	$ 1.06
$1.50 - $1.82	99,540	1.00	$ 1.74	99,540	$ 1.74
$1.89 - $2.27	456,891	5.17	$ 2.07	368,771	$ 2.11
$2.32 - $2.49	407,826	7.58	$ 2.34	200,125	$ 2.35
$2.50 - $2.75	241,188	5.33	$ 2.71	241,188	$ 2.71
$2.82 - $2.93	195,355	7.17	$ 2.93	141,206	$ 2.93
$3.10 - $3.88	73,400	6.00	$ 3.69	71,600	$ 3.70
$4.22 - $4.49	168,525	6.42	$ 4.25	154,392	$ 4.24
$0.95 - $4.49	1,994,806	5.50	$ 2.42	1,602,695	$ 2.34

As of December 31, 2020, the remaining unamortized stock option compensation expense was $383,720 and is expected to be amortized over a weighted average period of 1.92 years.

Restricted stock – The restricted stocks are issued to employees and consultants and are held in escrow by the Company until the shares vest on the schedule of 15% after year one, 20% after year two, 25% after year three and 40% after year four, subject to the employees and consultants being a continuing service provider on the vesting dates. If the service or employment is terminated, unvested shares revert to the Company. Shares are registered at grant, so share owners may vote at the annual stockholder meeting. Restricted stocks are granted at zero cost basis. Compensation cost of the restricted stocks is recognized on a straight-line basis over the 4-year vesting period.

The following summarizes information related to Restricted Stock activity under the 2004 Plan for the years ended December 31, 2020 and 2019:

	Number of Restricted Stocks	Weighted Average Price Per Share
Unvested as of December 31, 2018	—	—
Granted	127,871	$ 1.94
Vested	—	—
Forfeited	(17,800)	$ 1.90
Unvested as of December 31, 2019	110,071	$ 1.94
Granted	392,680	$ 1.50
Vested	(17,306)	$ 1.94
Forfeited	(43,245)	$ 1.65
Unvested as December 31, 2020	442,200	$ 1.58

As of December 31, 2020, the remaining unamortized restricted stock compensation expense was $552,162 and is expected to be amortized over a weighted average period of 3.10 years.

NOTE 7 — Shares Reserved

Common stock reserved for future issuance was as follows:

	December 31, 2020	December 31, 2019
Stock option grants outstanding (see Note 6)	1,994,806	2,392,786
Reserved for future grants	393,351	308,871
	2,388,157	2,701,657

NOTE 8 — 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. Effective September 1, 2019, the Company started to provide a match to employees' 401(k) savings at 3% of employees' contribution up to $100 per month. Administrative expenses relating to the 401(k) Plan are not significant.

NOTE 9 — Income Taxes

The Company recorded a net income tax benefit of approximately $51,000 for 2020, compared to an income tax expenses of approximately $219,000 for 2019.

The components of income taxes for the periods ended December 31, 2020 and 2019 are as follows:

	Years Ended December 31,	
	2020	2019
Current:		
Federal	$ (55,676)	$ (54,876)
State	4,918	—
Total Current	(50,758)	(54,876)
Deferred:		
Federal	—	199,634
State	—	74,370
Total Deferred	—	274,004
Income tax (benefit) expense	$ (50,758)	$ 219,128

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

	Years Ended December 31,	
	2020	2019
Federal tax at statutory rate	21.00%	21.00%
State income tax rate	6.98%	6.98%
Remeasurement of deferred taxes	—	—
Expenses and credits not benefited	(27.98)%	27.51%
Provision for taxes	0%	55.49%

As of December 31, 2020, the Company did not recognize deferred tax assets relating to an excess tax benefit for stock-based compensation deduction of $2,622,000. 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. Significant components of net deferred tax assets are valued approximately as follows:

	December 31,	
Deferred tax assets:	2020	2019
Net operating loss carryforwards	$ 4,330,000	$ 4,546,000
Credits	948,000	1,014,000
Capitalized research and development costs	—	—
Other acquired intangibles	37,000	—
Accruals not currently deductible	597,000	685,000
Depreciation	140,000	58,000
Total deferred tax assets	6,052,000	6,303,000
Valuation allowance for deferred tax assets	(545,000)	(626,000)
Net deferred tax assets	5,507,000	5,677,000

Deferred tax liability:		
Acquired intangibles	—	(170,000)
Net deferred tax assets	$ 5,507,000	$ 5,507,000

As of December 31, 2020, the Company had net operating loss carryforwards for federal income tax purposes of approximately $20,081,000 which will expire at various dates beginning in 2023 and through 2040. Full valuation allowance is maintained for federal research and development tax credits of approximately $548,000. As of December 31, 2019, the Company had net operating loss carryforwards for California state income tax purposes of approximately $9,890,000, which will expire at various dates in 2032 and through 2038, and state research and development tax credits of approximately $406,000, which can be carried forward indefinitely.

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, 2020	$ 1,019,000
Decreases in UTBs in prior years	(32,000)
Increases in UTBs in current years	77,000
Ending balance at December 31, 2020	$ 1,064,000

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, 2020. 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 10 — Subsequent Events

On January 29, 2021, the Company entered into an Amended and Restated Business Financing Agreement with Western Alliance Bank, an Arizona corporation which increased the Domestic Line of Credit to $3.0 million that includes $2.0 million revolving facility and $1.0 million nonformula loan. The $1.0 million Nonformula loan was enrolled in the CalCAP Collateral Support Program and advanced at closing. The Company will make a principal reduction payment of $125,000, plus all accrued but unpaid interest on the 30th day of each April, July, October, and January. The Financing

Agreement also extended the maturity date of both Domestic and EXIM Line of Credit to January 31, 2023.

On February 1, 2021, 285,950 restricted stocks at a price of $2.58 per share have been granted from the 2004 Equity Incentive Plan subsequent to December 31, 2020. The shares include annual refresher grants to all continuing employees with a weighting reflecting the level of responsibility and performance of the employee and initial grants to two newly hired employees.

On February 26, 2021, the Company entered into the 2021 Technology Transfer Agreement with SpringCard SAS (the "SAS"). Under the new agreement, the Company acquired a perpetual, royalty-free license to SAS' core contactless technology for use in the Company's DuraScan D600 and SocketScan S550 Contactless Reader/Writer products. SAS received: (i) $2,000,000 in shares of the Company's common stock ("Common Stock") valued at $10.85 per share or 184,332 shares, subject to a collar whereby, if SAS sells any such shares, up to an aggregate of 92,166 shares, within 14 days following the stock transfer date (as defined in the Agreement) at a gross sale price less than $10.00 per share, the Company will pay SAS in cash the lesser of $350,000 or a collar payment equal to the difference between such gross sale price and $10.00 per share; and (ii) a 10-year warrant to purchase up to an aggregate of 50,000 shares of Common Stock at the price of $10.85 per share (the "Warrant"). The Warrant is divided into four equal lots of 12,500 shares each, with each lot exercisable on or after each of the following dates until the expiration date of warrant: January 1, 2022, January 1, 2023, January 1, 2024, and January 1, 2025.

As of March 19, 2021, the Company has issued 712,919 shares of common stock for the exercise of stock options and 89,400 shares for conversion of the convertible notes.

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, 2020. 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, 2020, 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.

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.

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 26, 2021.

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 26, 2021.

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 26, 2021.

The following table provides information as of December 31, 2020 about our common stock that may be issued under the Company's existing equity compensation plans. For additional information about the stock-based compensation plans see Note 6 to the Company's Financial Statements.

	Number of securities to be issued upon exercise of outstanding options	Weighted average exercise price of outstanding options	Number of securities remaining available for future issuance under equity compensation plans
Equity compensation plans approved by security holders (1)...............................	1,994,806	$ 2.42	393,351

(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 244,105 shares became available for grant under the 2004 Equity Incentive Plan on January 1, 2021, 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 26, 2021.

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 26, 2021.

PART IV

Item 15. Exhibits, Financial Statement Schedules

(a) Documents filed as part of this report:

1. All financial statements.

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

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 23, 2021

/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.

By /s/ Kevin J. Mills Kevin J. Mills	President and Chief Executive Officer (Principal Executive Officer) and Director	March 23, 2021
By /s/ Charlie Bass Charlie Bass	Chairman of the Board	March 23, 2021
By /s/ Lynn Zhao Lynn Zhao	Vice President of Finance and Administration and Chief Financial Officer (Principal Financial and Accounting Officer) and Director	March 23, 2021
By /s/ Bill Parnell Bill Parnell	Director	March 23, 2021
By /s/ Brenton E. MacDonald Brenton E. MacDonald	Director	March 23, 2021
By /s/ David W. Dunlap David W. Dunlap	Director	March 23, 2021
By /s/ Ivan Lazarev Ivan Lazarev	Director	March 23, 2021

Index to Exhibits

Exhibit Number	Description
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 (10)	Loan and Security Agreement dated February 27, 2014 by and between the Company and Bridge Bank, National Association.
10.9 (11)	Form of Employment Agreement dated May 1, 2017 between the Company and the officers of the Company.
10.10 (12)	Business Financing Modification Agreement dated February 26, 2016 by and between the Company and Western Alliance Bank, an Arizona corporation.
10.11 (13)	Business Financing Modification Agreement dated March 20, 2017 by and between the Company and Western Alliance Bank, an Arizona corporation.
10.12 (14)	Business Financing Modification Agreement dated January 31, 2018 by and between the Company and Western Alliance Bank, an Arizona corporation.

10.13 (15)	Tender Offer Statement to purchase up to 1,250,000 shares of common stock at a price not greater than $4.25 nor less than $3.75 per share.
10.14 (16)	Business Financing Modification Agreement dated June 7, 2018 by and between the Company and Western Alliance Bank, an Arizona corporation.
10.15 (17)	Business Financing Modification Agreement dated January 14, 2020 by and between the Company and Western Alliance Bank, an Arizona corporation.
10.16 (18)	Business Financing Modification Agreement dated January 29, 2021 by and between the Company and Western Alliance Bank, an Arizona corporation.
11.1	Computation of Earnings per Share (see Statements of Operations in Item 8).
14.1 (19)	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.

* 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.

(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 8-K filed on January 14, 2020.

(18) Incorporated by reference to exhibits filed with the Company's Form 8-K filed on February 3, 2021.

(19) Incorporated by reference to exhibits filed with the Company's Form 10-K filed on March 10, 2006.

Exhibit 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors
Socket Mobile, Inc.

We consent to the incorporation by reference in the following Registration Statements of Socket Mobile, Inc. of our report dated March 23, 2021, relating to the financial statements of Socket Mobile, Inc. (the “Company”) as of December 31, 2020 and 2019, and for the years then ended, included in this Annual Report (Form 10-K) for the years ended December 31, 2020 and 2019:

- Registration Statement on Form S-3 and Form S-3/A (No. 333-100754) pertaining to the 4,844,797 (post reverse split 484,480) shares of common stock of the Company;
- Registration Statement on Form S-3 (No. 333-87348) pertaining to the 500,104 (post reverse split 50,010) shares of common stock of the Company;
- Registration Statement on Form S-3 (No. 333-96231) pertaining to the 2,662,638 (post reverse split 266,263) shares of common stock of the Company;
- Registration Statement on Form S-3 (No. 333-159923) pertaining to the 645,981 shares of common stock of the Company;
- Registration Statements on Form S-3 and Form S-3/A (No. 333-171267) pertaining to the 1,310,398 shares of common stock of the Company;
- Registration Statements on Form S-8 (Nos. 333-220043, 333-214612, 333-199599, 333-180055, 333-172950, 333-165984, 333-157975, 333-149688, 333-141587, 333-132345, and 333-123396) pertaining to the 2004 Equity Incentive Plan;
- Registration Statement on Form S-3 (No. 333-172948) pertaining to the 282,485 shares of common stock of the Company.
- Registration Statement on Form S-3 (No. 333-220042) pertaining to the 972,884 shares of common stock of the Company.
- Registration Statement on Form S-3 (No. 333-249873) pertaining to the 1,047,942 shares of common stock of the Company

/s/ Sadler, Gibb & Associates, LLC

Draper, UT
March 23, 2021

Exhibit 31.1

CERTIFICATION

I, Kevin J. Mills, certify that:

1. I have reviewed this annual report on Form 10-K of Socket Mobile, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 23, 2021

By: /s/ Kevin J. Mills
Name: Kevin J. Mills
Title: President and Chief Executive Officer (Principal Executive Officer)

Exhibit 31.2

CERTIFICATION

I, Lynn Zhao, certify that:

1. I have reviewed this annual report on Form 10-K of Socket Mobile, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 23, 2021

By: /s/ Lynn Zhao
Name: Lynn Zhao
Title: Vice President of Finance and Administration and Chief Financial Officer (Principal Financial Officer)

Exhibit 32.1

CERTIFICATION OF THE CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

I, Kevin J. Mills, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Annual Report of Socket Mobile, Inc. on Form 10-K for the year ended December 31, 2020 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Annual Report on Form 10-K fairly presents in all material respects the financial condition and results of operations of Socket Mobile, Inc.

By: /s/ Kevin J. Mills
Name: Kevin J. Mills
Title: President and Chief Executive Officer (Principal Executive Officer)
Date: March 23, 2021

I, Lynn Zhao, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Annual Report of Socket Mobile, Inc. on Form 10-K for the year ended December 31, 2020 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Annual Report on Form 10-K fairly presents in all material respects the financial condition and results of operations of Socket Mobile, Inc.

By: /s/ Lynn Zhao
Name: Lynn Zhao
Title: Vice President of Finance and Administration and Chief Financial Officer (Principal Financial Officer)
Date: March 23, 2021