

SOCKET COMMUNICATIONS INC  
Form 10-Q/A  
February 13, 2003

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10Q/A

Amendment No. 1

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

For the quarterly period ended September 30, 2002

OR

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

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

Commission file number 1-13810

**SOCKET COMMUNICATIONS, INC.**

(Exact Name of Registrant as Specified in its Charter)

Delaware 94-3155066 (State or other jurisdiction of incorporation or organization) (IRS employer identification number)

37400 Central Court, Newark, CA 94560  
(Address of principal executive offices including zip code)

(510) 744-2700  
(Registrant's telephone number, including area code)

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

Number of shares of Common Stock (\$0.001 par value) outstanding as of November 11, 2002 was 24,112,310 shares.

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INDEX

PART I. Financial information

Item 1. Consolidated Financial Statements:

Condensed Consolidated Balance Sheets - September 30, 2002 and December 31, 2001

Condensed Consolidated Statements of Operations - Three Months and Nine Months Ended September 30, 2002 and 2001

Condensed Consolidated Statements of Cash Flows - Nine Months Ended September 30, 2002 and 2001

Notes to Condensed Consolidated Financial Statements

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Item 4. Controls and Procedures

PART II. Other information

Item 6. Exhibits and Reports on Form 8-K

Signatures

Certification of Chief Executive Officer

Certification of Chief Financial Officer

Index to Exhibits

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements (Unaudited)

SOCKET COMMUNICATIONS, INC.  
CONDENSED CONSOLIDATED BALANCE SHEETS

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(Unaudited)  
September 30, 2002

December 31, 2001\*

ASSETS

Current assets:

Cash and cash equivalents

\$1,408,708

\$ 4,815,245

Accounts receivable, net

1,662,054

2,197,980

Inventories

2,467,289

1,794,929

Prepaid expenses and other current assets

661,878

251,653

Total current assets

6,199,929

9,059,807

Property and equipment:

Machinery and office equipment

1,634,955

	1,278,132
Computer equipment	
	678,958
	604,479
Total property and equipment	
	2,313,913
	1,882,611
Accumulated depreciation	
	(1,626,490)
	(1,345,058)
Net property and equipment	
	687,423
	537,553
Intangible technology	
	1,258,984
	628,290
Goodwill	
	9,797,946
	8,388,846
Other assets	
	191,422
	211,496
Total assets	
	\$ 18,135,704
	\$ 18,825,992

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:

Accounts payable and accrued expenses		\$ 3,302,416
		\$ 2,628,657
Accrued payroll and related expenses		547,256
		416,799
Bank line of credit		--
		1,317,000
Deferred revenue		521,217
		595,539
Current portion of capital leases and equipment financing notes		30,296
		26,409
Current portion of note payable		1,316,484
		--
Total current liabilities		5,717,669
		4,984,404
Long term liabilities:		
Long term portion of capital leases and equipment financing notes		21,201
		44,437
Long term portion of note payable		612,000
		--
Total long term liabilities		633,201

44,437

Commitments and contingencies

Stockholders' equity:

Common stock, \$0.001 par value: Authorized shares - 100,000,000  
 Issued and outstanding shares - 24,112,310 at September 30, 2002  
 and 23,604,501 at December 31, 2001

24,112

23,605

Additional paid-in capital

43,213,448

42,700,503

Accumulated deficit

(31,452,726)

(28,926,957)

Total stockholders' equity

11,784,834

13,797,151

Total liabilities and stockholders' equity

\$ 18,135,704

\$ 18,825,992

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\*Derived from audited consolidated financial statements.

See accompanying notes.

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

	Three Months Ended September 30,	Nine Months Ended September 30,	
	2002	2001	
	2002	2001	
Revenues:	\$ 3,705,124	\$ 3,030,369	
	\$ 12,275,490	\$ 8,776,858	
Cost of revenue	1,865,505	1,445,308	
	6,243,282	4,096,289	
Gross profit	1,839,619	1,585,061	
	6,032,208	4,680,569	

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Operating expenses:

Research and development

837,934  
 877,374  
 2,610,686  
 2,992,097

Sales and marketing

1,134,110  
 1,161,419  
 3,950,440  
 3,920,806

General and administrative

467,680  
 413,848  
 1,595,034  
 1,566,749

Amortization of intangibles technology

143,035  
 41,368  
 349,306  
 124,104

Amortization of goodwill

--  
 379,562  
 --  
 1,138,686

Total operating expenses

2,582,759  
 2,873,571  
 8,505,466  
 9,742,442

Operating loss



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	(743,140)
	(1,288,510)
	(2,473,258)
	(5,061,873)
Interest income	
	5,154
	33,501
	22,588
	153,860
Interest expense	
	(30,641)
	(7,620)
	(75,099)
	(15,960)
Net loss	
	\$ (768,627)
	\$ (1,262,629)
	\$ (2,525,769)
	\$ (4,923,973)
Basic and diluted net loss per share	
	\$ (0.03)
	\$ (0.05)
	\$ (0.11)
	\$ (0.21)
Weighted average shares outstanding	
	24,094,571
	23,508,234
	23,930,263

23,398,912

See accompanying notes.

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

Nine Months Ended September 30,

	2002	2001
Operating activities		
Net loss	\$ (2,525,769)	\$ (4,923,973)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	316,926	296,596
Compensatory stock option grants and warrants	--	33,604
Amortization of goodwill and intangibles	349,306	1,262,790
Accrued interest on notes payable	59,244	--
Changes in operating assets and liabilities:		

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Accounts receivable

535,926

727,255

Inventories

(672,360)

(195,994)

Prepaid expenses

(208,215)

(95,112)

Other assets

20,074

49,843

Accounts payable and accrued expenses

673,759

(1,016,157)

Accrued payroll and related expenses

130,457

(30,691)

Deferred revenue

(74,322)

(265,479)

Net cash used in operating activities

(1,394,974)

(4,157,318)

Investing activities

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Purchase of equipment	(225,896)
	(192,318)
Acquisition of Nokia CompactFlash Bluetooth business	(875,170)
	--
Net cash used in investing activities	(1,101,066)
	(192,318)
Financing activities	
Gross proceeds from bank lines of credit	3,845,770
	3,148,261
Gross payments on bank lines of credit	(5,162,770)
	(1,510,000)
Proceeds from stock option and other warrant exercises	94,126
	508,672
Proceeds from sale of common stock	419,326
	--
Payments on notes payable	(87,600)
	--
Payments on capital leases and equipment financing notes	(19,349)
	(13,544)
Net cash provided from (used in) financing activities	

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(910,497)

2,133,389

Net decrease in cash and cash equivalents

(3,406,537)

(2,216,247)

Cash and cash equivalents at beginning of period

4,815,245

7,422,104

Cash and cash equivalents at end of period

\$ 1,408,708

\$ 5,205,857

Supplemental cash flow information

Cash paid for interest

\$ 75,099

\$15,960

Acquisition of Nokia CompactFlash Bluetooth business with notes payable

\$ 1,754,830

--

Currency derivative asset short and long term portions

\$207,700

--

Currency exchange adjustment on notes payable short and long term portions

\$ 202,010

--

Warrants issued in conjunction with common stock financing

\$ 195,269

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See accompanying notes.

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

**NOTE 1 - Basis of Presentation**

The accompanying consolidated financial statements of Socket Communications, Inc. and its wholly owned subsidiaries (the "Company") have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. In the opinion of management, all adjustments (consisting only of normal recurring accruals) considered necessary for fair presentation have been included. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted. These consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes included in the Company's amended Annual Report on Form 10-K/A for the year ended December 31, 2001.

**NOTE 2 - 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, 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.

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

**NOTE 3 - Accounting Change**

Effective the beginning of fiscal 2002, the Company completed the adoption of Statement of Financial Accounting Standards (SFAS) No. 141, " Business Combinations, " and SFAS No. 142, " Goodwill and Other Intangible Assets. " SFAS No. 141 requires all business combinations initiated after June 30, 2001 to be accounted for using the purchase method of accounting. As required by SFAS No. 142, the Company discontinued amortizing the remaining balances of goodwill as of the beginning of fiscal 2002. All remaining and future acquired goodwill will be subject to

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impairment tests annually, or earlier if indicators of potential impairment exist, using a fair-value-based approach. All other intangible assets will continue to be amortized over their estimated useful lives and assessed for impairment under SFAS No. 144, " Accounting for the Impairment or Disposal of Long-Lived Assets. " In conjunction with the implementation of SFAS No. 142, the Company completed a transitional goodwill impairment review as of the beginning of 2002 and found no impairment.

Upon adoption of the new Business Combination rules, assembled workforce no longer meets the definition of an identifiable intangible asset. As a result, the net balance of \$149,229 was reclassified to goodwill on January 1, 2002.

A reconciliation of previously reported net loss per share to the amounts adjusted for the exclusion of goodwill and workforce-in-place amortization is as follows:

	Three Months Ended September 30,	Nine Months Ended September 30,
	2002	2001
Reported net loss	\$ (768,627)	\$ (1,262,629)
		\$ (2,525,769)
		\$ (4,923,973)
Goodwill and workforce amortization	--	379,562
		--
		1,138,686
Adjusted net loss	(768,627)	(883,067)

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(2,525,769)

(3,785,287)

Reported basic and diluted  
net loss per share

\$ (0.03)

\$ (0.05)

\$ (0.11)

\$ (0.21)

Goodwill and workforce  
amortization

--

0.01

--

0.05

Adjusted basic and  
diluted net loss per share

\$ (0.03)

\$ (0.04)

\$ (0.11)

\$ (0.16)

Identified intangible assets as of December 31, 2001 consisted of the following:

Gross Assets

Accumulated Amortization

Net



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Project management tools

\$ 570,750

\$ (83,932)

\$ 486,818

Development software

111,375

(46,404)

64,971

Schematic Library

153,000

(76,500)

76,500

Subtotal developed technology

835,125

(206,836)

628,289

Goodwill including assembled workforce

10,286,661

(1,897,814)

8,388,847

Total identified intangible assets

\$ 11,121,786

\$ (2,104,650)

\$ 9,017,136

Identified intangible assets as of September 30, 2002 consisted of the following:

Gross Assets

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Accumulated Amortization

Net

Project management tools

\$ 570,750

\$ (134,294)

\$ 436,456

Development software

111,375

(74,250)

37,125

Schematic Library

153,000

(122,400)

30,600

Bluetooth CompactFlash technology

900,000

(166,129)

733,871

Licensing agreement

80,000

(59,068)

20,932

Subtotal developed technology

1,815,125

(556,141)

1,258,984

Goodwill

11,695,760

(1,897,814)

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Total identified intangible assets	9,797,946
	\$ 13,510,885
	\$ (2,453,955)
	\$ 11,056,930

Based on identified intangible assets recorded at September 30, 2002 and assuming no subsequent impairment of the underlying assets, the annual amortization expense is expected to be as follows:

	2002:
\$487,000	
	2003:
\$410,000	
	2004:
\$367,000	
	2005:
\$126,000	
	2006:
\$ 67,000	

Additional information about the business and technology acquisition from Nokia is contained in Note 5.

**NOTE 4- Inventories**

Inventories consist principally of raw materials and sub-assemblies, which are stated at the lower of cost (first-in, first-out) or market.

	September 30, 2002
	December 31, 2001
Raw materials and subassemblies	
	\$ 1,884,573
	\$ 1,632,716
Finished goods	

Held on site	159,640
	162,213
Consigned at major retailer	423,076
	--
Total finished goods	582,716
	162,213
Total	\$ 2,467,289
	\$ 1,794,929

**NOTE 5- Business and Technology Acquisition from Nokia**

On March 16, 2002, the Company acquired from Nokia Corporation its CompactFlash ("CF") Bluetooth Card business and related product line technology. The agreement provided for the transfer of tooling related to the manufacture of the Nokia CF Bluetooth Card, rights to manufacture CF Bluetooth connection cards using specific Nokia technology, rights to distribute existing CF Bluetooth Card products, and rights to develop and distribute new Bluetooth Card products based on Nokia-developed technology. Pursuant to the Agreement, Nokia has discontinued the sale of its CompactFlash Bluetooth Card and refers its customers to the Company. The purchase price was 3 million Euros (\$2,630,000), of which 1 million Euros (\$881,000) was paid at the time the agreement was signed. The initial terms of the agreement specified the balance to be payable in three installments with 700,000 Euros (\$613,200) due September 11, 2002, 700,000 Euros (\$611,100) due March 11, 2003, and 600,000 Euros (\$524,700) due September 11, 2003. In August 2002, payment of the balance was reset to fifteen monthly installments of 100,000 Euros (\$87,600) due each month beginning September 11, 2002 with a final installment of 500,000 Euros (\$437,300) due on December 11, 2003. Outstanding balances will accrue interest at an annual rate of 6% and the accumulated accrued interest is payable at the time of each installment payment.

The assets of the Nokia CompactFlash Bluetooth Card product line business and technology acquisition consisted primarily of tooling and intellectual property. The transaction was accounted for using the purchase method of accounting.

The purchase price allocation is as follows:

Net tangible assets	\$ 241,000
---------------------	------------

Intangible assets:

Developed technology	900,000
Licensing agreement	80,000
Goodwill	1,409,000
Total purchase price allocation	\$ 2,630,000

The intangible assets, other than the goodwill, are being amortized over lives of one to three years.

The Company is using forward purchase contracts and swap contracts for Euros in order to fix the future payments to Nokia in U.S. dollars. The Company accounts for derivative instruments and hedging activity in accordance with Statement of Financial Accounting Standards ("SFAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("FAS 133"), as amended, which requires the Company to recognize all derivative instruments as either assets or liabilities on the balance sheet at fair value. The accounting for gains or losses from changes in fair value of a derivative instrument depends on whether it has been designated and qualifies as part of a hedging relationship, as well as the type of hedging relationship. The Company has used currency forward contracts to minimize the exposure to variability in the anticipated Euro cash flows. Due to the change in the payment schedule with Nokia, these derivatives do not qualify for SFAS 133 hedge accounting treatment. Accordingly, the change in fair value of this derivative is recorded immediately to earnings. The Company had forward contracts to buy and sell foreign currencies with a fair value U.S. dollar equivalent of \$1,928,484 at September 30, 2002. The Company recorded the related short-term and long-term derivative asset of \$207,700.

#### **NOTE 6- Common Stock Financing**

On March 28, 2002, the Company sold 381,760 shares of common stock in a private placement financing at a price of \$1.59 per share. Total proceeds were \$607,000 and net proceeds after costs and expenses were \$419,326. Such proceeds were used for general working capital purposes. In conjunction with the financing, the company issued five-year warrants to investors to acquire an additional 95,439 shares of common stock at \$1.59 per share, and issued a five-year warrant to the placement agent to acquire 22,905 shares of common stock at \$1.59 per share. Using a Black-Scholes valuation formula with the following assumptions: 0.0% dividend yield rate, 5.13% risk free interest rate, \$1.82 fair value of common stock, \$1.59 exercise price, and a life of 5 years, \$157,476 of the proceeds were attributed to the warrants issued to investors, and the warrants issued to the placement agent were valued at \$37,793. Two directors of the Company invested an aggregate of \$130,000 in this financing. The issuance of these securities was deemed to be exempt from registration under the Securities Act of 1933, as amended (the "Securities Act"), in reliance on Section 4(2) of the Securities Act and Regulation D thereunder. Pursuant to a Registration Rights Agreement, the Company filed on May 1, 2002 a registration statement on Form S-3 to enable the resale of the shares issued in this offering and the shares issuable on exercise of the warrants issued to investors and the placement agent in this offering. The Company received stockholder ratification of this financing at its June 2002 Annual Meeting of Stockholders.

**NOTE 7- Income Taxes**

Due to the Company's loss position, there was no provision for income taxes for the three and nine months ended September 30, 2002 and 2001.

**NOTE 8- Net Loss Per Share and Net Loss Per Share Applicable to Common Stockholders**

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

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

	Three Months Ended September 30,	Nine Months Ended September 30,
	2002	2001
Numerator:		
Net loss	\$ (768,627)	\$ (1,262,629)
	\$ (2,525,769)	\$ (4,923,973)
Denominator:		
Weighted average common shares outstanding used in computing basic and diluted net loss per share	24,094,571	23,508,234
	23,930,263	23,398,912

Basic and diluted net loss per share

\$ (0.03)

\$ (0.05)

\$ (0.11)

\$ (0.21)

The diluted net loss per share is equivalent to the basic net loss per share because the Company has experienced losses since inception and thus no potential common shares from the exercise of stock options, conversion of convertible preferred stock, or exercise of warrants have been included in the net loss per share calculation as their effect would be antidilutive. There were 5,655,205 common shares excluded from the calculation as of September 30, 2002, consisting of 4,878,233 shares relating to outstanding options and 776,972 shares relating to outstanding warrants. There were 5,764,523 common shares excluded from the calculation as of September 30, 2001, consisting of 4,696,251 shares relating to outstanding options and 1,068,272 shares relating to outstanding warrants.

NOTE 9 - Segment Information

The Company operates in one segment, connection solutions for mobile computers and other electronic devices. The Company markets its products in the United States and foreign countries through its sales personnel and distributors. Information regarding geographic areas for the three and nine months ended September 30, 2002 and 2001 are as follows:

Three Months Ended  
September 30,

Nine Months Ended  
September 30,

Revenues:

2002

2001

2002

2001

United States

\$ 2,094,645

\$ 1,747,994

\$ 7,135,131

\$ 5,651,684

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Europe

884,009  
724,533  
2,773,435  
1,809,170

Asia and rest of world

726,470  
557,842  
2,366,924  
1,316,004

Total Revenues

\$ 3,705,124  
\$ 3,030,369  
\$ 12,275,490  
\$ 8,776,858

Export revenues are attributable to countries based on the location of the customers. The Company does not hold long-lived assets in foreign locations.

The sole customer who accounted for at least 10% of total revenues during the three and nine months ended September 30, 2002 and 2001 was as follows:

Three Months Ended  
September 30,

Nine Months Ended  
September 30,

2002

2001

2002

2001

Ingram Micro



20%

22%

21%

25%

**NOTE 10 - Preferred Stock Financing (Subsequent Event)**

On October 3, 2002, the Company sold 100,000 shares of Series E redeemable convertible preferred stock in a private placement financing at a price of \$10.00 per share. The net proceeds after costs and expenses were \$809,873. The preferred stock converts into shares of Socket Communications common stock or will be redeemed for cash in fifteen equal monthly installments commencing January 31, 2003. Each share of preferred stock will be converted into approximately 11.5 shares of common stock (a conversion price of \$0.87 per common share) if the market price of the Company's common stock at the time of conversion is 125% or more of the conversion price. Otherwise, the Company may, at its option, redeem the preferred shares for cash or issue additional shares in accordance with the financing agreement. The preferred stock carries a dividend preference of 12% per year payable in preference to payment of any dividend on the Company's common stock. Dividend payments may be made, at the Company's election, either in cash or in shares of common stock. The Company may require all or a portion of the preferred stock to convert into common stock at any time, subject to certain limitations. The number of shares issuable upon such a mandatory conversion of a share preferred stock will equal the Stated Value of such share (initially \$10) divided by the lower of (1) the conversion price then in effect, and (2) 8% of the average of the three lowest closing sale prices of our common stock for the 30 trading days prior to the effective date of the conversion.

Proceeds from this financing will be used for general working capital purposes. In conjunction with the financing, the Company issued five-year warrants to investors to purchase 250,000 shares of the Company's common stock at a price of \$0.957 per share. The warrant was valued at \$192,500 using the Black-Scholes valuation model with the following assumptions: 0.0% dividend yield rate, 4.75% risk free interest rate, \$0.87 fair value of common stock, \$0.957 exercise price, a life of 5 years, and volatility of 1.408. The value of the warrant will be expensed over a period of 18 months.

**NOTE 11 - Bank Financing Arrangements (Subsequent Event)**

In October 2002 the Company renewed its credit agreement ("Credit Agreement") with a bank which expires on July 15, 2003. The Credit Agreement allows the Company to borrow up to \$4,000,000 based on the level of qualified domestic and international receivables (\$2,500,000 and \$1,500,000, respectively), at the lender's index rate which is based on prime plus 0.75% and 0.5% on the domestic and international lines, respectively, on domestic and international receivables. The rates in effect at renewal date were 5.50% and 5.25% on the domestic and international lines, respectively. The Credit Agreement contains certain financial covenants, measured quarterly beginning December 31, 2002, including a requirement that the Company's tangible net worth must exceed \$1,500,000, and the Company maintain a quarterly net profit of \$1.00 before interest, taxes, and other non-cash charges.

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**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

*This Management's Discussion and Analysis of Financial Condition and Results of Operations contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. The forward-looking statements involve risks and uncertainties, including, among other things, the uncertainties associated with forecasting future revenues, costs and expenses. Our actual results may differ materially from the results discussed in the forward-looking statements. You are cautioned not to place undue reliance on the forward-looking statements, which speak only as of the date of this report. Factors that might cause such a difference include, but are not limited to, those discussed below and under "Risk Factors". We assume no obligation to update such forward-looking statements or to update the reasons why actual results could differ materially from those anticipated in such forward-looking statements.*

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

## Revenue

We design, manufacture and sell products for connecting handheld and notebook computers to computer networks and peripherals. Total revenues for the three and nine months ended September 30, 2002 of \$3.7 million and \$12.3 million, respectively, represented increases of 22% and 40% over revenues of \$3.0 million and \$8.8 million for the corresponding periods a year ago.

Our products cover a wide range of connection solutions in four product families:

- Our *network connection products* are connection devices that can be plugged into standard expansion slots in handheld and notebook computers. They allow users to connect their computers to the Internet or to private networks, or to communicate with other electronic devices such as desktop computers and printers. Our products offer both wireless and cable connections to external devices such as cell phones and printers. Wireless connection products include cards using the Bluetooth standard for short-range wireless connectivity, and cards for connecting to local wireless networks using the Wireless LAN (or WiFi) standard.
- Our *bar code scanning products* plug into handheld computers or notebooks and turn handheld or notebook computers into portable bar code scanners that can be used in various retail and industrial workplaces.
- Our *peripheral connection products* add connection ports to a notebook or handheld computer that allow users to connect these portable computers to standard peripherals designed for desktop PCs.
- Our *embedded products and services* allow manufacturers of cell phones, handheld computers and other devices to build wireless connection functions into their products.

Our connectivity product revenues were \$1.3 million and \$4.5 million, respectively, for the three and nine month periods ended September 30, 2002, compared to \$0.8 million and \$2.3 million for the same periods a year ago. In the second half of 2001 we introduced several new products, including Bluetooth plug-in cards, Wireless LAN plug-in cards, and Modem cards. Revenue growth of \$0.7 million and \$2.8 million from sales of these new products was partially offset by a decline of \$0.2 million and \$0.6 million in the sale of digital phone connection cards for the respective three and nine month periods. Revenues from Ethernet plug-in cards were flat for the respective nine month periods.

Our bar code scanning product revenues were \$0.8 million and \$2.8 million, respectively, for the three and nine month periods ended September 30, 2002, compared to \$0.8 million and \$2.0 million for the same periods one year ago. Revenues for the nine month period ended September 30, 2002 increased \$1.0 million compared to the year-ago period due to one product, the In-Hand Scan card, which is a laser scanner attached to a CompactFlash card which plugs into a Pocket PC, notebook, or other mobile computer to turn the computer into a portable laser scanner. The product is sold both through general distribution and through Value Added Resellers who contract with customers to provide scanning solutions. This solution is becoming more widely adopted by the Value Added Reseller community

for lightweight portable scanning. The increase in revenues for the nine-month period from sales of our new In Hand Scan card was partially offset by a \$0.2 million decline in revenues from other bar code scanning products.

Our peripheral connection card revenues were \$0.9 million and \$2.7 million, respectively, for the three and nine month periods ended September 30, 2002, compared to \$1.0 million and \$3.3 million for the same periods one year ago. Peripheral connection cards are primarily sold to connect peripheral devices or other electronic equipment to notebook computers. Sales of peripheral connection cards used to connect peripheral devices to notebook computers through the PC Card slot constitute 90% of our peripheral connection card revenues. Revenues from these products during the past three years have historically fluctuated within narrow and moderately declining sales ranges as more notebooks have built in Universal Serial Bus ports to allow direct connection of peripheral devices.

Our embedded products and services revenues were \$0.7 million and \$2.3 million respectively, for the three and nine month periods ended September 30, 2002, compared to \$0.4 million and \$1.2 million for the same periods a year ago. Included in these totals are chip sales, engineering services, and in 2002, Bluetooth embedded module sales for third party electronic devices. These revenues are highly dependent upon engineering design-wins and the timing of third party design projects. In early 2001, we were at early design stages with customers. We have broadened the customer base since October 2001, and the increases in revenue are a result of higher volumes of chip and Bluetooth module sales as design wins moved into production stages. We offer developer kits that encourage developers to work with our products through programs such as our Empowering Mobility Program. We began shipping Bluetooth modules in the fourth quarter of 2001.

*Revenue outlook for the fourth quarter of 2002 as compared to third quarter of 2002*

We believe that the sales of Pocket PC computing devices will increase in the fourth quarter of 2002 and will continue to expand the market for our connection products. We base this expectation on the announced introduction of new lower cost Pocket PCs from Dell Computer, and our historical experience that Pocket PC sales increase during the holiday buying season. In addition, based on Office Depot's recent decision to carry our products, we anticipate that our brand name will gain greater exposure at retail locations thereby increasing consumer awareness of our products and driving additional product sales.

Within our connectivity product family, we anticipate growth in demand for Bluetooth connection cards in the fourth quarter 2002 compared to the third quarter 2002 as a result of increasing sales of Bluetooth enabled phones in both Europe and in the latter part of the year in the U.S., as well as the endorsement of our Bluetooth plug-in cards by Nokia Corporation. Moderate increases in revenues are also expected for our modem, Digital Phone Card, and Ethernet products in the fourth quarter of 2002, based on our expectation of higher Pocket PC sales during the quarter.

We expect revenue increases in our bar code scanning product line as portable lightweight scanning gains increased acceptance by VARs and consumers for light mobile occasional scanning applications. We base our expectations on the increasing number and size of pending orders from organizations that are testing and qualifying our products. We expect to introduce additional scanning products in the fourth quarter of 2002 that will broaden the capabilities and uses of portable lightweight scanning.

Our embedded products and services revenue is expected to remain flat in the fourth quarter of 2002 compared to the previous quarter. Anticipated design wins for our interface chip and Bluetooth products in third party devices are expected to be offset by declines in engineering services. We base our expectations on forecasts or product development information from the manufacturers that have designed our interface chip and Bluetooth modules into their products, or are in the process of doing so.

We anticipate revenue from our peripheral connection products to moderately increase in the fourth quarter of 2002 from third quarter of 2002 levels. We base our expectations on the historical trends for this product line and the absence of factors that would affect that trend.

Although we believe that we are well positioned for revenue growth, we have incurred significant quarterly and annual operating losses in every fiscal period since our inception, and we may continue to incur quarterly operating losses at least through the first quarter of 2003 and possibly longer. We have historically needed to raise capital to fund our operating losses. We believe that our cash balances are adequate to fund cash flow needs for our operations, investing and financing activities through December 31, 2003. We raised additional capital in the first quarter of 2002 and also in October of 2002. We intend to fund our operations and to strengthen our working capital balances through borrowings on our bank line as the level of accounts receivable securing the bank line permits, through development funding from development partners, and from the sale of capital stock. We anticipate a need to raise one to two million dollars to fund cash flow needs for operations, investing and financing activities through December 31, 2003. We have a systematic procedure to forecast revenues, expenses, profits and cash flows. Nevertheless, our forecasts are highly dependent on factors beyond our control, including market acceptance of our new products, sales of handheld computers, greater deployment of higher speed networks in the market, market adoption of standards for smaller connection products and other factors. In addition, the amount that we may draw on our bank line depends on our accounts receivable balance, which is a function of our revenues. The amount of additional funding we require may vary accordingly. There are no assurances that capital from additional funding will be available on acceptable terms, if at all. Any inability to obtain such funding could require us to significantly reduce or suspend operations or sell additional securities on terms that are highly dilutive to investors, or may otherwise have a material adverse effect on our financial condition or operating results. See " --Liquidity and Capital Resources " and " --Risk Factors" for a discussion of our need for additional capital.

The foregoing discussion reflects our current expectations regarding our revenue outlook for the remainder of 2002 and includes forward-looking statements within the meaning of securities laws. Our actual results may not meet our current expectations for the various reasons discussed above and under "--Risk Factors" below.

### **Gross Margins**

Gross margins for the three and nine month periods ended September 30, 2002 were 50% and 49%, respectively, compared to margins of 52% and 53% for the same periods in 2001. The decrease in margins is due to higher volumes of new connectivity products with lower margins and lower volumes of our higher margin peripheral products, partially offset by increased margins on bar code scanning products.

*Gross Profit outlook for the balance of 2002.* Our target margins for the remainder of 2002 are 49% to 50%. We expect our CompactFlash products to continue to drive revenue growth during the remainder of 2002. To the extent our sales mix shifts toward higher volume sales our margins could decline by a few percentage points. We expect to achieve further cost reductions on our products from volume manufacturing efficiencies and engineering improvements and expect to use these cost reductions to support our margins and to maintain competitiveness with reduced customer pricing. Future unanticipated inventory write-offs and write-downs and other factors could adversely impact our margin results.

### **Research and Development Expense**

Research and development expense in the three and nine month periods ended September 30, 2002 was \$0.8 million and \$2.6 million, respectively, a decrease of 4% and 13% compared to research and development expense for the corresponding periods in the previous year. A decrease of \$0.1 million and \$0.7 million, respectively, in costs of purchased software and equipment, personnel incentive programs, technical supplies, and travel was partially offset by an increase of \$0.1 million and \$0.3 million, respectively, in consulting and professional fees and higher occupancy and administrative support costs for the three and nine month periods .

*Outlook for Research and Development Costs for the balance of 2002.* Research and development expense for the fourth quarter of 2002 is expected to slightly increase from the third quarter of 2002 level as engineering projects funded by customers are completed and engineering resources are reallocated to research and development activities.

## **Sales and Marketing Expense**

Sales and marketing expense for the three and nine month periods ended September 30, 2002 was \$1.1 million and \$4.0 million respectively, a decrease of 2% and an increase of 1% compared to sales and marketing expense in the corresponding periods one year ago. Lower third quarter expenses were the direct result of a workforce reduction taken at the end of the first quarter 2002 which reduced payroll and travel expenses by \$0.1 million. This reduction was partially offset by an increase of \$0.1 million in expenses associated with consulting, outside services, advertising and promotional activities, and occupancy costs relating to increased selling activities .

*Sales and Marketing expense outlook for the balance of 2002.* Sales and marketing expense for the fourth quarter is expected to slightly increase due to increased sales and marketing activities normally incurred during the last quarter.

## **General and Administrative Expense**

General and administrative expense for the three and nine month periods ended September 30, 2002 was \$0.5 million and \$1.6 million, respectively, an increase of 13% and 2% compared to the general and administrative expense for the same periods one year ago. An increase of \$0.1 million and \$0.2 million, respectively, in legal and professional fees and business insurance was partially offset by a decrease of \$0.1 million and \$0.2 million, respectively, in supplies, outside services, and public relations for the three and nine month periods .

*General and administrative expense outlook for the balance of 2002.* We expect our fourth quarter of 2002 general and administrative expense to moderately increase. Audit fees normally recognized in the first and fourth quarters are expected to contribute to the increase in the fourth quarter.

## **Amortization of Goodwill and Intangibles**

On October 5, 2000, we acquired 3rd Rail Engineering, an engineering services firm specializing in embedded systems engineering design and integration services for Windows CE and other operating system environments. The acquisition was valued at \$11.3 million, of which approximately \$1.1 million was attributed to intangible intellectual property and approximately \$10.0 million was attributed to goodwill. On March 16, 2002, the Company acquired from Nokia Corporation its CompactFlash Bluetooth Card business and related product line technology. The acquisition was valued at \$2.6 million of which \$1.4 million was attributed to goodwill, \$980,000 was attributed to intangible intellectual property, and \$241,000 to the purchase of tooling. During the fourth quarter of 2000 and all of 2001, goodwill was being amortized ratably over 7 years. Other intangible assets are being amortized over their estimated useful lives of 1 to 8 years. Total amortization charges for the three and nine month periods ended September 30, 2002 were \$143,000 and \$349,000 respectively, compared to \$421,000 and \$1,263,000 for the same periods one ago. Amortization charges for the nine months ended September 30, 2002 were significantly less than the comparable period one year ago as we discontinued amortizing goodwill as the result of adopting SFAS 141 and 142 at the beginning of fiscal 2002.

In conjunction with the implementation of the new accounting rules for goodwill, as of the beginning of fiscal 2002, we completed a goodwill impairment review and found no indicators of impairment. According to our accounting policy under the new rules, we will perform a similar review annually, or earlier if indicators of potential impairment exist. In addition, we do not anticipate recording an impairment charge related to goodwill in the fourth quarter of 2002. Our impairment review is based on a discounted cash flow approach that uses our estimates of future market share and revenues and costs for these groups as well as appropriate discount rates. The estimates we have used are consistent with the plans and estimates that we are using to manage the underlying business. In addition, our impairment review considers the market capitalization of the Company compared to the net worth of the Company. If we fail to deliver new products, if the products fail to gain expected market acceptance, or if market conditions in the business fail to improve, our revenue and cost forecasts may not be achieved, our market capitalization may decline and we may incur charges for impairment of goodwill.

*Outlook for balance of 2002.* We have completed the adoption of the SFAS Nos. 141 and 142 on accounting for business combinations and goodwill as of the beginning of 2002. Accordingly, we will no longer amortize goodwill from acquisitions, but will continue to amortize acquisition-related intangibles and costs. The amortization of intangibles associated with the acquisition of 3rd Rail Engineering and Nokia's Bluetooth CompactFlash Card business and related product line technology for the balance of 2002 is approximately \$143,000 per quarter and \$492,000 for the full year 2002.

### **Interest Income, Interest Expense, Net**

Interest income reflects interest earned on cash balances. Interest income of \$5,000 and \$23,000 for the three and nine month periods ended September 30, 2002 compared to \$34,000 and \$154,000 for the same periods one year ago reflected a lower level of cash on hand during the first three quarters of 2002 compared to the first three quarters of 2001. Interest expense was \$31,000 and \$75,000 for the three and nine month periods ended September 30, 2002 compared to \$8,000 and \$16,000 for the same periods one year ago. The expense is related to interest on equipment lease financing obligations assumed from 3rd Rail Engineering and interest on the outstanding notes payable balances due to Nokia for acquisition of its Bluetooth CompactFlash Card business and related product line technology.

### **Income Taxes**

There were no provisions for Federal or state income taxes as we incurred net operating losses in all periods.

### **Accounts Receivable**

Our accounts receivable balances at September 30, 2002 were \$1.7 million, a decrease of \$0.5 million from our accounts receivable balances at December 31, 2001. The decrease was primarily due to improved collections at the end of September in comparison to collections at the end of the previous year that were affected by the end-of-year holiday season.

### **Inventories**

Our inventories at September 30, 2002 were \$2.5 million, an increase of \$0.7 million from our inventory balances at December 31, 2001. \$0.4 million of this increase was consignment inventory shipped to a national retail chain that began distributing our products in October 2002. The balance of the increase was primarily due to bar code scanning engines and components in anticipation of higher sales volumes in the following quarter.

### **Accounts Payable and Accrued Expenses**

Our accounts payable balances at September 30, 2002 were \$3.3 million, an increase of \$0.7 million over balances at December 31, 2001. Our balances at the end of September reflected higher purchases of inventory near the end of the quarter to stock the national retail chain (\$0.4 million) and to purchase bar code scanning engines and components in anticipation of higher sales volumes in the following quarters and increases in amounts due for directors and officers insurance resulting from premium increases in 2002.

### **Accrued Payroll and Related Expenses**

Our accrued payroll and related expenses balances at September 30, 2002 were \$0.5 million, an increase of \$0.1 million over balances at December 31, 2001. The increase reflects salary reductions including mandatory time off programs in the fourth quarter of 2001 that reduced payroll balances payable at the end of last year, as well as higher vacation liabilities that have accrued during 2002.

### **Liquidity and Capital Resources**

We have historically financed our operations through the sale of equity securities, equipment financing, and borrowings from revolving bank lines of credit. Since our inception we have raised approximately \$44 million in equity capital. We have incurred significant quarterly and annual operating losses in every fiscal period since our inception, and we may continue to incur quarterly operating losses at least through the first quarter of 2003 and possibly longer. We have historically needed to raise capital to fund our operating losses. We believe that our existing cash balances are adequate to fund our planned operating activities through at least the first quarter of 2003 and possibly longer. Our independent auditors included an explanatory paragraph in their report in our amended Annual Report on Form 10-K/A for the year ended December 31, 2001 expressing substantial doubt about our ability to continue as a going concern. We anticipate a need to raise one to two million dollars to fund cash flow needs for operations, investing and financing activities through December 31, 2003. We have a systematic procedure to forecast revenues, expenses, profits and cash flows. Nevertheless, our forecasts are highly dependent on factors beyond our control, including market acceptance of our new products, sales of handheld computers, greater deployment of higher speed networks in the market, market adoption of standards for smaller connection products and other factors. In addition, the amount that we may draw on our bank line depends on our accounts receivable balance, which is a function of our revenues. The amount of additional funding we require may vary accordingly. There are no assurances that capital from additional funding will be available on acceptable terms, if at all. Any inability to obtain such funding could require us to significantly reduce or suspend operations or sell additional securities on terms that are highly dilutive to investors, or may otherwise have a material adverse effect on our financial condition or operating results.

Cash used in operating activities was \$1.4 million for the nine months ended September 2002 compared to \$4.2 million in the same period one year ago. The use of cash resulted from financing our net loss of \$2.5 million in the first nine months of 2002 and \$4.9 million in the first nine months of 2001. Adjustments for non cash items including depreciation, amortization, stock option charges, and amortization of goodwill and intangible technology totaled \$0.7 million in the first nine months of 2002 and \$1.6 million in the first nine months of 2001. Changes in working capital balances resulting in a source of cash of \$0.4 million in the first nine months of 2002 primarily from increases in payables, accrued payroll and related expenses and decreases in accounts receivables partially offset by increases in inventories and prepaid expenses. Changes in working capital balances resulted in a use of cash of \$0.8 million in the first nine months 2001 were primarily related to decreases in accounts payable and decreases in accounts receivable.

Cash used in investing activities was \$1.1 million in the first nine months of 2002 compared to \$0.2 million in the first nine months of 2001. Investing activities in the first nine months of 2002 consisted primarily of the acquisition of Nokia's Bluetooth CompactFlash Card business and related product line technology. The majority of the equipment purchases in 2002 were tooling purchases related to the acquisition. Investing activities in the first nine months of 2001 primarily reflect the cost of test equipment, tooling costs for new products, and furniture, new computers and purchased software for new employees.

Cash used in financing activities was \$0.9 million in the first nine months of 2002 and cash provided by financing activities was \$2.1 million in the first nine months of 2001. Financing activities in 2002 consisted primarily of the decreases in the amounts borrowed from our bank lines of credit partially offset by the net proceeds from the issuance of common stock in a private placement financing. Financing activities in 2001 consisted primarily of an increase in the amounts borrowed from our bank lines of credit and the exercise of warrants and employee stock options.

Our cash and cash equivalents balances as of September 30, 2002 were \$1.4 million. There were no amounts drawn on our bank line of credit at September 30, 2002. The bank line of credit was renewed in October 2002 and expires in July 2003. Our bank line agreement contains covenants that require us to maintain certain financial values, including a requirement that our tangible net worth must exceed \$1,500,000 and that we maintain a quarterly net profit of \$1.00 before interest, taxes, and other non-cash charges. In March 2002, we issued common stock and warrants to increase our working capital balances by \$0.6 million (\$0.4 million net of costs and expenses). In October 2002 we issued redeemable preferred stock and warrants to increase our working capital balances by an additional \$1.0 million (\$0.81 million net of costs and expenses). We disbursed \$1.0 million in the first nine months of 2002 in the first two

installment payments for the purchase of Nokia's Bluetooth CompactFlash Card business and related product line technology. We have remaining outstanding warrants from our private placement financings and outstanding employee stock options that, if exercised, would further increase our cash and equity balances. However, most of these warrants and options are currently out of the money and we cannot anticipate any proceeds from their exercise. We believe that our existing cash balances are adequate to fund our planned operating activities through at least the first quarter of 2003. We will need and intend to raise one to two million dollars of additional capital in 2003 to fund our operations and to strengthen our working capital balances, which we would intend to accomplish through the issuance of additional equity securities, through increased borrowings on our bank lines as the level of accounts receivable permits, and through development funding from development partners. However, there can be no assurances that we will meet any of these objectives. In the event we are unable to raise sufficient additional capital to meet our requirements, we may not be able to continue some or all of our current operations.

Certain of our contractual cash obligations at September 30, 2002 are outlined in the table below:

	Payments Due by Period		
	Contractual Obligations		
	Total	2002	2003 to 2004
			2005 to 2006
Equipment lease debt	\$ 60,000	\$ 9,000	\$ 51,000
		\$ --	
Note from purchase of Nokia technology, net of hedging	1,727,000	328,000	1,399,000
	--		
Operating leases	2,117,000	144,000	979,000
		994,000	
Unconditional purchase obligations with contract manufactures	105,000	105,000	--
	--		
Total contractual cash obligations	\$ 4,009,000	\$ 586,000	\$ 2,429,000
		\$ 994,000	

In October 2002, we issued shares of Series E Preferred Stock that requires monthly amortization payments of \$66,667 commencing in January 2003. We may elect to make these payments either in cash or in shares of our common stock. To the extent we elect to make payments in cash, our cash needs would increase accordingly.

### Risk Factors

**If we fail to raise additional capital to fund our operations , we may not be able to continue as a going concern.**



The Report of Independent Auditors on our financial statements for the year ended December 31, 2001 contains an explanatory paragraph regarding the insufficiency of our current cash balances to fund planned operating activities through fiscal 2002 and regarding a substantial doubt about our ability to continue as a going concern. We have incurred losses and negative cash flows from operations since our inception. As of September 30, 2002, we had working capital of \$482,260, and an accumulated deficit of \$31,452,726. For the nine months ended September 30, 2002, we used cash for operating activities of \$1,394,974 and had a net loss of \$2,525,769. In addition, the continuing availability of our bank line of credit is dependent in part on our meeting net worth and profitability covenants or obtaining waivers should we fail to do so. For example, as of December 31, 2001, we were in default under a financial covenant of our bank line of credit, for which a waiver had been received from the bank to reduce the tangible net worth requirement from \$5,000,000 to \$4,000,000 through June 2002.

We expect our losses and negative cash flows to continue, which will require us to obtain additional financing through selling additional equity or debt securities or obtaining additional credit facilities from lenders. We cannot assure you that additional financing will be available on acceptable terms, if at all, and such terms may be dilutive to existing stockholders. If we are unable to secure the necessary financing, we will need to suspend some or all of our current operations.

**We have a history of operating losses, and we cannot assure you that we will achieve ongoing profitability.**

We have incurred significant operating losses since our inception. We expect to incur quarterly operating losses through the first quarter of 2003 and possibly longer. For the fiscal year ended December 31, 2001, we incurred a net loss of \$6,063,239. To sustain profitability, we must accomplish numerous objectives, including 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 cannot assure you that we will generate sufficient net revenue to achieve ongoing profitability. If we cannot achieve profitability, we will not be able to support our operations from our revenues, in which case we would need to raise even more capital.

**If the market for handheld computers fails to grow, we might not achieve our sales projections.**

Substantially all of our products are designed for use in mobile personal computers, including handhelds, notebook computers and tablets. If the mobile personal computer industry does not grow or growth slows, we might not achieve our sales projections.

**Our sales would be hurt if the new technologies used in our products do not become widely adopted.**

Many of our products use new technologies, such as the Bluetooth wireless standard and 2D bar code scanning, which are not yet widely adopted in the market. If these technologies fail to become widespread, our sales will suffer.

**If third parties do not produce innovative products that are compatible with our products, we might not achieve our sales projections.**

Our success is dependent upon the ability of third parties in the mobile personal computer industry to complete development of products that include or are compatible with our technology and to sell their products into the marketplace. Our ability to generate increased revenue depends significantly on the commercial success of Windows-powered handheld devices, particularly the Pocket PC, and other devices, such as the new line of handhelds with expansion options offered by Palm. If manufacturers are unable to ship new products such as Pocket PC and other Windows-powered devices or Palm devices on schedule, or if these products fail to achieve or maintain market acceptance our base of potential customers would be reduced and we would not be able to meet our sales expectations.

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

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

- consolidation among our competitors is resulting in companies with greater financial, marketing, and technical resources than ours;
- we periodically face intense price competition, particularly when our competitors have excess inventories and discount their prices to clear their inventories; and
- certain original equipment manufacturers of personal computers, mobile phones and handheld computers may make our products less significant by incorporating built-in functions, such as Bluetooth and WiFi, into their 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, or financial condition.

**If we fail to develop and introduce new products rapidly and successfully, we will not be able to compete effectively, and our ability to generate sufficient revenues will be negatively affected.**

The market for our products is prone to rapidly changing technology, evolving industry standards and short product life cycles. If we are unsuccessful at developing and introducing new products and services on a timely basis that include the latest technologies conforming with 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 expose our products to the risk of obsolescence and require frequent new product introductions. We will be unable to introduce new products and services into the market on a timely basis or compete successfully, if we fail to:

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

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

**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 will be difficult to forecast. We expect that it will become more difficult to forecast demand as we introduce and support more products and as competition in the market for our products intensifies.

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

If demand is lower than forecasted levels, we could have excess production resulting in higher inventories of finished products and components, which could lead to write-offs of some or all of the excess inventories. Lower than forecasted demand could also result in excess manufacturing capacity at our third-party manufacturers and our failure to meet some minimum purchase commitments, each of which may lower our operating results.

**We depend on alliances and other business relationships with a small number of third parties, and a disruption in any one of these relationships would hinder our ability to develop and sell our products.**

We depend on strategic alliances and business relationships with leading participants in various segments of the communications and mobile personal computer markets to help us develop and market our products. In accordance with this strategy, we have entered into alliances or relationships with Cambridge Silicon Radio, HandHeld Products, Hewlett-Packard, Hitachi, Intermec, Microsoft, Nokia Corporation, Office Depot, Palm, Sprint PCS, Symbol Technologies, and Toshiba Corporation. Our strategic partners may revoke their commitment to our products or services at any time in the future or may develop their own competitive products or services. Accordingly, our strategic relationships may not result in sustained business alliances, successful product or service offerings, or the generation of significant revenues. Failure of one or more of such alliances could result in delay or termination of product development projects, failure to win new customers, or loss of confidence by current or potential customers.

We have devoted significant research and development resources to design activities for Windows-powered mobile products and, more recently, to design activities for products to work with Palm devices. Such design activities have diverted financial and personnel resources from other development projects. These design activities are not undertaken pursuant to any agreement under which Microsoft or Palm is obligated to continue the collaboration or to support the products produced from the collaboration. Consequently, Microsoft or Palm 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.

**A significant portion of our revenue currently comes from a single distributor, and any decrease in revenue from this distributor could harm our business.**

A significant portion of our revenue comes from one distributor, Ingram Micro, which represented approximately 23% of our worldwide revenue in fiscal 2001 and 21% of our worldwide revenue for the first nine months of 2002. We expect that a significant portion of our revenue will continue to depend on sales to Ingram Micro. We do not have long-term commitments from Ingram Micro to carry our products, and it could choose to stop selling some or all our products at any time. If we lose our relationship with Ingram Micro, we could experience disruption and delays in marketing our products.

**We rely primarily on distributors, resellers, direct retailers and original equipment manufacturers to sell our products, and our sales would suffer if any of these third parties stops selling our products effectively.**

Because we sell our products primarily through distributors, resellers, direct retailers and original equipment manufacturers, we are subject to risks associated with channel distribution, such as risks related to their inventory levels and support for our products. Our distributors 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 of our major distributors or original equipment manufacturers could result in excess inventories and adversely affect our operating results.

Our agreements with distributors, resellers, direct retailers and original equipment manufacturers are generally nonexclusive and may be terminated on short notice by them without cause. Our distributors, resellers, direct retailers and original equipment manufacturers are not within our control, are not obligated to purchase products from us, and may represent competitive lines of products. Our current sales growth expectations are contingent in large part on our ability to enter into additional distribution relationships and expand our retail sales channels. We cannot predict

whether we will be successful in establishing new distribution relationships, expanding our retail sales channels or maintaining our existing relationships. A failure to enter into new distribution relationships or to expand our retail sales channels could adversely impact our ability to grow our sales.

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

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

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

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

Effective copyright, trademark, and trade secret protection may be unavailable or limited in certain foreign countries. Furthermore, certain of our customers have entered into agreements with us which provide that the customers have the right to use our proprietary technology in the event we default in our contractual obligations, including product supply obligations, and fail to cure the default within a specified period of time.

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

In the course of our business, we may receive claims of 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 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. Separate 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 unanticipated changes 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 have our products specified as standards for new hardware components designed by mobile computer manufacturers and original equipment manufacturers .

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

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

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

We expect to experience quarterly fluctuations in operating results in the future. We generally ship orders as received and as a result typically have little or no backlog. Quarterly revenue and operating results therefore depend on the volume and timing of orders received during the quarter, which are difficult to forecast. Historically, we have often recognized a substantial portion of our revenue in the last month of the quarter. This subjects us to the risk that even modest delays in orders 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 the introduction of our new products and product enhancements;
- the introduction of new products and product enhancements by our competitors;
- the timing of the introduction of new products that work with our connection products;
- changes in the proportion of revenues attributable to royalties and engineering development services;
- product mix;
- timing of software enhancements;
- changes in the level of operating expenses;
- competitive conditions in the industry including competitive pressures resulting in lower average selling prices; and
- timing of distributor's shipments to their customers.

Because we base our staffing and other operating expenses on anticipated revenue, delays in the receipt of orders can cause significant variations in operating results from quarter to quarter. As a result of any of the foregoing factors, 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.

**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 seven to ten years, including our President, Chief Financial Officer, Chief Technical Officer, Vice President of Marketing, and Senior Vice President for Business Development/General Manager Embedded and Industrial Systems Unit. Their experience is invaluable in understanding the markets we serve, our history, our products and the key relationships important to our success. 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 key senior personnel could adversely affect our ability to compete.

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

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

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

Our accounts receivables are derived primarily from distributors and original equipment manufacturers. We perform ongoing credit evaluations of our customers' financial conditions but generally require no collateral. Reserves are maintained for potential credit losses, and such losses have historically been within our expectations. 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 have financial difficulty, enter bankruptcy proceedings or liquidate. To the extent that a large customer fails or is unable to pay us, we are exposed to credit risk to the extent of the amounts due to us.

**We may be unable to manufacture our products because we are dependent on a limited number of qualified suppliers for our components.**

Several of our component parts, including our serial interface chip, our Ethernet chip, and our bar code scanning engines, are produced by one or a limited number of suppliers. Shortages could occur in these essential materials due to an interruption of supply or increased demand in the industry. If we are unable to procure certain component parts, we could be required to reduce our operations while we seek alternative sources for these components, which could have a material adverse effect on our financial results. To the extent that we acquire extra inventory stocks to protect against possible shortages, we would be exposed to additional risks associated with holding inventory, such as obsolescence, excess quantities, or loss.

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

Export sales (sales to customers outside the United States) accounted for approximately 38% of our revenue in 2001 and approximately 43 % of our revenue for the first nine months of 2002. Accordingly, our operating results are subject to the risks inherent in export sales, including:

- longer payment cycles;
- unexpected changes in regulatory requirements, import and export restrictions and tariffs;
- difficulties in managing foreign operations;
- the burdens of complying with a variety of foreign laws;
- greater difficulty or delay in accounts receivable collection;
- potentially adverse tax consequences; and
- political and economic instability.

Our export sales are predominately denominated in United States dollars and in Euros for a portion of our sales to European distributors. Accordingly, an increase in the value of the United States dollar relative to foreign currencies could make our products more expensive and therefore potentially less competitive in foreign markets. Declines in the value of the Euro relative to the United States dollar may result in foreign currency losses relating to collection of Euro denominated receivables.

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

Our corporate headquarters is located near an earthquake fault. The potential impact of a major earthquake on our facilities, infrastructure, and overall business is unknown. Additionally, we may experience electrical power blackouts or natural disasters that could interrupt our business. We do not have a detailed disaster recovery plan. We do not carry sufficient business interruption insurance to compensate us for losses that may occur. Any losses or damages incurred by us as a result of these events could have a material adverse effect on our business.

**Our common stock may be delisted from the Nasdaq stock market and the Pacific Exchange, which would have a materially adverse effect on the liquidity and price of our common stock.**

We recently transferred our common stock listing from the Nasdaq National Market to the Nasdaq SmallCap Market, because we were not able to maintain the requirements for listing on the National Market. However, our SmallCap Market listing and our listing on the Pacific Exchange are also contingent on meeting specific quantitative standards, including a minimum bid price of \$1.00. We may not be able to meet these requirements in the future, particularly if our common stock fails to trade at above \$1.00 per share. Our common stock last traded above \$1.00 on September 10, 2002. Our common stock may also be delisted from the SmallCap Market if we fail to meet any other criteria for initial listing on the SmallCap Market as of February 18, 2003. However, we currently expect to be able to meet these requirements. If our common stock is delisted from the SmallCap Market and the Pacific Exchange, and is thereafter traded only on the over-the-counter market, our stockholders' ability to purchase and sell our common stock could be less orderly and efficient. Stockholders could also be forced to pay higher margins to trade our common stock. Furthermore, a delisting of our common stock could have a materially adverse impact on our business operations by damaging our general business reputation and impairing our ability to obtain additional capital. As a result of the negative impact on the liquidity of our common stock and on our business, a delisting would also likely decrease the market price of our common stock and increase the volatility of our common stock price.

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

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

As of December 18, 2002, we had 24,113,998 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 or S-8/S-3 prospectus delivery requirements, and, in some cases, only to manner of sale, volume, and notice requirements of Rule

144 under the Securities Act of 1933, as amended.

As of December 18, 2002, we also had 5,290,012 shares subject to outstanding options under our stock option plan and 1,149,425 shares were available for future issuance under these plans. We have registered the shares of common stock subject to outstanding options and reserved for issuance under our stock option plan. Accordingly, shares underlying vested options will be eligible for resale in the public market as soon as the options are exercised.

As of December 18, 2002, we also had warrants outstanding to purchase a total of 725,319 shares of our common stock.

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

During the period from December 1, 2001 through December 18, 2002, our stock price fluctuated between a high of \$ 2.55 and a low of \$0.51. 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 3. Quantitative and Qualitative Disclosures About Market Risk**

**Interest Rate Risk.**

Our exposure to market risk for changes in interest rates relates primarily to invested cash. Our cash is invested in short-term money market investments backed by U.S. Treasury notes and other investments that mature within one year and whose principal is not subject to market rate fluctuations. Accordingly, interest rate declines would adversely affect our interest income but would not affect the carrying value of our cash investments. Based on a sensitivity analysis of our cash investments during the quarter ended September 30, 2002, a decline of 1% in interest rates would reduce our quarterly interest income by approximately \$3,400.

Our bank credit line facilities of up to \$4 million have variable interest rates based upon the lenders index rate plus 0.75% for the domestic line (up to \$2.5 million) and the index rate plus 0.5% for the international line (up to \$1.5 million). Accordingly, interest rate increases would increase our interest expense on outstanding credit line balances. Based on a sensitivity analysis, an increase of 1% in the interest rate would increase our quarterly borrowing costs by \$2,500 for each \$1 million of borrowings against our bank credit facility or a maximum of \$10,000 if we utilized our entire credit line.

**Foreign Currency Risk.**

A substantial majority of our revenue, expense and purchasing activities are transacted in U.S. dollars. However, we allow certain of our European distributors to purchase our products in Euros, we pay the expenses of our European subsidiary in Euros, we pay the expenses of our Japan office in Japanese Yen, and we expect to enter into selected future purchase commitments with foreign suppliers that will be paid for in the local currency of the supplier. To date these balances have been small and we have not been subject to significant losses from material foreign currency fluctuations. We have payment obligations of approximately 1.9 million Euros as a result of the recent purchase of Nokia's CompactFlash Bluetooth Card business and related product line technology. We have purchased forward purchase contracts and swap contracts for Euros in order to minimize our foreign currency exposure. Based on a sensitivity analysis of our net assets at the beginning, during and at the end of the quarter ended September 30, 2002, an adverse change of 10% in exchange rates would result in an increase in our net loss for the quarter of approximately \$45,300. We will continue to monitor and assess the risk associated with these exposures and may at



some point in the future take actions to hedge or mitigate these risks.

**Item 4. Controls and Procedures**

(a) Evaluation of disclosure controls and procedures

Within the 90-day period prior to the date of this report, the we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Rule 13a-14 of the Securities Exchange Act of 1934 (the " Exchange Act " ). Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company ' s disclosure controls and procedures are effective in timely alerting them to material information relating to us (including its consolidated subsidiaries) required to be included in the our Exchange Act filings.

(b) Changes in internal controls

There have been no significant changes in our internal controls or in other factors which could significantly affect internal controls subsequent to the date we carried out its evaluation.

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**PART II. OTHER INFORMATION**

**Item 6. Exhibits and Reports on Form 8-K.**

(a.) Exhibits

99.1 Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

(b) Reports on Form 8-K

No reports on Form 8-K were filed by the Company during the three-month period ended September 30, 2002.

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**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

**SOCKET COMMUNICATIONS, INC.**

Registrant

Date: February 11, 2003

/s/ Kevin J. Mills

Kevin J. Mills  
President and Chief Executive Officer

Date: February 11, 2003

/s/ David W. Dunlap

David W. Dunlap  
Vice President of Finance and Administration and Chief Financial Officer (Duly Authorized Officer and Principal Financial and Accounting Officer)

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### CERTIFICATIONS

I, Kevin J. Mills, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Socket Communications, Inc.;
2. Based on my knowledge, this quarterly 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 quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly 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 quarterly report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
  - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
  - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
  - c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
  - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: February 11, 2003

By: /s/ Kevin J. Mills

Name: Kevin J. Mills

Title: President and Chief Executive Officer (Principal Executive Officer)

I, David W. Dunlap, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Socket Communications, Inc.;
2. Based on my knowledge, this quarterly 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 quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly 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 quarterly report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
  - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
  - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
  - c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
  - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: February 11, 2003

By: /s/ David W. Dunlap

Name: David W. Dunlap

Title: Vice President of Finance and Administration and Chief Financial Officer (Principal Financial Officer)

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**Index to Exhibits**

Exhibit Number

Description

99.1

Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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Exhibit 99.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER  
PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED 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 Quarterly Report of Socket Communications, Inc. on Form 10-Q for the quarterly period ended September 30, 2002 as filed with the Securities and Exchange Commission on the date hereof (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, and that information contained in the Report fairly presents in all material respects the financial condition and results of operations of Socket Communications, Inc.

February 11, 2003

By: /s/ Kevin J. Mills

Name: Kevin J. Mills

Title: President and Chief Executive Officer

I, David W. Dunlap, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report of Socket Communications, Inc. on Form 10-Q for the quarterly period ended September 30, 2002 as filed with the Securities and Exchange Commission on the date hereof (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, and that information contained in the Report fairly presents in all material respects the financial condition and results of operations of Socket Communications, Inc.

February 11, 2003

By: /s/ David W. Dunlap

Name: David W. Dunlap

Title: Vice President of Finance and Administration and Chief Financial Officer