

Socket Communications, Inc.
Management Call
January 16, 2007
1:00 p.m. EST

Operator:

Greetings, ladies and gentlemen, and welcome to the Socket Communications Incorporated management call. At this time, all participants are in a listen-only mode.
(Caller instructions)

It is now my pleasure to introduce your host, Mr. Jim Byers of the MKR Group. Thank you, Mr. Byers, you may begin.

Jim Byers - MK Group:

Thank you, operator. Hello, everyone. Welcome to today's Socket conference call pertaining to Socket's announcement of its plans to roll out mobile computing devices to meet the mobile worker's needs disclosed in the press release issued before the opening of the market this morning.

On line today to discuss this announcement are Kevin Mills, President and Chief Executive Officer of Socket; Peter Phillips, VP of Marketing; and Dave Dunlap, Chief Financial Officer.

This morning's press release has also been posted on Socket's Web site at www.socketcom.com. In addition, a replay of today's call will be available at VCALL.com.

After the call's completion, the transcript of the call will be posted on Socket's Web site within a few days. The press release out this morning also includes replay numbers for those wishing to replay this conference call by phone. The phone replay will be available for one week.

Before we begin, I would like to remind everyone that this conference call may contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 as amended and section 21 E of the Securities Exchange Act of 1934 as amended. Such forward-looking statements include but are not limited to statements indicating a new product introduction including details on the timing and distribution of the product and statements predicting trends, sales and marketing opportunities in the markets in which we sell our products. Such statements involve risks and uncertainties and actual results could differ materially from the result anticipated in such forward-looking statements as a result of a number of factors including but not limited to the risk that the product introduction may be delayed or not happen as predicted, if ever; the risk that market acceptance and sales opportunities may not happen as anticipated once the product has been introduced into the market; the risk that our integrator program and current distribution channels may not choose to distribute the product or may not be successful in doing so; the risk that acceptance of our product in vertical application markets may not happen as anticipated and that anecdotal evidence and the success of the market may not be indicative of a trend; the risk of delays in our ability to design, manufacture, market and sell the new product due to technology, markets or other factors including the availability of necessary working capital and other risks described in our most recent Form 10-K and 10-Q reports filed with the Securities and Exchange Commission.



With that said, I will now turn the call over to Socket's CEO, Kevin Mills.

Kevin Mills - Socket - CEO:

Thank you, Jim. As we detailed in a press release this morning we're excited to announce our strategic plan for Socket to expand into the systems business with the introduction of our own mobile computing device targeting the product needs of small to medium business deployments.

Through relationships with key customers as well as our extensive channel and technology partners, we've identified an excellent opportunity to provide more to our existing and target customers in addition to peripheral products with a new line of mobile computing devices we are presently developing.

Socket's hand-held mobile computers are specifically designed to meet the business needs of mobile workers providing essential customer-facing services in key business sectors including healthcare, retail, field sales and field service automation.

Market feedback has indicated a significant opportunity to provide mobile productivity solutions that specifically address this business segment, as companies have been forced to compromise between mobile computing devices ideally suited for consumers and industrial grade devices that offer more functionality than they need.

We believe this gap between the needs of businesses and the capabilities of current available mobile devices represents a significant untapped market opportunity that we are uniquely positioned to address.

Socket's core strength and expertise is the optimal integration of systems and peripherals. We believe we are ideally positioned to leverage our substantial technical expertise and mobile productivity products to provide flexible, robust and easy-to-optimize platforms that bring the right mobile business functions for the best overall value.

As an established and innovative provider of the most complete lines of productivity enhancing mobile peripherals, our mobile computing product line will complement our portfolio of award-winning mobile data collection and network connectivity products, making Socket a one-stop-shop for systems and peripherals and shortening our partner's integration and deployment cycles.

We will market our mobile computing devices through our current distribution channels and with existing integration partners and resellers.

Our first mobile computing device is going through testing and will be available for key partner and customer evaluations beginning early February.

We anticipate it will be ready for sale in the second quarter of this year and expect to be able to provide more detailed product information within the next few weeks.

With that, I will pass the call over to Peter Phillips, Socket's Vice President of Marketing. Peter.



Peter Phillips - Socket - VP of Marketing:

Thank you, Kevin. So let me begin with a brief overview to put things in context. For the last several years, Socket has been working closely with our partners and customers to resolve many issues of compatibility and integration during their mobile deployments.

Over the last six months under NDA we have narrowed down our interactions to a few key customers and partners to better understand their requirements and feedback on current options available in the market.

That feedback clearly identified the opportunity that we are discussing today. Before opening up for general questions, I thought it would be useful to review the answers to some of the commonly asked questions raised through these conversations.

These questions deal primarily with strategy and market directions and do not address specific details on the product. That information will be released over the next few weeks.

Dave Dunlap – Socket – CFO <Q> and Peter Phillips <A>:

Peter, this is Dave. I'll go ahead and field the key questions we've received.

<Q>: First, does the new product line mean a change in Socket's target and addressable markets?

<A>: Our new product line represents a logical extension of our existing business and the target markets we have and will continue to address.

We will continue to leverage the same distribution and integration channels to address these opportunities, as Kevin mentioned. But this clearly gives us an opportunity to penetrate these markets deeper and from a different vantage point. Socket will become a greater portion of the final solution which has the benefit of improving and shortening the deployment process by reducing the involvement of two companies down to one. In addition, we potentially will have the opportunities to sell the device without our peripherals which opens up new opportunities that do not exist for us today.

<Q>: Have you estimated the market opportunity?

<A>: As described in the press release by the research firm VDC, the mobile market exceeded \$23 billion in 2006. We are filling a niche that's been identified and underserved in this segment. We estimate the market opportunity we are targeting to be approximately \$1 billion or just over 4% of the entire 23 billion dollar market. We anticipate that there is opportunity for growth within that segment.

<Q>: Third question, how can you compete in the marketplace against significant competition?

<A>: Well, at this point, small to medium deployments for customer facing service applications are not being very well serviced. Today the typical scenario is for an integration partner or customer to compromise by either using a consumer class device for something it was not really designed for, or paying for an industrial grade device that provides more than what was required. So there are a few if any direct solutions which

address the specific needs of the segment we are targeting. A simple analogy would be in the car market. Before SUVs there were cars and trucks but there was the need for the SUV. In our segment we are targeting today we have the cars, we have the trucks but we do not have the SUV, until our product.

<Q>: Another question was when will the product line begin shipping?

<A>: As mentioned earlier, the first product in the line is planned for release in Q2 of this year. More information can be found on our corporate Web site as it becomes available over the coming weeks.

<Q>: Will this product line drive more applications?

<A>: Yes we believe it will for the following reasons. One by meeting the requirements of the segment which is not being well serviced there will be better acceptance and inclination of customers to move forward with mobile deployments.

Two, faster and easier deployments will lessen the burden and demonstrate the opportunity for others considering similar mobile solutions.

And three, various technical advancements including processor speeds, memory, and stability in the OS platform are allowing applications that can be deployed to a mobile work force.

<Q>: Will Socket continue its OEM business?

<A>: Yes, this is a key part of our going forward strategy. Our OEM solutions will continue to be offered and are an important part of our going forward strategy. That has not changed. Both the OEM and the new mobile computing device benefit from one another. It goes both ways. What we learn from one makes the other a better product.

<Q>: Will Socket continue to sell peripherals as stand-alone add-ons to other mobile products?

<A>: Yes, we are not trying to make our mobile computing product a solution for everyone. There will be opportunities for our peripheral products to continue to be sold and be used by other mobile devices in the market.

<Q>: Will you sell these products in Europe, Middle East and Africa?

<A>: Our focus is going to be on the North American market initially. But we will make available an international English version to our EMEA distribution and integration partners.

<Q>: Can you buy the device in stores?

<A>: No. The device is focused on the needs of the mobile business worker and will be sold through our integration partner channel, which purchases from general distribution.



<Q>: Are you working with a carrier? What is your carrier strategy?

<A>: Our research indicates there are requirements in our target segment for a device without a built in wide area cellular radio. Our device will not contain one. We will continue to work closely with HP and Palm as we have heard this is the area of focus for them going forward and we will work closely with them today on project deployments concerning devices with wide area radios on various carrier networks.

<Q>: I'll go ahead and field the last question. Will Socket need to hire additional people and raise additional capital?

We have a full time product manager. We've had that manager for some time, and we have in place the team needed to manage our distribution channels. We are continuing to expand the number of personnel available to work with our integrator partners, as that group of partners grows. But the growth will be moderate, as we want the benefits of growth to pass through to the bottom line.

As to capital, we have the capital to complete development of the mobile computer and to launch it. Growth can create pressure on working capital, because of added investment in receivables and inventory, but that's why we have a bank line.

That completes the list of questions that we wanted to respond to before opening the call to the general questions of our listeners.

So at this time let me turn the call back to the operator for questions and answers. Operator.

Operator:

Thank you. (Caller instructions).

Thank you. Our first question is from Kevin Dede with Merriman Curhan and Ford. Please proceed with your question.

<Q>: Dave, Kevin, congratulations on this announcement, very interesting.

<A>: Thank you.

<Q>: I love the SUV analogy, but I didn't find it incredibly helpful in terms of giving me more insight as to what specific capabilities and applications you think are lacking that you think you can deliver.

<A>: Let's be a little bit more specific. We don't want to release the details of the product because we're not ready yet.

But what we're finding in the market is the following: Today many people are using a consumer grade device in conjunction with our peripherals to solve business requirements. However, they're running into difficulty in that the platform maybe is not robust enough. I'll give you one example: We have a lot of people who require a roaming client in their wireless LAN. Most consumer grade devices don't have a roaming client because the

assumption and the correct assumption is that for most consumer grade type devices there's one axis point that you lock onto when you're using it at home. It works perfectly well.

When you use that device in a hospital environment, as an example, and the nurse is moving between various rooms, she has to roam on the network.

Today what happens is that for periods of time the device is not connected as it falls off one axis point and it takes some time to get on the second axis point.

That's a good example where our device will have this type of capability whereby it will have a roaming client and therefore the experience for the nurse will be that she has seamless connections as if she were on a mobile phone network as an example.

But what we really feel here is that the devices that are in the markets were never designed for the intended use or for the use currently deployed in.

As a result, there are a lot of little things that are gotchas that make it difficult for people to deploy the solutions.

What we will be offering is a device that is specifically designed for these types of mobile applications, that's a little more robust and more targeted towards these applications.

And, again, I think back to our SUV type situation, today we would consider the consumer grade devices to be more like your car and people, prior to SUVs, did lug around things in their car. It wasn't very convenient when they didn't have a requirement for a truck all the time. And we put our friends, Symbol and Intermec and HandHeld Products, in the more industrial, robust, truck-like category.

Again as a way of describing what we're doing, we see there's quite a gap between these two different categories and we're targeting to be in the center with that SUV type vehicle, if you will. Does that provide some clarity?

<Q>: Oh, absolutely, Kevin. Thanks very much. And it sort of begs the next question, which is, did most of your development go along the lines of adding software applications to enable these additional functionalities or does it also include incorporating some of the hardware peripherals that you've developed over the years?

<A>: This is Peter. I'll address that question, Kevin. In answer to your question on the software side of it, we have added certain capabilities to help the user experience within the wireless arena, whether it be Wi-Fi or Bluetooth enabled. We haven't added specific software applications because obviously we use our integration partners to deliver the final solution within the specific vertical markets that they're addressing.

We have added capabilities in the hardware space in order to address shortcomings in the products that we have gotten feedback on from our customers and partners in the last nine to twelve months.



<A>: And maybe to add, Kevin, our business model is to provide a stable, dependable reliable piece of hardware where people can build applications and then deploy them.

One of our strategies will be to have this device available in the market for three to five years. We have found in our deployment that people spend up to a year getting ready for a deployment, convincing themselves, doing evals, maybe mini field trials and then possibly another six months getting budget approval.

So the whole eval process can take up to 18 months and then they need some period of time to get their return on investments.

One of the things that's been a frustration I think in the market in general is that the lifecycle of the devices in the market, particularly the consumer grade devices, have been 12 to 18 months.

As a result through the evaluation process the rules change and a new device enters the market and the device you are evaluating just disappears from the market or there's a new OS or update. And those are the types of things that we will have a lot of strength in and we'll be able to service the market somewhat better in that by making the device available for three to five years, we give people not only the opportunity to evaluate the device but to have a reasonable time frame to get a return on the investments, because most of the money is spent in the deployment phase and then you need some reasonable time, maybe two to three years, to turn that investment into a very solid ROI.

<Q>: Okay. Just to go back and touch a point that was raised in addressing that question, you've looked at feedback that you've received from channel partners over the past six to nine months.

I was wondering if you did any research sort of beyond that and, I don't know, maybe looking at the specific vertical markets. I mean obviously healthcare seems to be one that you're addressing.

But outside of that, and looking at specific end applications to design products to meet that, or is it more of a foundation platform that people can build from?

<A>: I would say that it's a foundation and we're going to build from it. I think that within the many customer facing service-related applications, what people are looking for is quite similar. There are variations on that but that would be achieved by using plug-in or connected peripherals. So I think what we're building is a platform that people can depend on and leverage with a series of peripherals.

We're not targeting any one specific work stage. But I think going forward if we need to modify the products to leverage some large opportunities in particular verticals, then we certainly would be in a position to do that.

<Q>: Last question for Dave. Dave, when you look at the business model as a result of selling these product lines, the new product line, do you see it being complementary to Socket's existing business model? Do you think it will benefit gross margins? How should we look at what you think the contribution will be?

<A>: As you recall our discussions, Socket is extremely well leveraged, so we benefit from volume increases and revenue increases because we're using standard distribution. We have the infrastructure in place to

manage that channel. You can put a lot more volume through the channel, and this product will be sold the same way our other products are sold, through that general distribution channel, so that it doesn't require a lot of additional expense in order to distribute the products into the market.

So the increase in revenue that we expect from adding this product should benefit our bottom line. As you know, we characterize solutions in three categories: hand-held computers, our peripherals and applications. And we've built a very extensive group of application development partners.

So in addition to getting just the revenue from the peripherals we're now expecting that in many cases the customer will choose to use our hand-held along with our peripherals and we'll get that piece of revenue as well. With that growth we expect increases in gross margins that will greatly benefit the bottom line and we're looking forward to that happening.

<Q>: Very good. Thank you very much, gentlemen, for taking all my questions and congratulations.

<A>: Thank you, Kevin.

Operator:

(Caller instructions).

Thank you. Our next question is from Mr. Andrew Lais of Western International Securities.

<Q>: Dave, this is a very interesting new development. I just wanted to know what do you expect from this new product line in terms of overall sales?

<A>: Well, as you know Andrew, our history is to not to try to quantify or forecast specific targets on sales. I think that since we're addressing a market that we've sized as a billion-dollar market, over time we expect that we will begin to certainly capture portions of that market and how rapidly we build our revenue and how high we can go is in many respects a function of market acceptance and the roll-out processes.

So I think what we will do is simply report as we go on our successes. In comparison, the hand-held computer is a higher revenue item than about half of our peripherals. Some of our more expensive data collection peripherals generate more revenue than the hand-held does. But on the whole, if we now are selling a hand-held and a peripheral instead of just a peripheral, you can see that the growth there has the ability to be quite significant.

<Q>: Okay. Thank you.

Operator:

Thank you. Our next question is from Mr. Ron Craven, a private investor. Please proceed with your question.

<Q>: Thank you, gentlemen. It's a new area for us but it looks like it holds a lot of promise.

On the manufacturing of the device itself, will that be outsourced and to whom? And also will the device be branded with the Socket name?

<A>: Yes. So thank you for your question, Ron. The device will be a Socket device. Branded by us and it's our design and it's fully owned by us.

So this is a Socket product. We will have the product outsourced and manufactured overseas and we're working with a partner who has a lot of experience in building hand-held computers.

We don't think that the name of the manufacturing partner is relevant, and right now we're not willing to disclose that.

<Q>: How many different devices are we looking at over the period of the roll-out?

<A>: Our initial plan is to have two devices. The first of which will come to market in Q2, but we're not limited by the number of devices. I think we will be in a position to add devices, and as I mentioned to Kevin Dede in his question, one of the things this will do is open up new opportunities. And if people come with specific needs for certain vertical markets, if the volume is there, we'd certainly be in a position to modify our base device to better customize it to those particular needs.

<Q>: Okay. And then can you expand any more at all on any of the features that might set our units out as being different than what's on the market presently?

<A>: Short answer is no. We have a roll-out plan and if you tune to our Web page, we will periodically update over the next few weeks both the device and information about the device. But right now we're focused on the execution part of getting the device to market, and we will inform you and everyone else when we're ready to basically accept orders and move this device into the market.

<Q>: Okay. All right. That's all I have at this time. Congratulations and good luck.

<A>: Thank you very much.

Operator:

Thank you. Our next question is from Mr. Eric Kritsky with Acosta Sales and Marketing. Please proceed with your question.

<Q>: The operating system that your new device is based on, will that be a Microsoft product? Will it be proprietary?

<A>: It will be a Microsoft-based product. It will not be proprietary.



<Q>: Okay. And the expansion capability of the device, SD slot, CF slot?

<A>: Yes.

<Q>: And both?

<A>: Yes.

<Q>: Okay. And memory, basic memory on the device?

<A>: Lots! Eric, again, we don't want to turn this into 20 questions about the product. But I think that you will be happy and I think our customers will be happy with the device when we bring it to market, areas like memory and expandability are obviously core to what we do. We've worked many years in the mobile space and people need the flexibility of using our products and we will make sure and we are making sure that this device meets all of those needs.

<Q>: Right. We currently have about 4,000 of your CF modems out in the field.

<A>: And we're very happy for your customers, and we'll be well able to support you going forward.

<Q>: Thank you.

Operator:

(Caller instructions).

Ladies and gentlemen, we have no further questions at this time.

Kevin Mills - Socket - CEO:

<A>: Okay. I'd just like to wrap up the call by thanking everyone for joining us today. And to say that we look forward to reporting our 2006 results on our call on February 21st, 2007 and we will update you on that call on our progress.

So with that I will conclude the call and thank you again for participating. That concludes the call.

Operator:

This does conclude today's conference. Thank you for your participation.

