

## ***Transcript of Socket Mobile, Inc***

### **First Quarter 2014 Management Conference Call April 24, 2014**

---

#### **Participants**

Jim Byers – MKR Group, Investor Relations  
Kevin Mills – President & Chief Executive Officer  
Dave Dunlap – Chief Financial Officer

#### **Analysts**

Brian Swift – Securities Research Associates  
William Smart – Cardinal Value

#### **Presentation**

##### **Operator**

Greetings and welcome to the Socket Mobile First Quarter 2014 Management Conference Call. At this time, all participants are in listen-only mode. A question and answer session will follow the formal presentation. (Operator instructions given.) As a reminder, this conference is being recorded.

I would now like to turn the conference over to Jim Byers of MKR Group. Please go ahead.

##### **Jim Byers – MKR Group, Investor Relations**

Thank you, operator. Good afternoon and welcome to Socket's conference call today to review financial results for its first quarter ended March 31, 2014. On the call today from Socket are Kevin Mills, President and CEO; and Dave Dunlap, Chief Financial Officer.

Socket Mobile distributed its earnings release over the wire service earlier today. The release has also been posted on Socket's website at [www.socketmobile.com](http://www.socketmobile.com). In addition, a replay of today's call will be available in VCall.com shortly after the call's completion and a transcript of this call will be posted on Socket's website within a few days. We've also posted replay numbers in today's press release for those wishing to replay this call by phone. The phone replays 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 21E of the Securities and Exchange Act of 1934 as amended. Such forward-looking statements include, but are not limited to, statements regarding mobile computer data collection and handheld computer products, including

details on timing, distribution and market acceptance of products; and statements predicting trends of sales, market conditions and opportunities in the markets in which Socket sells its products. Such statements involve risks and uncertainties and actual results could differ materially from the results anticipated in such forward-looking statements as a result of a number of factors, including, but not limited to, the risk that manufacture of Socket's products may be delayed or not rolled out as predicted due to technological market or financial factors, including the availability of product components and necessary working capital; the risk that market acceptance and sales opportunities may not happen as anticipated; the risk that Socket's application partners and current distribution channels may choose not to distribute the products or may not be successful in doing so; the risk that acceptance of Socket's products and vertical application markets may not happen as anticipated; as well as other risks described in Socket's most recent Form 10-K and 10-Q reports filed with the Securities & Exchange Commission. Socket does not undertake any obligation to update any such forward-looking statements.

With that said, I'd now like to turn the call over to Socket's President and CEO, Kevin Mills.

**Kevin Mills – President & CEO**

Thanks, Jim. Good afternoon, everyone, and thank you for joining us today. I will begin today's call with a review of our first quarter results and then discuss the business opportunities we see ahead in 2014.

Overall, Q1 was a good start for the year and a very positive step towards a return to profitable operating levels in 2014. The first quarter total revenue was \$3.8 million, a sequential improvement from the preceding quarter. We also achieved positive EBITDA for the quarter with sequential improvements in expenses, margins and operating results. While first quarter revenue is down about 11% from the same quarter last year, primarily due to lower SoMo revenue, we continue to see strength in our cordless scanning business, which was up both sequentially and year-over-year.

Let me now discuss the dynamics of our business in Q1 and then outline our expectations for 2014 starting with our cordless barcode scanning business. Revenue from our cordless scanning business reached a record level of \$2.7 million in the first quarter, up 15% sequentially over the preceding quarter and up 14% over the first quarter of last year. Looking more closely at the year-over-year comparison, last year's first quarter included a large deal for a single customer representing 3,200 scanners. So far this year we really haven't had any deals of a similar magnitude, so when you compare a normalized run rate for the two periods, the year-over-year increase in our cordless scanning business is actually closer to 40% over the same quarter last year.

We view our run rate as the level of business that happens without large one-time deals and are encouraged with the continued increase we are seeing in this number. Our run rate business continues to be driven by the increasing number of mobile applications that continue to be delivered to the mobile markets with the mobile point of sale application continuing to represent the single biggest category.

**PrecisionIR Group**  
901 I Arboretum Pkwy  
Suite 295  
North Chesterfield, VA  
23236

Phone: 804-3273400  
Fax: 804-327-7554

[www.precisionir.com](http://www.precisionir.com)  
[www.investorcalendar.com](http://www.investorcalendar.com)  
[www.companyspotlight.com](http://www.companyspotlight.com)

As we have noted before the primary purchase is the application with added peripherals such as a scanner as a secondary requirement. One of the driving forces in this category is the smaller merchant, who is increasingly switching from traditional cash registers and traditional payment method systems to iPad based solutions with newer payment options. Once they make the decision to switch to the new mobile point of sale application, they then purchase the approved peripherals to complete their solution. We see this happening on a daily basis resulting in shipments of our products in smaller quantities to stores around the country.

This is the reason that our developer program is vital to the long-term health of our business. More than 900 developers have registered to use our SDK, which enables application developers to easily integrate our Socket scan barcode scanning software into their applications and provide their customers with tools to edit and process 1D and 2D barcode information using our barcode scanners. In addition, we continue to work with Apple to list completed applications within the iTunes stores. Today there are approximately 220 different applications on the Apps Store that list the Socket scanner as an approved scanning peripheral. We don't have the exact number of applications available on the Android marketplace, but we suspect that number is well over 100. This increasing number of applications in both the Android and Apple marketplaces is the primary reason we are confident that our scanning volumes will continue to grow. In addition to this new emerging point of sale market, we have also seen continued growth in our more traditional scanning markets, such as commercial service, and we expect this to continue in 2014.

Overall, we are very pleased with our scanning business and the increased level of activity we are seeing. There is a significant lag between signing up for the SDK and then delivering an application to the market that can drive our scanning sales. Applications developed and deployed over the past two quarters are now driving the daily sales we are seeing today and with the growth we are seeing in developers who have registered to use our SDK we believe we are just seeing the tip of the iceberg. We expect that the volumes will continue to increase as more and more of these applications make their way to market.

Now turning to our SoMo business, as we have noted before, while the SoMo remains a solid product, this business has been impacted by market driven forces related to the choice of operating systems. The fundamental problem is that Windows Mobile 6.5 is no longer a platform that attracts developers, who seem more excited by both Apple and Android market opportunities. As a result, there are very few new applications being developed for the Windows Mobile platform. Consequently, the SoMo business has declined by 46% over the same period last year and now only represents 16% of our total revenue. However, we believe the current revenue contribution is sustainable for the remainder of the year from the customers we are already servicing and supporting.

Obviously, we are disappointed that the SoMo business did not prosper as originally planned, but our ability to improve the situation is limited due to the fact that Windows Mobile has been relegated to a niche operating system that is only selected for longer term stability sensitive projects. In such instances our SoMo will certainly be your first choice as a reliable product at a very attractive price point. However, there are some

**PrecisionIR Group**  
901 I Arboretum Pkwy  
Suite 295  
North Chesterfield, VA  
23236

Phone: 804-3273400  
Fax: 804-327-7554

[www.precisionir.com](http://www.precisionir.com)  
[www.investorcalendar.com](http://www.investorcalendar.com)  
[www.companyspotlight.com](http://www.companyspotlight.com)

additional new areas of interest where we feel that SoMo could be a preferred solution, specifically the RFID NFC markets, which have been on the verge of a breakout for many years. We will be focusing our SoMo marketing efforts in these new emerging markets over the remainder of the year to better understand the potential opportunities and requirements for longer term success.

In summary, our scanning business continues to see strong growth and now represents 72% of our total revenue. We expect this upward trend to continue, driven by an increasing developer community and increasing number of mobile applications coming to market. We believe the market for these solutions is still in the early stages with significant potential for further growth and Socket is strongly positioned to capitalize on this growth with our broad range of products and excellent software developer kits.

With that said, I would now like to turn the call over to Dave for his review of the financials. Dave.

**Dave Dunlap – CFO**

Thank you, Kevin. Socket's net increase in first quarter revenue over the fourth quarter was 3%. Within that total, sales of our cordless barcode scanning products increased 15% from the previous quarter and at \$2.7 million, represented 72% of our first quarter revenue. A decline in sales of our SoMo handheld computer products partially offset this growth. SoMo handheld computer sales represented 16% of our first quarter revenue and accessory product sales and service accounted for the remaining 12%. We expect these trends to continue in the second quarter with overall net revenue growth from the sale of barcode scanning products driven by an increasing number of developer applications in mobile point of sale and commercial services.

The first quarter results reflected improvements over the previous quarter in margins, operating expenses, operating income, net income and income before interest, taxes, depreciation and amortization or EBITDA. Our margins increased from 41.1% of revenue in the fourth quarter to 42.8% of revenue in the first quarter reflecting product cost savings and reductions in fixed manufacturing overhead costs. Our operating expenses consisting of engineering, sales and marketing, and general and administration expenses decreased from \$1.781 million in the fourth quarter to \$1.551 million in the first quarter due to non-recurring expenses in Q4 that did not recur in Q1, as well as lower operating costs.

Our operating results improved from an operating loss of \$274,000 in the fourth quarter to operating income of \$72,000 in the first quarter and our bottom line improved from a loss of \$419,000 over \$0.09 per share in Q4 to a loss of \$72,000 or \$0.01 per share in the first quarter.

As Kevin has noted, cordless barcode scanning has been driving our growth and is expected to continue to do so as the mobile business markets we are addressing, particularly in mobile point of sale and commercial services application areas, continue to grow and to mature. The first quarter was a positive step forward towards our goal of reaching profitability in 2014 while continuing to deliver quality products

**PrecisionIR Group**  
901 I Arboretum Pkwy  
Suite 295  
North Chesterfield, VA  
23236

Phone: 804-3273400  
Fax: 804-327-7554

[www.precisionir.com](http://www.precisionir.com)  
[www.investorcalendar.com](http://www.investorcalendar.com)  
[www.companyspotlight.com](http://www.companyspotlight.com)

and support to the marketplace. Our cordless barcode scanners and software are designed for use with smartphones and tablets using operating systems from Apple, Google, Android, Blackberry, and Microsoft Windows and Windows Mobile and the widespread incorporation of our barcode scanning products into point of sale and commercial service applications is positioning Socket to be a market leader for many years to come as businesses adopt mobile applications using devices with these operating systems. We expect our sales to continue to grow as new applications become more widely deployed, particularly in small and medium businesses.

We have focused on supporting both third party application developers and in-house application developers with easy to use software developer kits. We offer a full range of cordless barcode scanners including 1D and 2D, lasers and imagers, standard and durable cases and in a variety of colors and now all with antimicrobial plastics that inhibit the growth of microbes associated with handheld devices. We've attractively priced our products and have them available worldwide through two tier distribution. We stand behind our products with product warranties, service and support. We have an experienced team of seasoned employees with an average tenure of ten years well trained to deliver quality products and services. We have long-term relationships with our suppliers and our distributors and have the capacity to grow with the markets that we serve.

As a result, Socket is well positioned to continue to benefit from its growing base of application developers and its long-term supplier and distributor relationships. Our operations are highly leveraged with unit product cost benefitting from higher volume growth and with the personnel in place to manage growth in our worldwide distribution channels.

Over the past two years we financed our operations through the issuance of convertible notes and a supplemental line of credit subordinated to our bank line along with the use of our bank working capital revolving credit line. During the first quarter of 2014 we successfully transferred our banking relationship to Bridge Bank with additional borrowing capacity and lower borrowing costs. We are looking to further strengthen our balance sheet during 2014 by achieving and sustaining profitable operating results.

We have approximately \$5 million of outstanding stock options and warrants, which may be exercised if the market price of the company's common stock increases. Higher market prices driven by improving operations and outlook may also make it possible to complete an equity financing on reasonable terms. Our goals are to increase the capital structure of the company and to improve our cost of capital sufficiently to qualify Socket to return to NASDAQ. In the short term we are internally addressing how best to reduce our interest costs associated with short-term notes that mature on June 1, 2014.

Our stockholder meeting this year has been scheduled for Thursday, May 15<sup>th</sup> at the company's headquarters in Newark, California. Common stockholders on the record date of March 17<sup>th</sup> have been sent proxy materials and are encouraged to vote. The items to be voted on this year are the annual election of directors; the annual advisory

**PrecisionIR Group**  
901 I Arboretum Pkwy  
Suite 295  
North Chesterfield, VA  
23236

Phone: 804-3273400  
Fax: 804-327-7554

[www.precisionir.com](http://www.precisionir.com)  
[www.investorcalendar.com](http://www.investorcalendar.com)  
[www.companyspotlight.com](http://www.companyspotlight.com)



vote on the compensation practices referred to as Say-on-Pay, and ratification of the selection of our outside auditing firm for the 2014 fiscal year.

Now let me turn the call back to the operator for your questions. Operator.

**Operator**

Thank you. At this time we will be conducting a question and answer session. (Instructions given.) One moment please while we poll for questions. The first question today comes from Brian Swift of Security Research Associates. Please go ahead, sir.

**Brian Swift – Security Research Associates**

Thank you. Could you comment on how the market is accepting the new product that you introduced last fall that attaches to a smart phone?

**Kevin Mills – President & CEO**

I would actually say that we're very pleased with the level of sales. Generally speaking it takes a little bit of time, but we've essentially gone from about \$9,000 in Q3 when we introduced just at the end to about \$90,000 in Q4 to \$180,000 in Q1, so it's on a pretty good curve. Now the reality is that we don't expect a lot of revenue when we introduce a product because it takes the developers some time to modify and update their applications, so I would describe that product as now coming into its own as we go into the second quarter. But the introduction has gone very well and we've seen the revenue grow up to reasonable levels and we expect that to continue.

The other thing to add to that is we're not seeing any I would describe as cannibalization of our seven series with this newer product. Most of our seven series it turns out are used with tablet based devices, such as the iPad, and the eight series seems to be much more popular with phone based devices, such as the iPhone and Android equivalents, so I would say that product is doing well and certainly we're very confident that it will continue to increase in revenue going forward.

**Brian Swift – Security Research Associates**

Do you have any visibility on what kind of applications those devices are being used in? I know you say they're attached to an iPhone, but who is using it and who's buying it?

**Kevin Mills – President & CEO**

Okay, I think it's still early days. I was in Japan recently and we have a customer there who is using approximately 400 of them and they're using them in a nursing application where they're using an iTouch in conjunction with the scanner to dispense medication, so that's one.

We have a lot of trials going on in the retail space where people want to have a cash register in their hands and they want to use the equivalent of a square type leader with the scanner and it's ideal for that type of solution also. But again, it's relatively early days, but I would say the two areas where we're seeing most is commercial services where we would see it used with an iPhone for process control and retail. I don't know if that's sufficient color for you.

**PrecisionIR Group**  
901 I Arboretum Pkwy  
Suite 295  
North Chesterfield, VA  
23236

Phone: 804-3273400  
Fax: 804-327-7554

[www.precisionir.com](http://www.precisionir.com)  
[www.investorcalendar.com](http://www.investorcalendar.com)  
[www.companyspotlight.com](http://www.companyspotlight.com)

**Brian Swift – Security Research Associates**

Okay, retail applications. Secondly, can you give us any color on what you said in your remarks that you were going to give us some outlook for 2014, but all I heard was the goal of being profitable. Can you give us any guidance on the SoMo. You say that some of it will level out from here, so the growth would come from the scanners. Any goals in terms of what kind of top line we should be expecting?

**Kevin Mills – President & CEO**

Yes, I think that we will continue to grow the business quarter-over-quarter. We would expect or hope for something in the 10% range. I think that historically we've seen Q3 to be a bit of a mixed bag in terms of outlook and largely depends on what Apple does, so we're planning this year that Q3 will be flat relative to Q2 because we expect Apple to introduce some changes, which generally slow things down; but I think our stated goal is to be profitable. We were very close in Q1. I think with another 10% on the revenue line, we would be achieving that in Q2.

**Dave Dunlap – CFO**

But to add to that, Brian, except for the large order from Japan that Kevin referred to in the first quarter a year ago, almost all of our growth in cordless barcode scanning has been in small quantity purchases, but a growing number of small quantity purchases, which is reflecting the growth in retail of small and medium businesses and some of the earlier stages in terms of people testing and trying out the products.

Typically, as you mature in these areas, you start to see larger deployments happening that always take a little longer, so the growth rate very much will benefit from larger deals that will kick in, but those are always a little hard for us to try to predict.

**Brian Swift – Security Research Associates**

Okay, the 10% you're referring to is year-over-year, is that right?

**Kevin Mills – President & CEO**

Actually no. I mean sequentially.

**Brian Swift – Security Research Associates**

So 10% sequential growth, okay.

**Kevin Mills – President & CEO**

Yes, I think that's realistic of what we can do going forward, so that's kind of our target internally, But, as Dave mentioned, there are many variables and we've continued to see the market rising. We haven't really seen a sea change yet. It's still early days, but we are seeing I would say daily increases in our sales out, which is key in terms of our revenue, but it's all small purchases as small merchants around the country are converting over to Apple based POS systems, etc.

**PrecisionIR Group**

901 I Arboretum Pkwy  
Suite 295  
North Chesterfield, VA  
23236

Phone: 804-3273400

Fax: 804-327-7554

[www.precisionir.com](http://www.precisionir.com)  
[www.investorcalendar.com](http://www.investorcalendar.com)  
[www.companyspotlight.com](http://www.companyspotlight.com)

**Brian Swift – Security Research Associates**

Okay, and lastly on that subject have you gotten any kind of visibility on some of these larger deals that you've talked about in the past quarters like in Japan.

**Kevin Mills – President & CEO**

Yes, so I don't know that I have any visibility, but I can share what I do know. I did go to Japan. I did meet with the customer involved and where they are is they are still deploying a first phase and they won't be making a decision on the second phase until later in the year. So far they've run into no difficulty with the first phase, so that's a good thing, but they indicated they wouldn't be making a decision on the second phase until more than likely September/October timeframe, so that's all we know right now.

**Dave Dunlap – CFO**

And that whole rollout program was published in an article by the company in Japan as a six quarter rollout program that would be basically starting this quarter, so they've got over 100,000 stores, of which probably 70,000 are very small kiosk types that typically won't use scanning. But this is a longer term project for them that'll take place over time, so we'll let people know as we get more feedback from the customer.

**Brian Swift – Security Research Associates**

Okay. How about locally the moving company that keeps moving out their deadline date?

**Kevin Mills – President & CEO**

They're correctly labeled the moving company, so all I would say is that we haven't seen any substantial revenue from this opportunity yet. Our understanding is that they're still planning on going ahead and certainly if they went ahead that would boost our revenue, but the numbers we presented today do not include any part of that opportunity; but we still believe it's a real opportunity that will happen this year, but we're not in control of timing and when it happens I think it'll add nicely to our revenue.

**Brian Swift – Security Research Associates**

Okay, and can you give us some kind of a range in terms of what's the upside to that deal if and when it ever comes?

**Kevin Mills – President & CEO**

The customer in question I believe has 700 franchisees that would need approximately 10 scanners per, so you're talking about a 7,000 unit opportunity, so you'd be talking over a million dollars. So certainly should that arrive, in whatever quarter it arrives in, it would add nicely to our current run rates, especially if you look at the fact that the current run rates do not include that deal and, to be honest, we're not expecting much of that deal in Q2, so if it arrives it'll be a bonus.

**Brian Swift – Security Research Associates**

Okay, I'll let somebody else have the phone and if need be, I'll come back.

**Kevin Mills – President & CEO**

All right. Thank you very much, Brian.

**PrecisionIR Group**

901 I Arboretum Pkwy  
Suite 295  
North Chesterfield, VA  
23236

Phone: 804-3273400

Fax: 804-327-7554

[www.precisionir.com](http://www.precisionir.com)  
[www.investorcalendar.com](http://www.investorcalendar.com)  
[www.companyspotlight.com](http://www.companyspotlight.com)



**Operator**

(Instructions given.) The next question comes from Don Kahlman, private investor. Please go ahead.

**Don Kahlman – Private Investor**

Gentlemen, I think it's very important for Socket to get relisted on the NASDAQ. Could you tell me what has to happen for that to occur?

**Dave Dunlap – CFO**

Yes, we came off, Don, because of falling below the net equity requirements of the exchange. That's the only item that we are out of sync on. We came off it because the requirement to stay on for continued listing is \$2.5 million, but to get back on is \$5 million. So once we build the equity of the company up to \$5 million, we can reapply and today we would otherwise qualify for NASDAQ.

**Don Kahlman – Private Investor**

Do you see this happening in the near future?

**Dave Dunlap – CFO**

I think it's tied to the timing in part of our growth. As we grow faster and manage our expenses, we leverage very well, as I have mentioned in my comments, which means as you become more and more profitable on the bottom line, it becomes a more significant contributor to your equity balances. As the market price of the company stock goes up, which we would expect to see if we're growing, and the more rapidly we're growing the more profitable we are. We've got about \$5 million in outstanding warrants and options and the average price for them is around \$1.25. It runs in the range from about \$1.00 up to about \$3.00. So just the exercise of warrants and options, contributions from positive operating results, and also that same condition could enable us to augment the equity with a capital raise, and all of those will grow equity to the levels that would get us back on NASDAQ.

I think a \$5 million equity level or above is very appropriate for Socket, and as we grow that's certainly a level that we'd be very comfortable with in achieving. How we achieve it and how fast we achieve it will be a function of just how well the business grows.

**Don Kahlman – Private Investor**

That would certainly give a big boost to the price of the stock for sure.

**Dave Dunlap – CFO**

We hear that, yes.

**Don Kahlman – Private Investor**

Okay, thank you.

**Kevin Mills – President & CEO**

Thank you.

**PrecisionIR Group**

901 I Arboretum Pkwy  
Suite 295  
North Chesterfield, VA  
23236

Phone: 804-3273400  
Fax: 804-327-7554

[www.precisionir.com](http://www.precisionir.com)  
[www.investorcalendar.com](http://www.investorcalendar.com)  
[www.companyspotlight.com](http://www.companyspotlight.com)

**Operator**

The next question comes from William Smart of Cardinal Value. Please go ahead.

**William Smart – Cardinal Value**

Good afternoon. I missed most of the first part of your call, but reading your press release, you mentioned that barcode scanning revenue grew 16% quarter-over-quarter. Is that the slope you think you're on right now approximately? There weren't any big deals in there, were there?

**Kevin Mills – President & CEO**

There weren't any big deals in that, so I would say, yes, I think that's a slope at around that levels, whether it's 16 plus or minus a few percentage points I think is a reasonable rate—it's what we're seeing. I think that we are seeing more and more of these applications hitting the markets, which is driving our scanning sales, so yes. I think that's a reasonable number, yes.

**William Smart – Cardinal Value**

Okay, that's pretty healthy. Thank you.

**Kevin Mills – President & CEO**

Yes, we're seeing good health on the scanning side of our business.

**William Smart – Cardinal Value**

I know your handhelds have sort of gone onto the back burner. Have you at all considered some other areas to get into or are you emphasizing primarily barcode scanning for the next couple of years?

**Kevin Mills – President & CEO**

I did in my comments make the remark that we will refocus the SoMo over towards the RFID NFC markets. I wouldn't say give the SoMo a new lease on life, but is a new opportunity to the SoMo, and it also gives us the opportunity to educate ourselves on the NFC RFID markets, which we believe have been on the verge of breakout for many years. And certainly, as we move forward, we would like to participate in those markets with our cordless scanning reader type solutions. So I think barcode scanning is obviously the driver of the company right now, but I think it'll be broader than barcode scanning and we would branch out into other areas of mobile data collection as we move forward.

**William Smart – Cardinal Value**

All right. Could you just give me an example of RFID scanning? I'm a little vague on that.

**Kevin Mills – President & CEO**

I'd say ticketing type applications, RFID or NFC scanning is typically used for maybe loyalty cards, maybe you're going to concerts or football games, the same type of tickets that are used on Clipper cards in the bay area public transport, so then that type of card can be read to control a process, such as entrance to an event, so again you get some choices. The benefit of RFID is you can write back to the card and therefore the card can be updated with information on the go. It's been around for a

**PrecisionIR Group**

901 I Arboretum Pkwy  
Suite 295  
North Chesterfield, VA  
23236

Phone: 804-3273400

Fax: 804-327-7554

[www.precisionir.com](http://www.precisionir.com)  
[www.investorcalendar.com](http://www.investorcalendar.com)  
[www.companyspotlight.com](http://www.companyspotlight.com)

long time and we've been involved to some degree, but it's always struggled, but it seems to be gaining traction now because mobile phones have the ability to have NFC built into them and you could use your mobile phone as entrance to an event, so we're watching this part of the business and we would like to be involved. Historically our problem has probably been that we've been too early to market and we don't want to be quite so early, but we don't want to be late, either.

**William Smart – Cardinal Value**

Okay. Thank you very much. Good luck for the future.

**Kevin Mills – President & CEO**

All right, thanks, Bill.

**Operator**

The next question comes from David Savory, private investor. Please go ahead, sir.

**David Savory – Private Investor**

Hello, gentlemen. I'm trying to get an idea on where the floor is for the SoMo. I know you said it was \$600,000 in revenue. How much of the service warranty work was related to the SoMo also, please?

**Kevin Mills – President & CEO**

I would say probably 60%. We still have 75,000 SoMos out there, so yes, it's the service and we have contracts with people, so it's being used.

**David Savory – Private Investor**

Okay, so about \$600,000 new sales, say, \$200,000 then in repairs?

**Dave Dunlap – CFO**

No, the \$450,000 also included accessory revenues, so you've got SoMo accessories in there and you've got service.

**Kevin Mills – President & CEO**

Approximately \$200,000 I think is a reasonable number.

**Dave Dunlap – CFO**

Yes, that's correct.

**David Savory – Private Investor**

Okay, you guys think you know with the RFID focus you can at least maintain that hopefully?

**Kevin Mills – President & CEO**

Even without the RFID focus, we have customers who are using it and happy using it. They have their programs written and they're deploying and they're not looking to change, so we have some what I would describe as base customers. What we're not seeing in SoMo is new customers.

**PrecisionIR Group**  
901 I Arboretum Pkwy  
Suite 295  
North Chesterfield, VA  
23236

Phone: 804-3273400  
Fax: 804-327-7554

[www.precisionir.com](http://www.precisionir.com)  
[www.investorcalendar.com](http://www.investorcalendar.com)  
[www.companyspotlight.com](http://www.companyspotlight.com)

**David Savory – Private Investor**

Okay. I got a question on the scanners please, could you give me a breakdown between domestic and international sales, please?

**Kevin Mills – President & CEO**

I would say that on the scanning we're probably 68%, 70% domestic and the rest is overseas.

**David Savory – Private Investor**

Okay, okay. Do you see international sales potentially growing faster than domestic, or do you see them growing even or where do you see that?

**Kevin Mills – President & CEO**

I think that what we see internationally is somewhat of an offset. I don't know that faster is the right way to look at this. I think that we often see applications starting in the U.S. and then gaining some traction and then going overseas. When they go overseas, you see the growth, but I think we're offset in time internationally versus domestically.

**David Savory – Private Investor**

Okay, okay, I appreciate that. Last of all, is the 42.8% profit margin, that's actually probably one of the highest rates you've had in a couple years. Where do you see that going as scanner revenue goes up and with the switchover to the antimicrobial cases, is that going to affect the profit margin going forward?

**Kevin Mills – President & CEO**

We believe that we'll be able to stay in or around that range. Obviously as the volume goes up, our fixed overhead costs as a percent go down. So again, as our volumes go up, we get a little bit of an offset, so I think we'll stay in or around that range even as volume goes up.

**David Savory – Private Investor**

Okay. I appreciate it.

**Kevin Mills – President & CEO**

Okay, thank you.

**Operator**

(Instructions given.) There are no further questions in queue at this time. I will now turn the call back over to Kevin Mills for concluding comments.

**Kevin Mills – President & CEO**

Thank you, operator. I would just like to thank everyone for participating in today's call and to wish you all a good afternoon. Thank you.

**Operator**

This concludes today's conference call. Thank you for your participation. You may disconnect your lines at this time.

**PrecisionIR Group**

901 I Arboretum Pkwy  
Suite 295  
North Chesterfield, VA  
23236

Phone: 804-3273400

Fax: 804-327-7554

[www.precisionir.com](http://www.precisionir.com)  
[www.investorcalendar.com](http://www.investorcalendar.com)  
[www.companyspotlight.com](http://www.companyspotlight.com)