

SMITH MICRO SOFTWARE INC
Form 10-Q
May 15, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10 Q

(Mark One)

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

For the quarterly period ended March 31, 2018

OR

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

Commission file number 001 35525

SMITH MICRO SOFTWARE, INC.

(Exact name of registrant as specified in its charter)

DELAWARE 33 0029027
(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification No.)

51 COLUMBIA

ALISO VIEJO, CA 92656

(Address of principal executive offices, including zip code)

(949) 362-5800

(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

(Do not check if a smaller reporting company) Smaller reporting company

Emerging growth company

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

Indicate by check mark whether the registrant is a shell company (as defined in Exchange Act Rule 12b-2). Yes No

As of May 9, 2018, there were 21,407,167 shares of common stock outstanding.

SMITH MICRO SOFTWARE, INC.

QUARTERLY REPORT ON FORM 10-Q

March 31, 2018

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

SMITH MICRO SOFTWARE, INC.

CONSOLIDATED BALANCE SHEETS

(in thousands, except share and par value data)

| | March 31, 2018 (unaudited) | December 31, 2017 (audited) |
|--|----------------------------------|-----------------------------------|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 3,654 | \$ 2,205 |
| Accounts receivable, net of allowances for doubtful accounts and other adjustments of \$199 (2018) and \$221 (2017) | 5,355 | 5,145 |
| Prepaid expenses and other current assets | 468 | 576 |
| Total current assets | 9,477 | 7,926 |
| Equipment and improvements, net | 1,102 | 1,229 |
| Deferred tax assets, net | 404 | 404 |
| Other assets | 148 | 146 |
| Intangible assets, net | 423 | 487 |
| Goodwill | 3,685 | 3,685 |
| Total assets | \$ 15,239 | \$ 13,877 |
| Liabilities and Stockholders' Equity | | |
| Current liabilities: | | |
| Accounts payable | \$ 1,298 | \$ 1,333 |
| Accrued payroll and benefits | 2,114 | 1,994 |
| Related-party notes payable | — | 1,000 |
| Other accrued liabilities | 428 | 416 |
| Deferred revenue | 183 | 73 |
| Total current liabilities | 4,023 | 4,816 |
| Non-current liabilities: | | |
| Related-party notes payable, net of discount & issuance costs of \$0 (2018) and \$0 (2017) | 1,200 | 1,200 |
| Notes payable, net of discount & issuance costs of \$377 (2018) and \$442 (2017) | 1,623 | 1,558 |
| Warrant liability | 3,047 | — |
| Deferred rent | 908 | 970 |
| Other long term liabilities | 708 | 766 |
| Total non-current liabilities | 7,486 | 4,494 |
| Commitments and contingencies | | |
| Stockholders' equity: | | |
| Preferred stock, par value \$0.001 per share; 5,000,000 shares authorized; 5,500 | — | — |

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shares issued and outstanding at March 31, 2018 and December 31, 2017
 Common stock, par value \$0.001 per share; 100,000,000 shares authorized;

| | | |
|---|------------|------------|
| 18,237,167 and 14,268,765 shares issued and outstanding at March 31, 2018 and | | |
| December 31, 2017, respectively | 18 | 14 |
| Additional paid-in capital | 239,179 | 237,486 |
| Accumulated comprehensive deficit | (235,467) | (232,933) |
| Total stockholders' equity | 3,730 | 4,567 |
| Total liabilities and stockholders' equity | \$ 15,239 | \$ 13,877 |

See accompanying notes to the consolidated financial statements.

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SMITH MICRO SOFTWARE, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS

(in thousands, except per share data)

| | For the Three Months Ended March 31, | |
|---|--|-------------|
| | 2018 | 2017 |
| | (unaudited) | (unaudited) |
| Revenues | \$5,463 | \$ 5,576 |
| Cost of revenues | 1,309 | 1,283 |
| Gross profit | 4,154 | 4,293 |
| Operating expenses: | | |
| Selling and marketing | 1,730 | 1,793 |
| Research and development | 2,255 | 2,497 |
| General and administrative | 2,190 | 2,189 |
| Restructuring expense | — | 392 |
| Total operating expenses | 6,175 | 6,871 |
| Operating loss | (2,021) | (2,578) |
| Other expense: | | |
| Interest expense, net | (171) | (284) |
| Change in fair value of warrant liability | (139) | — |
| Other expense | (40) | (10) |
| Loss before provision for income taxes | (2,371) | (2,872) |
| Provision for income tax expense | 10 | 8 |
| Net loss | (2,381) | (2,880) |
| Net loss per share: | | |
| Basic and diluted | \$(0.16) | \$(0.24) |
| Weighted average shares outstanding: | | |
| Basic and diluted | 15,299 | 12,163 |
| Preferred dividends per share | \$25.56 | \$ — |

See accompanying notes to the consolidated financial statements.

SMITH MICRO SOFTWARE, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

| | For the Three Months Ended March 31, 2018 2017 (unaudited)(unaudited) | |
|--|--|-------------|
| Operating activities: | | |
| Net loss | \$(2,381) | \$ (2,880) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | |
| Depreciation and amortization | 207 | 234 |
| Amortization of debt discounts and financing issuance costs | 65 | 130 |
| Provision for doubtful accounts and other adjustments to accounts receivable | 22 | 74 |
| Provision for excess and obsolete inventory | (6) | — |
| Stock based compensation | 164 | 446 |
| Change in fair value of warrant liability | 139 | — |
| Change in operating accounts: | | |
| Accounts receivable | (232) | 183 |
| Prepaid expenses and other assets | 112 | 208 |
| Accounts payable and accrued liabilities | (59) | (695) |
| Deferred revenue | 110 | 586 |
| Net cash used in operating activities | (1,859) | (1,714) |
| Investing activities: | | |
| Capital expenditures | (16) | (13) |
| Net cash used in investing activities | (16) | (13) |
| Financing activities: | | |
| Proceeds from stock sale for employee stock purchase plan | 3 | 2 |
| Proceeds from common stock offering, net of expenses | 4,462 | — |
| Proceeds from (repayments of) related-party short-term notes payable | (1,000) | 2,000 |
| Dividends paid on preferred stock | (141) | — |
| Net cash provided by financing activities | 3,324 | 2,002 |
| Net increase in cash and cash equivalents | 1,449 | 275 |
| Cash and cash equivalents, beginning of period | 2,205 | 2,229 |
| Cash and cash equivalents, end of period | \$3,654 | \$ 2,504 |
| Supplemental disclosures of cash flow information: | | |
| Cash paid for income taxes | \$5 | \$ 2 |
| Cash paid for interest expense | 111 | 120 |
| Supplemental schedule of non-cash financing activities: | | |
| Issuance of common stock warrants in connection with stock offering | \$2,908 | \$ — |

See accompanying notes to the consolidated financial statements.

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SMITH MICRO SOFTWARE, INC.

Notes to the Consolidated Financial Statements

1. The Company

Smith Micro Software, Inc. (“Smith Micro,” “Company,” “we,” “us,” and “our”) develops software to simplify and enhance the mobile experience, providing solutions to leading wireless service providers, device manufacturers, and wireless users around the world. From optimizing wireless networks to uncovering customer experience insights, and from providing visual access to wireless voicemail to ensuring family safety, our solutions enrich connected lifestyles while creating new opportunities to engage consumers via smartphones. We also provide a services platform for the Internet of Things (“IoT”) that enables comprehensive device management and firmware over-the-air (“FOTA”) updates for various types of connected devices. Our portfolio also includes a wide range of products for creating, sharing, and monetizing rich content, such as visual messaging and 2D/3D graphics applications. With this as a focus, it is Smith Micro’s mission to help our customers thrive in a connected world.

2. Accounting Policies

Basis of Presentation

The accompanying interim consolidated balance sheet as of March 31, 2018, and the related consolidated statements of operations and comprehensive loss and cash flows for each of the three months ended March 31, 2018 and 2017, are unaudited. The unaudited consolidated financial statements have been prepared according to the rules and regulations of the Securities and Exchange Commission (“SEC”) and, therefore, certain information and disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States have been omitted.

In the opinion of management, the accompanying unaudited consolidated financial statements for the periods presented reflect all adjustments, which are normal and recurring, necessary to fairly state the financial position, results of operations, and cash flows. These unaudited consolidated financial statements should be read in conjunction with the audited financial statements included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2017 filed with the SEC on March 30, 2018 and amended April 17, 2018.

Intercompany balances and transactions have been eliminated in consolidation.

Operating results for the three months ended March 31, 2018 are not necessarily indicative of the results that may be expected for any other interim period or for the fiscal year ending December 31, 2018.

Recently Issued Accounting Pronouncements

In February 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2016-02, Leases (Topic 842), to increase transparency and comparability among organizations by recognizing all lease transactions (with terms in excess of 12 months) on the balance sheet as a lease liability and a right-of-use asset (as defined). The ASU is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years, with earlier application permitted. Upon adoption, the lessee will apply the new standard retrospectively to all periods presented or retrospectively using a cumulative effect adjustment in the year of adoption. The Company will be evaluating the impact of this guidance on our consolidated financial statements.

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606). This updated standard supersedes nearly all existing revenue recognition guidance under U.S. GAAP. The core principle of this Topic is to recognize revenues when promised goods or services are transferred to customers in an amount that reflects the consideration that is expected to be received for those goods or services. This Topic defines a five-step process to achieve this core principle and, in doing so, it is possible more judgment and estimates may be required within the revenue recognition process than required under existing U.S. GAAP, including identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each separate performance obligation. In July 2015, the FASB deferred the effective date for annual reporting periods beginning after December 15, 2017 (including interim reporting periods within those periods). The amendments may be applied retrospectively to each prior period presented or retrospectively with the cumulative effect recognized as of the date of initial application. The Company adopted the provisions of Topic 606 during the first quarter of 2018, and there was no impact on the consolidated financial statements.

Revenue Recognition

We currently report our net revenues under two operating groups: Wireless and Graphics. Generally, we recognize revenue when persuasive evidence of an arrangement exists, delivery has occurred, the price is fixed and determinable, and collectability is probable. We recognize revenues from sales of our software (or software that we are licensed to distribute) to our customers or end users as completed products are shipped and title passes or from royalties generated as authorized customers duplicate our software, if the other requirements are met. If the requirements are not met at the date of shipment, revenue is not recognized until these elements are known or resolved.

For Wireless, we recognize revenue in several different methods beyond the method previously mentioned. First, we provide our customers a subscription service arrangement (the “Platform”). This Platform is then deployed to their customers, the end users, either directly by user or the customer initiating a download of the Platform. Our service arrangement can include the use of the software application, hosting services, and maintenance and support services for the platform. This type of arrangement is recognized on a point in time basis separately for each billing cycle (i.e. month or quarterly) based on the individual metrics within that period and results in either a fixed fee per end user or a revenue sharing arrangement based on amounts earned by our customers. Second, we provide other related services to our customers specific to hosting services, and maintenance and support services. These arrangements are recognized on a per period basis (i.e. typically month or quarterly) based on the individual arrangements agreed upon with our customers. These arrangements typically include a fixed fee for services offered within the period. Sometimes these types of services include up-front, non-refundable set-up fees. Revenue is recognized for these fees over the term of the agreement. Third, we provide a limited custom software development services for a fixed fee arrangement. This revenue is recognized based on agreed upon deliverables and milestones, when value is provided to the customer a portion of the revenue is recognized. There are no significant judgements required for this revenue. However, we do make some estimates to accrue revenue through the fiscal quarter ends.

For Graphics, management reviews available retail channel information and makes a determination of a return provision for sales made to distributors and retailers based on current channel inventory levels and historical return patterns. Certain sales to distributors or retailers are made on a consignment basis. Revenue for consignment sales are not recognized until sell through to the final customer is established. Certain revenues are booked net of revenue sharing payments. Sales directly to end users are recognized upon shipment. End users have a thirty-day right of return, but such returns are reasonably estimable and have historically been minimal. We also provide technical support to our customers. Such costs have historically been insignificant.

Deferred revenue represents amounts billed to customers for which revenue has not been recognized. Deferred revenue primarily consists of the unearned portion of monthly, quarterly and annually billed service fees and prepayments made by customers for a future period.

Revenues on a disaggregated basis are as follows (in thousands):

| | For the Three Months Ended March 31, 2018 2017 (unaudited) | |
|-----------|---|-----|
| Wireless: | | |
| Software | \$— | \$— |

| | | |
|----------------|---------|---------|
| Platform | 4,227 | 3,601 |
| Services | 494 | 690 |
| Contract | 95 | 68 |
| Total wireless | \$4,816 | \$4,359 |
| Graphics: | | |
| Software | 647 | 1,217 |
| Total revenues | \$5,463 | \$5,576 |

Fair Value Measurements

The Company measures and discloses fair value measurements as required by FASB Accounting Standards Codification (“ASC”) Topic No. 820, Fair Value Measurements and Disclosures.

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Fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that is determined based on assumptions that market participants would use in pricing an asset or a liability. As a basis for considering such assumptions, the FASB establishes a three-tier value hierarchy, which prioritizes the inputs used in the valuation methodologies in measuring fair value:

Level 1 - Observable inputs that reflect quoted prices (unadjusted) for identical assets or liabilities in active markets

Level 2 - Include other inputs that are directly or indirectly observable in the marketplace

Level 3 - Unobservable inputs which are supported by little or no market activity

The fair value hierarchy also requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

As required by FASB ASC Topic No. 820, we measure our cash and cash equivalents at fair value. Our cash equivalents are classified within Level 1 by using quoted market prices utilizing market observable inputs.

As required by FASB ASC Topic No. 820, we measure our warrant liability at fair value. Our warrant liability is classified within Level 3 as some of the inputs to our valuation model are either not observable quoted prices or are not derived principally from or corroborated by observable market data by correlation or other means.

As required by FASB ASC Topic No. 820, we utilize quoted market prices to estimate the fair value of our fixed rate debt, when available. If quoted market prices are not available, we calculate the fair value of our fixed rate debt based on a currently available market rate, assuming the loans are outstanding through maturity and considering the collateral. In determining the current market rate for fixed rate debt, a market spread is added to the quoted yields on federal government treasury securities with similar terms to the debt.

3. Going Concern Evaluation

In connection with preparing consolidated financial statements for the three months ended March 31, 2018, management evaluated whether there were conditions and events, considered in the aggregate, that raised substantial doubt about the Company's ability to continue as a going concern within one year from the date that the financial statements are issued.

The Company considered the following:

Operating losses for twelve consecutive quarters.

Negative cash flow from operating activities for eight consecutive quarters.

Ordinarily, conditions or events that raise substantial doubt about an entity's ability to continue as a going concern relate to the entity's ability to meet its obligations as they become due.

The Company evaluated its ability to meet its obligations as they become due within one year from the date that the financial statements are issued by considering the following:

In May 2017, the Company raised \$2.2 million of new capital in a private placement offering of its common stock.

In September 2017, the Company closed on a \$5.5 million preferred stock transaction which converted \$2.8 million of long and short-term debt, and raised \$2.7 million of new capital.

On March 5, 2018, the Company raised \$5.0 million of new capital in a private placement offering of its common stock.

On May 3, 2018, the Company raised \$7.0 million of new capital in a private placement offering of its common stock.

In addition to the recent capital raised, management also believes that the Company will generate enough cash from operations to satisfy its obligations for the next twelve months from the issuance date.

The Company will take the following actions, if it starts to trend unfavorably to its internal profitability and cash flow projections, in order to mitigate conditions or events that would raise substantial doubt about its ability to continue as a going concern:

- Raise additional funds through short-term loans.
- Implement additional restructuring and cost reductions.

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- Raise additional capital through a private placement.
- Secure a commercial bank line of credit.
- Dispose of one or more product lines.
- Sell or license intellectual property.

4. Goodwill

In accordance with FASB ASC Topic No. 350, Intangibles-Goodwill and Other, we review the recoverability of the carrying value of goodwill at least annually or whenever events or circumstances indicate a potential impairment. The Company's impairment testing will be done annually at December 31. Recoverability of goodwill is determined by comparing the fair value of the Company's reporting units to the carrying value of the underlying net assets in the reporting units. If the fair value of a reporting unit is determined to be less than the carrying value of its net assets, goodwill is deemed impaired and an impairment loss is recognized to the extent that the carrying value of goodwill exceeds the difference between the fair value of the reporting unit and the fair value of its other assets and liabilities. The Company determined that there was no goodwill impairment at March 31, 2018 and December 31, 2017.

5. Debt and Fair Value of Financial Instruments

At March 31, 2018 and December 31, 2017, the carrying value and the aggregate fair value of the Company's warrant liability and short- and long-term debt were as follows (in thousands):

| | As of March 31, 2018 | | As of December 31, 2017 | |
|--------------------------------|-------------------------|---------------|-------------------------------|---------------|
| | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| Liabilities: | | | | |
| Warrant liability | \$ 3,047 | \$ 3,047 | \$ — | \$ — |
| Short-term debt, related party | — | — | 1,000 | 1,000 |
| Long-term debt, related party | 1,200 | 1,200 | 1,200 | 1,200 |
| Long-term debt | 1,623 | 1,623 | 1,558 | 1,558 |
| Total liabilities | \$ 5,870 | \$ 5,870 | \$ 3,758 | \$ 3,758 |

The warrants were accounted for as liabilities, with changes in the fair value included in net loss for the respective periods. Because some of the inputs to our valuation model were either not observable nor derived principally from or corroborated by observable market data by correlation or other means, the warrant liability is classified as a Level 3 in the fair value hierarchy.

Our stock price can be volatile and there could be material fluctuations in the value of the warrants in future periods.

A roll forward of our warrant liability classified as Level 3 and measured at fair value on a recurring basis is as follows (in thousands):

| | |
|---|---------|
| Balance at December 31, 2017 (audited) | \$— |
| Warrants issued | 2,908 |
| Change in fair value of warrant liability | 139 |
| Balance at March 31, 2018 (unaudited) | \$3,047 |

Warrant Liability

As further discussed in Note 10, on March 6, 2018, the Company completed a private placement with several investors, wherein a total of 2,857,144 shares of the Company's common stock was issued at a purchase price of \$1.75 per share, with each investor also receiving a warrant to purchase up to a number of shares of Common Stock equal to the number of shares of Common Stock purchased by such investor in the Offering at an exercise price of \$2.17 per share, for a total purchase price of \$5,000,000.

The initial fair value of the warrant liability associated with the Offering was \$2.9 million, and the fair value has increased to \$ 3.0 million as of March 31, 2018.

All changes in the fair value of warrants will be recognized in our consolidated statements of operations until they are either exercised or expire. The warrants are not traded in an active securities market and, as such, the estimated fair value as of March 31, 2018 was determined by using an option pricing model (Black-Scholes) with the following assumptions:

| | | |
|------------------------------------|----------------------------|---|
| | As of March 31, 2018 | |
| Expected term | 5.50 | |
| Common stock market price | \$ 1.75 | |
| Risk-free interest rate | 2.63 | % |
| Expected volatility | 72.7 | % |
| Resulting fair value (per warrant) | \$ 1.04 | |

Expected volatility is based on historical volatility. Historical volatility was computed using monthly pricing observations for recent periods that correspond to the expected term of the warrants. We believe this method produces an estimate that is representative of our expectations of future volatility over the expected term of these warrants. We currently have no reason to believe future volatility over the expected remaining life of these warrants is likely to differ materially from historical volatility. The expected life is based on the remaining contractual term of the warrants. The risk-free interest rate is the U.S. Treasury bond rate as of the valuation date.

Debt

On January 30, 2018, the Company entered into amendments to certain of its existing Secured Promissory Notes (the "Notes") for the sole purpose of extending the relevant maturity dates. The Note dated August 18, 2017 issued to Steven L. Elfman and Monique P. Elfman was amended to extend the maturity date of the Note to February 11, 2018 and was subsequently repaid in full. The Note dated June 26, 2017 issued to William W. Smith, Jr. and Dieva L. Smith was amended to extend the maturity date to July 25, 2018. The Notes dated August 24, 2017 issued to Next Generation TC FBO Andrew Arno IRA 1663 and Andrew Arno were amended to extend the maturity date of each to July 25, 2018.

In connection with the March 6, 2018 private placement discussed in Note 10, as a condition to closing, the following note holders further amended their existing Secured Promissory Notes for the sole purpose of extending the relevant maturity dates to March 25, 2020: (i) Secured Promissory Note dated June 26, 2017, issued to Smith and Dieva L. Smith, as amended; (ii) Secured Promissory Note dated August 24, 2017, issued to Next Generation TC FBO Andrew Arno IRA 1663, as amended; and (iii) Secured Promissory Note, dated August 24, 2017 issued to Andrew Arno, as

amended.

The Company evaluated the conversion of the debt under FASB ASU Topic No. 470-60, Troubled Debt Restructurings, for determining whether the modification of the debt instruments would be considered a troubled debt restructuring, using the two-step decision tree. The two steps included an assessment of whether the company is experiencing financial difficulties and if the creditors have provided concessions. Upon completion of this review, the Company concluded that the refinancing did not qualify as troubled debt restructuring.

6. Earnings Per Share

The Company calculates earnings per share (“EPS”) as required by FASB ASC Topic No. 260, Earnings Per Share. Basic EPS is calculated by dividing the net income available to common stockholders by the weighted average number of common shares outstanding for the period, excluding common stock equivalents. Diluted EPS is computed by dividing the net income available to common stockholders by the weighted average number of common shares outstanding for the period, plus the weighted average number of dilutive common stock equivalents outstanding for the period determined using the treasury-stock method. For periods with a net loss, the dilutive common stock equivalents are excluded from the diluted EPS calculation. For purposes of this calculation, common stock subject to repurchase by the Company, options, and warrants are considered to be common stock equivalents and are only included in the calculation of diluted earnings per share when their effect is dilutive.

The following table sets forth the details of basic and diluted earnings per share:

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| | For the Three Months Ended March 31, | |
|--|---|-------------|
| | 2018 | 2017 |
| | (unaudited, in thousands, except per share amounts) | |
| Numerator: | | |
| Net loss | \$ (2,381) | \$ (2,880) |
| Dividends paid to preferred stockholders | (141) | — |
| Net loss available to common stockholders | \$ (2,522) | \$ (2,880) |
| Denominator: | | |
| Weighted average shares outstanding – basic | 15,299 | 12,163 |
| Potential common shares – options / warrants | | |
| (treasury stock method) | — | — |
| Weighted average shares outstanding – diluted | 15,299 | 12,163 |
| Shares excluded (anti-dilutive) | — | — |
| Shares excluded due to an exercise price greater | | |
| than weighted average stock price for the period | 1,073 | 1,908 |
| Net loss per common share: | | |
| Basic | \$ (0.16) | \$ (0.24) |
| Diluted | \$ (0.16) | \$ (0.24) |

7. Stock-Based Compensation

Stock Plans

During the three months ended March 31, 2018, the Company granted 1,125,000 shares of restricted stock. As of March 31, 2018, there were 0.3 million shares available for future grants under the 2015 Omnibus Equity Incentive Plan.

8. Segment, Customer Concentration and Geographical Information

Segment Information

Public companies are required to report financial and descriptive information about their reportable operating segments as required by FASB ASC Topic No. 280, Segment Reporting. The Company has two primary business units based on how management internally evaluates separate financial information, business activities and management responsibility. Wireless includes our NetWise®, CommSuite®, SafePath®, and QuickLink® family of products. Graphics includes our consumer-based products: Poser®, Moho® ClipStudio®, MotionArtist® and StuffIt®.

The Company does not separately allocate operating expenses to these business units, nor does it allocate specific assets. Therefore, business unit information reported includes only revenues.

The following table shows the revenues generated by each business unit (in thousands):

| | For the Three Months Ended March 31, 2018 2017 (unaudited) | |
|----------------|--|---------|
| Wireless | \$4,816 | \$4,359 |
| Graphics | 647 | 1,217 |
| Total revenues | \$5,463 | \$5,576 |

Customer Concentration Information

A summary of the Company's customers that represent 10% or more of the Company's net revenues is as follows:

| | For the Three Months Ended March 31, 2018 2017 (unaudited) | |
|-----------------------|---|-------|
| Wireless: | | |
| Sprint (& affiliates) | 75.3% | 61.8% |
| Graphics: | | |
| FastSpring | 10.0% | 13.9% |

The two customers listed above comprised 80% and 75% of our accounts receivable as of March 31, 2018 and 2017, respectively.

Geographical Information

During the three months ended March 31, 2018 and 2017, the Company operated in three geographic locations; the Americas, EMEA (Europe, the Middle East, and Africa), and Asia Pacific. Revenues, attributed to the geographic location of the customers' bill-to address, were as follows (in thousands):

| | For the Three Months Ended March 31, 2018 2017 (unaudited) | |
|----------------|--|---------|
| Americas | \$5,374 | \$5,474 |
| EMEA | 30 | 49 |
| Asia Pacific | 59 | 53 |
| Total revenues | \$5,463 | \$5,576 |

The Company does not separately allocate specific assets to these geographic locations.

9. Commitments and Contingencies

Litigation

The Company may become involved in various legal proceedings arising from its business activities. While management does not believe the ultimate disposition of these matters will have a material adverse impact on the Company's consolidated results of operations, cash flows, or financial position, litigation is inherently unpredictable,

and depending on the nature and timing of these proceedings, an unfavorable resolution could materially affect the Company's future consolidated results of operations, cash flows, or financial position in a particular period.

Other Contingent Contractual Obligations

During its normal course of business, the Company has made certain indemnities, commitments, and guarantees under which it may be required to make payments in relation to certain transactions. These include: intellectual property indemnities to the Company's customers and licensees in connection with the use, sale, and/or license of Company products; indemnities to various lessors in connection with facility leases for certain claims arising from such facility or lease; indemnities to vendors and service providers pertaining to claims based on the negligence or willful misconduct of the Company; indemnities involving the accuracy of representations and warranties in certain contracts; and, indemnities to directors and officers of the Company to the maximum extent permitted under the laws of the State of Delaware. In addition, the Company has made contractual commitments to employees providing for severance payments upon the occurrence of certain prescribed events. The Company may also issue a guarantee in the form of a standby letter of credit as security for contingent liabilities under certain customer contracts. The duration of these indemnities, commitments, and guarantees varies, and in certain cases, may be indefinite. The majority of these indemnities, commitments, and guarantees may not provide for any limitation of the maximum potential for future payments the Company could be obligated to make. The Company has not recorded any liability for these indemnities, commitments, and guarantees in the accompanying consolidated balance sheets.

10. Equity Transactions

On March 6, 2018, the Company completed a private placement with several investors, wherein a total of 2,857,144 shares of the Company's common stock was issued at a purchase price of \$1.75 per share, with each investor also receiving a warrant to purchase up to a number of shares of Common Stock equal to the number of shares of Common Stock purchased by such investor in the offering at an exercise price of \$2.17 per share, for a total purchase price of \$5,000,000 (the "Offering"). The Offering raised net cash proceeds of approximately \$4,475,000 (after deducting the placement agent fee and expenses of the Offering). The Company intends to use the net cash proceeds from the Offering for working capital purposes, to fund required dividend payments, payment of principal and interest payments under short-term borrowing obligations, and payment of interest (but not principal) under long-term borrowing obligations.

The Company engaged Chardan Capital Markets, LLC ("Chardan") as placement agent for the Offering pursuant to an engagement letter agreement. The Company agreed to pay Chardan a cash placement fee equal to 8.0% of the gross proceeds of the Offering, and has issued to Chardan a warrant to purchase shares of Common Stock equal to 3.0% of the number of shares sold in the Offering (the "Chardan Warrant"). The Chardan Warrant has an exercise price of \$2.365 per share, a term of 5.5 years from the closing date of the Offering, and otherwise has identical terms to the warrants issued to the investors in the Offering.

In connection with the Offering, on March 5, 2018, the Company entered into a Securities Purchase Agreement (the "Purchase Agreement") with investors containing customary representations and warranties. Pursuant to the terms of the Purchase Agreement, the Company agreed to use its best efforts to cause the conversion of all shares of the Company's Series B 10% Convertible Preferred Stock (the "Series B Preferred Stock") into shares of Common Stock pursuant to the terms of the Company's Certificate of Designation (the "Certificate of Designation") with respect to the Series B Preferred Stock. In connection therewith, the Company has entered into letter agreements with each of William W. Smith, Jr. ("Smith") and Andrew Arno ("Arno"), whereby each of Smith and Arno agree to take certain action to convert the shares of Series B Preferred Stock held by them pursuant to terms outlined in the Purchase Agreement, and further agreed that their shares upon conversion shall not be subject to resale registration rights. Pursuant to the terms of the Purchase Agreement, the Company has entered into voting agreements with each of its directors, executive officers and greater than 10% stockholders, by which each such person has agreed to vote all shares of Company capital stock held by them in favor of waiving any applicable beneficial ownership threshold in the Company's existing Certificate of Designation for the Series B Preferred Stock.

The Company has outstanding warrants pursuant to an agreement entered into on September 6, 2016 with Unterberg Koller Capital Fund L.P. The Offering on March 6, 2018 caused a Triggering Event as defined in the agreement, and the warrants were repriced from an exercise price of \$2.14 to \$2.07. The Triggering Event charges of \$11 thousand were recorded to Stockholders' Equity during the quarter.

In connection with the Company's September 2017 offering of Series B Preferred Stock, the Company entered into a Registration Rights Agreement with investors ("Series B Stockholders") under which the Company agreed to prepare and file a registration statement with the SEC within 30 days after closing for the purpose of registering the resale of shares of Common Stock issuable upon conversion of the Series B Preferred Stock (the "Resale Registration Statement"). The Company agreed to use its reasonable best efforts to cause the Resale Registration Statement to be declared effective by the SEC within 90 days after the closing (120 days in the event the registration statement is reviewed by the SEC) and agreed to pay liquidated damages to the Series B Stockholders if the Resale Registration Statement were not to become effective within the applicable time period. The Resale Registration Statement became effective on April 19, 2018, which was later than the specified deadline, resulting in liquidated damage payments of \$48 thousand to Series B Stockholders. Certain Series B Stockholders, including without limitation, Smith and Arno, waived their rights to receive liquidated damage payments.

11. Income Taxes

We account for income taxes as required by FASB ASC Topic No. 740, Income Taxes. This Topic clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements and prescribes a recognition threshold and measurement process for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The Topic also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. The Topic requires an entity to recognize the financial statement impact of a tax position when it is more likely than not that the position will be sustained upon examination. The amount recognized is measured as the largest amount of benefit that is greater than fifty percent likely of being realized upon ultimate settlement. In addition, the Topic permits an entity to recognize interest and penalties related to tax uncertainties as either income tax expense or operating expenses. The Company has chosen to recognize interest and penalties related to tax uncertainties as income tax expense.

The Company assesses whether a valuation allowance should be recorded against its deferred tax assets based on the consideration of all available evidence, using a "more likely than not" realization standard. The four sources of taxable income that must be considered in determining whether deferred tax assets will be realized are: (1) future reversals of existing taxable temporary differences (i.e.,

offset of gross deferred tax liabilities against gross deferred tax assets); (2) taxable income in prior carryback years, if carryback is permitted under the applicable tax law; (3) tax planning strategies; and (4) future taxable income exclusive of reversing temporary differences and carryforwards.

In assessing whether a valuation allowance is required, significant weight is to be given to evidence that can be objectively verified. A significant factor in the Company's assessment is that the Company has been in a five-year historical cumulative loss as of the end of fiscal year 2017. These facts, combined with uncertain near-term market and economic conditions, reduced the Company's ability to rely on projections of future taxable income in assessing the realizability of its deferred tax assets.

After a review of the four sources of taxable income as of December 31, 2017 (as described above), and after consideration of the Company's continuing cumulative loss position as of December 31, 2017, the Company will continue to reserve its U.S.-based deferred tax amounts, which total \$52.9 million, as of March 31, 2018.

The Company is subject to U.S. federal income tax as well as income tax of multiple state jurisdictions. Federal income tax returns of the Company are subject to IRS examination for the 2013 – 2016 tax years. State income tax returns are subject to examination for a period of three to four years after filing. The outcome of tax audits cannot be predicted with certainty. If any issues addressed in the Company's tax audits are resolved in a manner not consistent with management's expectations, the Company could be required to adjust its provision for income tax in the period such resolution occurs. We may from time to time be assessed interest or penalties by major tax jurisdictions, although any such assessments historically have been minimal and immaterial to our consolidated financial results. It is the Company's policy to classify any interest and/or penalties in the consolidated financial statements as a component of income tax expense.

12. Subsequent Events

The Company evaluates and discloses subsequent events as required by FASB ASC Topic No. 855, Subsequent Events. The Topic establishes general standards of accounting for and disclosure of events that occur after the balance sheet date, but before the financial statements are issued or are available to be issued.

On May 3, 2018, the Company completed a private placement with several investors, wherein a total of 3,170,000 shares of the Company's common stock, par value \$.001 per share (the "Common Stock") was issued at a purchase price of \$2.21 per share, with each investor also receiving a warrant to purchase up to a number of shares of Common Stock equal to the number of shares of Common Stock purchased by such investor in the offering at an exercise price of \$2.11 per share (the "Warrants"), for a total purchase price of approximately \$7,000,000 (the "May 2018 Offering").

The May 2018 Offering raised net cash proceeds of approximately \$6,300,000 (after deducting the placement agent fee and expenses of the Offering). The Company intends to use the net cash proceeds from the May 2018 Offering for working capital purposes, and to fund required dividend payments, payment of principal and interest payments under short-term borrowing obligations, and payment of interest (but not principal) under long-term borrowing obligations.

The Company engaged Chardan as placement agent for the May 2018 Offering pursuant to an engagement letter agreement. The Company agreed to pay Chardan a cash placement fee equal to 7.0% of the gross proceeds of the offering. The Company also engaged Roth Capital Partners, LLC ("Roth") as its financial advisor for the May 2018 Offering. The Company agreed to pay Roth a cash fee equal to 2.0% of the gross proceeds of the offering.

In connection with the May 2018 Offering, the Company entered into a Securities Purchase Agreement (the "Purchase Agreement") with investors containing customary representations and warranties. The Company and investors also entered into a Registration Rights Agreement under which the Company will prepare and file a registration statement

(the “Resale Registration Statement”) with the SEC for the purpose of registering the resale of shares of Common Stock issued in the May 2018 Offering. The Company will use its reasonable best efforts to cause the Resale Registration Statement to be declared effective by the SEC within 30 days after the filing thereof (60 days in the event the registration statement is reviewed by the SEC). If the Company fails to meet the specified filing deadlines or keep the Resale Registration Statement effective, subject to certain permitted exceptions, the terms of the Registration Rights Agreement provide that the Company will be required to pay liquidated damages to the purchasers. The Company also agreed, among other things, to indemnify the selling holders under the Resale Registration Statement from certain liabilities and to pay all fees and expenses incident to the Company’s performance of or compliance with the Registration Rights Agreement.

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

In this document, the terms "Smith Micro," "Company," "we," "us," and "our" refer to Smith Micro Software, Inc. and, where appropriate, its subsidiaries.

This report contains forward-looking statements regarding Smith Micro which include, but are not limited to, statements concerning our ability to remain a going concern, our ability to raise more funds, customer concentration, projected revenues, expenses, gross profit and income, the competitive factors affecting our business, market acceptance of products, the success and timing of new product introductions, and the protection of our intellectual property. These forward-looking statements are based on our current expectations, estimates and projections about our industry, management's beliefs, and certain assumptions made by us. Words such as "anticipates," "expects," "intends," "plans," "predicts," "potential," "believes," "seeks," "estimates," "should," "may," "will," and variations of these words or similar expressions are intended to identify forward-looking statements. Forward-looking statements also include the assumptions underlying or relating to any of the foregoing statements. These statements are not guarantees of future performance and are subject to risks, uncertainties, and assumptions that are difficult to predict. Therefore, our actual results could differ materially and adversely from those expressed or implied in any forward-looking statements as a result of various factors. Such factors include, but are not limited to, the following:

- our ability to remain a going concern;
- our ability to raise additional capital to fund our operations and the risk of such capital not being available to us at commercially reasonable terms or at all;
- our customer concentration given that the majority of our sales depend on a few large client relationships, including Sprint;
- our ability to become and remain profitable;
- the difficulty of predicting our quarterly revenues and operating results and the chance of such revenues and results falling below analyst or investor expectations, which could cause the price of our common stock to fall;
- rapid technological evolution and resulting changes in demand for our products from our key customers and their end users;
- intense competition in our industry and our ability to successfully compete;
- the pace at which the market for new products develop;
- our ability to hire and retain key personnel;
- the availability of third party intellectual property and licenses needed for our operations on commercially reasonable terms, or at all;
- our ability to establish and maintain strategic relationships with our customers and mobile device manufacturers;
 - our ability to assimilate acquisitions without diverting management attention and impacting current operations;
- the existence of undetected software defects in our products;
 - the impact of governmental regulations on our business and our industry;
- our ability to protect our intellectual property and our ability to operate our business without infringing on the rights of others;
- the risks inherent with international operations;
- the possibility of security and privacy breaches in our systems damaging client relations and inhibiting our ability to grow;
- interruptions or delays in the services we provide from our data center hosting facilities that could harm our business; and,
- the risk of being delisted from NASDAQ if we fail to meet any of the listing requirements.

The forward-looking statements contained in this report are made on the basis of the views and assumptions of management regarding future events and business performance as of the date this report is filed with the Securities

and Exchange Commission (the “SEC”). We do not undertake any obligation to update these statements to reflect events or circumstances occurring after the date this report is filed.

Overview

Smith Micro develops software to simplify and enhance the mobile experience, providing solutions to leading wireless service providers, device manufacturers, and enterprise businesses around the world. From optimizing wireless networks to uncovering customer experience insights, and from streamlining Wi-Fi access to ensuring family safety, our solutions enrich connected lifestyles while creating new opportunities to engage consumers via smartphones. Our portfolio also includes a wide range of products for creating, sharing, and monetizing rich content, such as visual messaging, video streaming, and 2D/3D graphics applications. With this as a focus, it is Smith Micro's mission to help our customers thrive in a connected world.

Over the past three decades, Smith Micro has developed deep expertise in embedded software for mobile devices, policy-based management platforms, and highly scalable client and server applications. Tier 1 mobile network operators, cable providers, original equipment manufacturers ("OEMs")/device manufacturers, and enterprise businesses across a wide range of industries use our software to capitalize on the growth of connected consumers and the IoT.

A summary of the Company's customers that represent 10% or more of the Company's net revenues is as follows:

| | For the Three Months Ended March 31, 2018 2017 | |
|-----------------------|--|-------|
| Wireless: | | |
| Sprint (& affiliates) | 75.3% | 61.8% |
| Graphics: | | |
| FastSpring | 10.0% | 13.9% |

The two customers listed above comprised 80% and 75% of our accounts receivable as of March 31, 2018 and 2017, respectively.

Results of Operations

The table below sets forth certain statements of operations and comprehensive loss data expressed as a percentage of revenues for each of the three months ended March 31, 2018 and 2017. Our historical results are not necessarily indicative of the operating results that may be expected in the future.

| | For the Three Months Ended March 31, 2018 2017 | |
|---------------------|---|---------|
| Revenues | 100.0 % | 100.0 % |
| Cost of revenues | 24.0 | 23.0 |
| Gross profit | 76.0 | 77.0 |
| Operating expenses: | | |

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| | | |
|---|----------|----------|
| Selling and marketing | 31.7 | 32.2 |
| Research and development | 41.3 | 44.8 |
| General and administrative | 40.1 | 39.3 |
| Restructuring expense | — | 7.0 |
| Total operating expenses | 113.1 | 123.3 |
| Operating loss | (37.1) | (46.3) |
| Interest expense, net | (3.1) | (5.1) |
| Change in fair value of warrant liability | (2.5) | — |
| Other expense | (0.7) | (0.2) |
| Loss before provision for income taxes | (43.4) | (51.6) |
| Provision for income tax expense | 0.2 | 0.1 |
| Net loss | (43.6)% | (51.7)% |

Segment Revenues

The following table shows the revenues generated by each business segment (in thousands):

| | For the Three Months Ended March 31, | |
|------------------|--|---------|
| | 2018 | 2017 |
| Wireless | \$4,816 | \$4,359 |
| Graphics | 647 | 1,217 |
| Total revenues | 5,463 | 5,576 |
| Cost of revenues | 1,309 | 1,283 |
| Gross profit | \$4,154 | \$4,293 |

Three Months Ended March 31, 2018 Compared to the Three Months Ended March 31, 2017

Revenues. Revenues were \$5.5 million and \$5.6 million for the three months ended March 31, 2018 and 2017, respectively, representing a decrease of \$0.1 million, or 2.0%. Wireless revenue of \$4.8 million increased \$0.5 million, or 10.5%, primarily due to increased revenues from Sprint, our largest customer associated with growth in both the CommSuite and Safepath products. Graphics revenue decreased by \$0.6 million or 46.8% over last year, primarily related to the termination of our reseller agreement with Japanese software developer Celsys, which permitted us to market, license and provide support for the English-language version of Clip Studio Paint (formerly Manga Studio), in 2017.

Cost of revenues. Cost of revenues were flat at \$1.3 million for each of the three months ended March 31, 2018 and 2017.

Gross profit. Gross profit was \$4.2 million, or 76% of revenues, for the three months ended March 31, 2018, compared to \$4.3 million, or 77% of revenues, for the three months ended March 31, 2017. Lower revenues were offset by cost reductions.

Selling and marketing. Selling and marketing expenses were \$1.7 million and \$1.8 million for the three months ended March 31, 2018 and 2017, respectively, representing a decrease of less than \$0.01 million, or 3.5%. This decrease was primarily due to headcount and other cost reduction activities in 2017. The amortization of intangible assets was \$0.1 million for the three months ended March 31, 2018 and 2017.

Research and development. Research and development expenses were \$2.3 million and \$2.5 million for the three months ended March 31, 2018 and 2017, respectively, representing a decrease of \$0.2 million, or 9.7%. This decrease was primarily due to headcount and other cost reduction activities in 2017.

General and administrative. General and administrative expenses remained flat at \$2.2 million for each of the three months ended March 31, 2018 and 2017.

Restructuring expense. Restructuring expense was \$0 and \$0.4 million for the three months ended March 31, 2018 and 2017, respectively. Restructuring charges in 2017 related primarily to one-time employee terminations of \$0.2 million and the accelerated vesting of stock awards of \$0.2 million.

Interest expense, net. Interest expense was \$0.2 million for the three months ended March 31, 2018, which consisted of interest on notes payable of \$0.1 million and amortization of the debt discount and issuance costs was less than \$0.1 million. Interest expense on notes payable was \$0.3 million for the three months ended March 31, 2017.

Change in fair value of warrant liability. The change in the fair value of the warrant liability was \$0.1 million and \$0 for the three months ended March 31, 2018 and 2017, respectively.

Liquidity and Capital Resources

See Note 3 of the consolidated financial statements for management's going concern evaluation of the Company.

At March 31, 2018, we had \$3.7 million in cash and cash equivalents and \$5.5 million of working capital.

Operating activities

Net cash used in operating activities was \$1.9 million for the three months ended March 31, 2018. The primary uses of operating cash were to fund our net loss of \$2.4 million, adding back non-cash net expenses of \$0.6 million, an increase in accounts receivable of \$0.2 million, and a decrease in accounts payable and accrued expenses of less than \$0.1 million. This usage was offset by an increase in deferred revenue of \$0.1 million and a decrease in prepaid expenses and other current assets of \$0.1 million.

Net cash used in operating activities was \$1.7 million for the three months ended March 31, 2017. The primary uses of operating cash were to fund our net loss of \$2.2 million, adding back non-cash net expenses of \$0.2 million, and decreases in accounts payable and accrued expenses of \$0.7 million. This usage was partially offset by an increase in deferred revenue of \$0.6 million, and decreases in prepaid expenses and other assets for \$0.2 million and accounts receivable of \$0.2 million.

Investing activities

Net cash used in investing activities was \$16 thousand and \$13 thousand for the three months ended March 31, 2018 and 2017, respectively, which was related to capital expenditures.

Financing activities

Net cash provided by financing activities was \$3.3 million for the three months ended March 31, 2018. We received net proceeds of approximately \$4.5 million from the sale of our common stock in a private placement, which was offset by payment of \$1.0 million of related party notes payable and \$0.1 million payment of dividends on preferred stock.

Net cash provided by financing activities was \$2.0 million for the three months ended March 31, 2017, resulting from short-term loans from two of our Board members.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements.

During our normal course of business, we have made certain indemnities, commitments, and guarantees under which we may be required to make payments in relation to certain transactions. These include: intellectual property indemnities to our customers and licensees in connection with the use, sale and/or license of our products; indemnities to various lessors in connection with facility leases for certain claims arising from such facility or lease; indemnities to vendors and service providers pertaining to claims based on the negligence or willful misconduct; indemnities involving the accuracy of representations and warranties in certain contracts; and, indemnities to directors and officers of the Company to the maximum extent permitted under the laws of the State of Delaware. We may also issue a guarantee in the form of a standby letter of credit as security for contingent liabilities under certain customer contracts. The duration of these indemnities, commitments and guarantees varies, and in certain cases, may be indefinite. The majority of these indemnities, commitments, and guarantees may not provide for any limitation of the maximum potential for future payments we could be obligated to make. We have not recorded any liability for these indemnities, commitments, and guarantees in the accompanying consolidated balance sheets. There were no material changes in our contractual obligations and other commercial commitments that would require an update to the disclosure provided in our 2017 Annual Report on Form 10-K.

Recent Accounting Guidance

See Note 2 of our Notes to the Consolidated Financial Statements for information regarding our recent accounting guidance.

Critical Accounting Policies and Estimates

Our discussion and analysis of results of operations, financial condition, and liquidity are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances. Actual results may materially differ from these estimates under different assumptions or conditions. On an on-going basis, we review our estimates to ensure that they appropriately reflect changes in our business or new information as it becomes available. See Note 2 of our Notes to the Consolidated Financial Statements for information regarding our critical accounting policies and estimates.

Item 4. Controls and Procedures

Evaluation of disclosure controls and procedures

We conducted 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 (as defined in Rules 13a-15(e) under the Securities Exchange Act of 1934 (“Exchange Act”)) as of March 31, 2018. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer have determined that as of March 31, 2018, our disclosure controls and procedures were effective to ensure that the information required to be disclosed in our Exchange Act reports is recorded, processed, summarized, and reported within the time periods specified in the Securities and Exchange Commission’s rules and forms and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, our management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives and our management necessarily is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

Management’s responsibility for financial statements

Our management is responsible for the integrity and objectivity of all information presented in this report. The consolidated financial statements were prepared in conformity with accounting principles generally accepted in the United States of America and include amounts based on management’s best estimates and judgments. Management believes the consolidated financial statements fairly reflect the form and substance of transactions and that the financial statements fairly represent the Company’s financial position and results of operations for the periods and as of the dates stated therein.

The Audit Committee of the Board of Directors, which is composed solely of independent directors, meets regularly with our independent registered public accounting firm, SingerLewak LLP, and representatives of management to review accounting, financial reporting, internal control, and audit matters, as well as the nature and extent of the audit effort. The Audit Committee is responsible for the engagement of the independent auditors. The independent auditors have free access to the Audit Committee.

Changes in internal control over financial reporting

There have been no changes in our internal controls over financial reporting during the quarter ended March 31, 2018 that have materially affected, or is reasonably likely to materially affect, our internal controls over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

The Company may become involved in various legal proceedings arising from its business activities. While management does not believe the ultimate disposition of these matters will have a material adverse impact on the Company's consolidated results of operations, cash flows, or financial position, litigation is inherently unpredictable, and depending on the nature and timing of these proceedings, an unfavorable resolution could materially affect the Company's future consolidated results of operations, cash flows or financial position in a particular period.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

The table set forth below shows all repurchases of securities by us during the three months ended March 31, 2018:

| ISSUER PURCHASES OF EQUITY SECURITIES | | | | |
|---------------------------------------|---|--|--|--|
| Period | Total Number of Shares (or Units) Purchased | Average Price Paid per Share (or Unit) | Maximum Number | |
| | | | Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs | (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs |
| January 1 - 31, 2018 | 5,653 | \$ 2.66 | — | — |
| February 1 - 28, 2018 | 5,330 | 2.20 | — | — |
| March 1 - 31, 2018 | 4,724 | \$ 1.60 | — | — |
| Total | 15,707 | (a) \$ 2.18 | | |

The above table includes:

- (a) Repurchases of stock by the Company as payment of withholding taxes in connection with the vesting of restricted stock awards, in an aggregate amount of 15,707 shares during the periods set forth in the table. All of the shares were cancelled when they were acquired.

Item 6. Exhibits

| Exhibit | Description |
|---------|--|
| 10.1 | <u>Second Amendment to Secured Promissory Note, dated January 30, 2018, between the Company and Steven L. Elfman and Monique P. Elfman (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on January 31, 2018)</u> |
| 10.2 | <u>Amendment to Secured Promissory Note, dated January 30, 2018, between the Company and William W. Smith, Jr. and Dieva L. Smith (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed on January 31, 2018)</u> |
| 10.3 | <u>Amendment to Secured Promissory Note, dated January 30, 2018, between the Company and Next Generation TC FBO Andrew Arno IRA 1663 (incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K filed on January 31, 2018)</u> |
| 10.4 | <u>Amendment to Secured Promissory Note, dated January 30, 2018, between the Company and Andrew Arno (incorporated by reference to Exhibit 10.4 to the Company's Current Report on Form 8-K filed on January 31, 2018)</u> |
| 10.5 | <u>Second Amendment to Secured Promissory Note, dated March 5, 2018, between the Company and William W. Smith, Jr. and Dieva L. Smith (incorporated by reference to Exhibit 10.20.2 to the Company's Annual Report on Form 10-K filed on March 30, 2018)</u> |
| 10.6 | <u>Second Amendment to Secured Promissory Note, dated March 5, 2018, between the Company and Next Generation TC FBO Andrew Arno IRA 1663 (incorporated by reference to Exhibit 10.24.2 to the Company's Annual Report on Form 10-K filed on March 30, 2018)</u> |
| 10.7 | <u>Second Amendment to Secured Promissory Note, dated March 5, 2018, between the Company and Andrew Arno (incorporated by reference to Exhibit 10.25.2 to the Company's Annual Report on Form 10-K filed on March 30, 2018)</u> |
| 10.8 | <u>Securities Purchase Agreement, dated March 5, 2018, between the Company and each purchaser identified on the signature pages thereto (the "March SPA") (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on March 6, 2018)</u> |
| 10.9 | <u>Registration Rights Agreement, dated March 5, 2018, between the Company and each purchaser identified on the signature pages thereto (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed on March 6, 2018)</u> |
| 10.10 | <u>Form of Common Stock Purchase Warrant issued by the Company to the investors party to the March SPA (incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K filed on March 6, 2018)</u> |
| 10.11 | <u>Letter Agreement, dated March 5, 2018, between the Company and William W. Smith, Jr. and Dieva L. Smith, filed herewith</u> |

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- 10.12 Letter Agreement, dated March 5, 2018, between the Company and Andrew Arno, filed herewith
- 10.13 Form of Lock-Up Agreement entered into between the Company and each of its directors and certain executive officers in connection with the March SPA, filed herewith
- 10.14 Form of Voting Agreement entered into between the Company and each of its directors and certain executive officers in connection with the March SPA, filed herewith
- 10.15 Form of Restricted Stock Agreement under the 2015 Omnibus Equity Incentive Plan (incorporated by reference to Exhibit 10.6.1 to the Company's Annual Report on Form 10-K filed on March 30, 2018)
- 31.1 Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 31.2 Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 32.1 Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 101.INS XBRL Instance Document
- 101.SCH XBRL Taxonomy Extension Schema Document
- 101.CAL XBRL Taxonomy Extension Calculation Linkbase Document
- 101.DEF XBRL Taxonomy Extension Definition Linkbase Document

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| Exhibit | Description |
|---------|-------------|
|---------|-------------|

| | |
|---------|---|
| 101.LAB | XBRL Taxonomy Extension Label Linkbase Document |
|---------|---|

| | |
|---------|--|
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document |
|---------|--|

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.

SMITH MICRO
SOFTWARE, INC.

May 15, 2018 By /s/ William W. Smith, Jr.
William W. Smith, Jr.
Chairman of the Board,
President and Chief
Executive Officer
(Principal Executive Officer)

May 15, 2018 By /s/ Timothy C. Huffmyer
Timothy C. Huffmyer
Vice President and Chief
Financial Officer
(Principal Financial and
Accounting Officer)