

MobileSmith, Inc.  
Form 10-Q  
November 14, 2013

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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, DC 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 September 30, 2013

OR

Transition report pursuant to Section 13 of 15(d) of the Securities Exchange Act of 1934

Commission File Number: 001-32634

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MOBILESMITH, INC.  
(Exact name of registrant as specified in its charter)

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Delaware  
(State or other jurisdiction of  
incorporation or organization)

95-4439334  
(I.R.S. Employer  
Identification No.)

5400 Trinity Road, Suite 208  
Raleigh, North Carolina  
(Address of principal executive offices)

27607  
(Zip Code)

(855) 516-2413  
(Registrant's telephone number, including area code)

4505 Emperor Blvd., Ste. 320, Durham, North Carolina 27703  
(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report)

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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

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the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  
x No "

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated   "  
filer

Accelerated filer "

Non-accelerated filer"

Smaller reporting  
company x

(Do not check if a smaller reporting company)

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

As of November 14, 2013, there were 18,352,542 shares of the registrant's common stock, par value \$0.001 per share, outstanding.

MOBILESMITH, INC.

FORM 10-Q

For the Quarterly Period Ended September 30, 2013

TABLE OF CONTENTS

	Page No.
<b>PART I – FINANCIAL INFORMATION</b>	
<b>Item 1.</b>	<b>Financial Statements</b>
	Condensed Balance Sheets as of September 30, 2013 (unaudited) and December 31, 2012 3
	Condensed Statements of Operations (unaudited) for the three and nine months ended September 30, 2013 and 2012 4
	Condensed Statements of Cash Flows (unaudited) for the nine months ended September 30, 2013 and 2012 5
	Statement of Stockholders' Deficit as of September 30, 2013 (unaudited) and December 31, 2012 6
	Notes to Financial Statements (unaudited) 7
<b>Item 2.</b>	<b>Management's Discussion and Analysis of Financial Condition and Results of Operations</b> 12
<b>Item 3.</b>	<b>Quantitative and Qualitative Disclosures About Market Risk</b> 16
<b>Item 4.</b>	<b>Controls and Procedures</b> 16
<b>PART II – OTHER INFORMATION</b>	
<b>Item 5.</b>	<b>Other Information</b> 17
<b>Item 6.</b>	<b>Exhibits</b> 18
	Signatures 19

## PART I – FINANCIAL INFORMATION

## Item 1. Financial Statements

MOBILESMITH, INC.  
CONDENSED BALANCE SHEETS

	September 30, 2013 (unaudited)	December 31, 2012
<b>ASSETS</b>		
<b>Current assets:</b>		
Cash and cash equivalents	\$236,745	\$58,458
Restricted cash	198,423	131,103
Accounts receivable	78,899	36,050
Prepaid expenses and other current assets	65,331	96,670
Total current assets	579,398	322,281
Property and equipment, net	87,288	149,107
Capitalized software, net	818,387	618,557
Intangible assets, net	132,868	130,057
Other assets	53,864	19,440
Assets of discontinued operations	-	15,834
<b>TOTAL ASSETS</b>	<b>\$1,671,805</b>	<b>\$1,255,276</b>
<b>LIABILITIES AND STOCKHOLDERS DEFICIT</b>		
<b>Current liabilities:</b>		
Accounts payable	\$71,005	\$217,174
Notes payable	5,025,142	5,041,741
Deferred revenue	144,178	82,308
Settlement related financial instrument liability	1,917,500	2,065,000
Accrued interest	288,502	221,404
Other accrued liabilities	385,046	148,936
Liabilities of discontinued operations	-	5,638
Total current liabilities	7,831,745	7,782,201
<b>Long-term liabilities:</b>		
Notes payable-Related Party	14,557,051	14,557,051
Notes payable - Other	9,205,570	6,075,267
Deferred revenue	-	1,028
Total long-term liabilities	23,762,621	20,633,346
Total liabilities	31,593,994	28,415,547
<b>Commitments and contingencies</b>		
<b>Stockholders' deficit:</b>		
Preferred stock, \$0.001 par value, 5,000,000 shares authorized, no shares issued and outstanding at June 30, 2013 and December 31, 2012	-	-
Common stock, \$0.001 par value, 45,000,000 shares authorized, 18,352,542 shares issued and outstanding at June 30, 2013 and December 31, 2012	18,353	18,353
Additional paid-in capital	90,321,324	67,157,841
Accumulated deficit	(120,261,866)	(94,336,465)

Total stockholders' deficit	(29,922,189 )	(27,160,271)
<b>TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT</b>	<b>\$1,671,805</b>	<b>\$1,255,276</b>

The accompanying notes are an integral part of these financial statements.

**MOBILESMITH, INC.**  
**CONDENSED STATEMENTS OF OPERATIONS**  
(unaudited)

	Three Months Ended		Nine Months Ended	
	September	September	September	September
	30,	30,	30,	30,
	2013	2012	2013	2012
<b>REVENUES:</b>				
Mobile Platform License and Services Fees	102,326	29,405	227,534	94,328
Total revenues	102,326	29,405	227,534	94,328
<b>COST OF REVENUES</b>				
	120,939	44,976	396,166	90,585
<b>GROSS PROFIT (LOSS)</b>				
	(18,613 )	(15,571 )	(168,632 )	3,743
<b>OPERATING EXPENSES:</b>				
Sales and marketing	214,428	206,287	766,881	599,638
Research and development	195,660	40,363	585,876	73,625
General and administrative	317,049	427,398	1,081,558	968,749
Total operating expenses	727,137	674,048	2,434,315	1,642,012
<b>LOSS FROM OPERATIONS</b>				
	(745,750 )	(689,619 )	(2,602,947 )	(1,638,269 )
<b>OTHER (EXPENSE):</b>				
Interest expense, net	(611,082 )	(428,726 )	(1,592,780 )	(1,203,037 )
Gain on legal settlements and insurance claims	51,030	3,713	56,265	3,815
Loss on debt extinguishment	-	-	(21,793,055)	-
Loss on disposal of fixed assets	72,016	-	110,952	-
Change in market value of settlement related financial instrument	147,500	-	147,500	(442,500 )
Total other expense	(340,536 )	(425,013 )	(23,071,118)	(1,641,722 )
<b>LOSS FROM CONTINUING OPERATIONS</b>				
	\$(1,086,286 )	\$(1,114,632 )	(25,674,065)	\$(3,279,991 )
<b>DISCONTINUED OPERATIONS</b>				
Income (loss) from discontinued operations	(14,941 )	46,207	(14,778 )	110,726
Impairment of assets of discontinued operations	-	-	(14,654 )	-
<b>NET LOSS</b>	(1,101,227 )	(1,068,425 )	(25,703,497)	(3,169,265 )
<b>NET LOSS PER COMMON SHARE:</b>				
Basic and fully diluted from continuing operations	\$(0.06 )	\$(0.06 )	(1.40 )	\$(0.18 )
Basic and fully diluted from discontinued operations	\$(0.00 )	\$0.00	(0.00 )	\$0.01
<b>WEIGHTED-AVERAGE NUMBER OF SHARES USED IN COMPUTING NET LOSS PER COMMON SHARE:</b>				
Basic and fully diluted	18,352,542	18,352,542	18,352,542	18,352,542

The accompanying notes are an integral part of these financial statements.

MOBILESMITH, INC.  
CONDENSED STATEMENTS OF CASH FLOWS  
(unaudited)

	Nine Months Ended	
	September 30, 2013	September 30, 2012
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net loss	\$(25,925,401)	\$(3,169,265)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	113,308	76,425
Loss on disposal of fixed assets	125,606	-
Non cash amortization of debt discount	72,364	-
Equity-based compensation	35,624	26,109
Loss on debt extinguishment	21,793,055	-
Changes in assets and liabilities:		
Accounts receivable	(42,849 )	(91,408 )
Contracts receivable		(6,200 )
Prepaid expenses	31,339	(85,706 )
Other assets	(34,424 )	(168 )
Accounts payable	(146,169 )	92,351
Deferred revenue	55,206	217,806
Accrued and other expenses	155,708	394,385
Net cash used in operating activities	(3,766,633 )	(2,545,671)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchases of property and equipment	(21,834 )	(25,530 )
Purchase of software license	-	(75,000 )
Capitalized patent development costs	(14,440 )	(17,248 )
Capitalized software	(287,628 )	(749,160 )
Net cash used in investing activities	(323,902 )	(866,938 )
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Restricted cash used to pay IDB interest expense	135,566	152,904
Deposit of cash to IDB restricted account	(202,886 )	(281,341 )
Proceeds from debt borrowings	4,375,000	3,639,253
Repayments of debt borrowings	(38,858 )	(12,172 )
Net cash provided by financing activities	4,268,822	3,498,644
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	<b>178,287</b>	<b>86,035</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD</b>	<b>58,458</b>	<b>165,139</b>
<b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>	<b>\$236,745</b>	<b>\$251,174</b>
<b>Supplemental disclosures of cash flow information:</b>		
Cash paid during the period for interest	\$1,525,682	\$748,778
<b>Non-cash investing and financing activities:</b>		
Financed purchase of office furniture	\$40,000	\$-



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Recorded debt discount associated with beneficial conversion feature	\$1,334,804	\$-
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The accompanying notes are an integral part of these financial statements.

MOBILESMITH, INC.  
CONDENSED STATEMENT OF STOCKHOLDERS' DEFICIT  
FOR THE PERIOD ENDED SEPTEMBER 30, 2013

	Common Stock		Additional Paid-In Capital	Accumulated Deficit	Totals
	Shares	Par Value			
BALANCES, DECEMBER 31, 2012	18,352,542	\$ 18,353	\$ 67,157,841	\$ (94,336,465 )	\$ (27,160,271)
Equity-based compensation			12,181		12,181
Net loss				(1,427,804 )	(1,427,804 )
BALANCES, MARCH 31, 2013	18,352,542	18,353	67,170,022	(95,764,269 )	(28,575,894)
Equity-based compensation			11,917		11,917
Beneficial conversion feature recorded as a result of June 27, 2013 debt modification			22,218,055		22,218,055
Net loss				(23,252,338 )	(23,252,338)
BALANCES, JUNE 30, 2013	18,352,542	18,353	89,399,994	(119,016,607)	(29,598,260)
Equity-based compensation			11,526		11,526
Beneficial conversion feature recorded as a result of issuance of convertible debt			909,804		909,804
Net loss				(1,245,259 )	(1,245,259 )
BALANCES, SEPTEMBER 30, 2013	18,352,542	\$ 18,353	\$ 90,321,324	\$ (120,261,866)	\$ (29,922,189)

The accompanying notes are an integral part of these financial statements.

MOBILESMITH, INC.  
NOTES TO CONDENSED FINANCIAL STATEMENTS  
For the Quarterly Period Ended June 30, 2013  
(unaudited)

1. DESCRIPTION OF BUSINESS AND BASIS OF PRESENTATION

MobileSmith, Inc. (the “Company”) was incorporated as Smart Online, Inc. in the State of Delaware in 1993. The Company changed its name to MobileSmith, Inc. effective July 1, 2013. The Company develops and markets software products and services tailored to users of mobile devices. The Company’s flagship product is The MobileSmith™ Platform. The MobileSmith™ Platform is an innovative, patents pending mobile app development platform that enables organizations to rapidly create, deploy, and manage custom, native smartphone apps deliverable across iOS and Android mobile platforms.

The Company’s principal products and services include:

Licensing of our SaaS (“Software as a Service”) Mobile App Development Platform to our customers who design and build their own apps;

Custom mobile application design and development services provided by the Company;

Mobile application marketing services;

Mobile strategy implementation consulting; and

Cloud-based software hosting and management services.

The Company prepared the accompanying unaudited Condensed Financial Statements pursuant to the rules and regulations of the Securities and Exchange Commission (the “SEC”). Pursuant to these rules and regulations, we have condensed or omitted certain information and footnote disclosures we normally include in our annual financial statements prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”). In management’s opinion, we have made all adjustments (consisting only of normal, recurring adjustments, except as otherwise indicated) necessary to fairly present our financial position, results of operations, cash flows and stockholder deficit as of September 30, 2013. Our interim period operating results do not necessarily indicate the results that may be expected for any other interim period or for the full fiscal year. These financial statements and accompanying notes should be read in conjunction with the audited financial statements and notes thereto in our Annual Report on Form 10-K for the fiscal year ended December 31, 2012, as amended, on file with the SEC (our “Annual Report”).

There have been no material changes to our significant accounting policies as compared to the significant accounting policies described in our Annual Report.

The accompanying financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. During the nine months ended September 30, 2013 and 2012, the Company incurred net losses as well as negative cash flows and had deficiencies in working capital. These factors indicate that the Company may be unable to continue as a going concern.

Certain prior year balances were reclassified in connection with the presentation of discontinued operations of legacy domain hosting operations and the presentation of debt balances as of September 30, 2013.

## 2. BALANCE SHEET ACCOUNTS

Capitalized software consists of the following:

	September 30, 2013	December 31, 2012
Capitalized software	\$ 952,139	\$ 672,359
Less accumulated amortization	(133,752 )	(53,802 )
Capitalized software, net	\$ 818,387	\$ 618,557

7

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## Office furniture and equipment:

During the quarter ended September 30, 2013, the Company finalized its plans to move to a new office location. During the nine month period then ended the Company purchased \$21,834 of new equipment and tradeshow furniture, in addition to purchasing \$40,000 of new office furniture, which was financed.

As a result of the office move, the Company disposed of \$125,606 of certain undepreciated assets which were not moved to the new location.

## Financial instruments:

The fair value of the financial liability related to issuance of 1,475,000 shares of our common stock, par value \$0.001 per share (the "Common Stock"), resulting from the settlement of the Class Action lawsuit on July 1, 2011 was \$1,917,500 and \$2,065,000 at September 30, 2013 and December 31, 2012, respectively.

The Company recognized a gain of \$147,500 and a loss of \$442,500 in relation to the change in value of the financial liability during the nine-month periods ended September 30, 2013 and 2012, respectively.

## 3. DEBT

The table below summarizes the Company's debt at September 30, 2013 and December 31, 2012:

Note Description	September 30, 2013	December 31, 2012	Maturity	Rate	
IDB Bank	\$5,000,000	\$5,000,000	May-14	4.0	%
Insurance premium note	-	23,987	Jun-13	6.9	%
Capital lease obligations - Noteholder lease	136,893	150,072	Aug-19	8.0	%
Capital lease obligations - Office furniture	38,310	-	Sep-18	9.8	%
Convertible notes - Related parties	14,557,051	14,557,051	Nov-16	8.0	%
Convertible notes, net of discount					