

MobileSmith, Inc.  
Form 10-Q  
November 10, 2014

---

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 September 30, 2014

OR

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

Commission File Number: 001-32634

MOBILESMITH, INC.

(Exact name of registrant as specified in its charter)

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)

---

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

Edgar Filing: MobileSmith, Inc. - Form 10-Q

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

(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  No

As of November 7, 2014, there were 19,827,542 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, 2014

TABLE OF CONTENTS

		Page No.
PART I – FINANCIAL INFORMATION		
Item 1.	Financial Statements	
	Condensed Consolidated Balance Sheets as of September 30, 2014 (unaudited) and December 31, 2013	1
	Condensed Consolidated Statements of Operations (unaudited) for the three and nine months ended September 30, 2014 and 2013	2
	Condensed Consolidated Statements of Cash Flows (unaudited) for the nine months ended September 30, 2014 and 2013	3
	Condensed Consolidated Statement of Stockholders' Deficit for the period ended September 30, 2014 (unaudited)	4
	Notes to Condensed Consolidated Financial Statements (unaudited)	5
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	10
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	16
Item 4.	Controls and Procedures	16
PART II – OTHER INFORMATION		
Item 6.	Exhibits	17
	Signatures	18

## PART I – FINANCIAL INFORMATION

## Item 1. Financial Statements

MOBILESMITH, INC.  
CONDENSED CONSOLIDATED BALANCE SHEETS

## ASSETS

	September 30, 2014 (unaudited)	December, 31 2013
Current Assets		
Cash and Cash Equivalents	\$415,815	\$223,514
Restricted Cash	112,490	131,757
Trade Accounts Receivable, Net of Allowance for Doubtful Accounts of \$11,500 and Zero, Respectively	78,268	48,885
Prepaid Expenses and Other Current Assets	36,401	97,957
Total Current Assets	642,974	502,113
Property & Equipment, Net		
Capitalized Software, Net	123,528	140,383
Intangible Assets, Net	535,625	636,061
Other Assets	100,916	138,992
Total Other Assets	83,804	15,370
Total Assets	843,873	930,806
	\$1,486,847	\$1,432,919

## LIABILITIES AND STOCKHOLDERS' DEFICIT

Current Liabilities		
Trade Accounts Payable	\$37,983	\$58,901
Accrued Expenses	146,824	267,425
Accrued Interest	312,625	290,560
Capital Lease Obligations and Bank Loans	27,786	5,026,113
Deferred Revenue	401,639	163,868
Total Current Liabilities	926,857	5,806,867
Long-Term Liabilities		
Bank Loan	5,000,000	-
Convertible Notes Payable, Related Parties, Net of Discount	24,447,102	23,512,836
Convertible Notes Payable, Net of Discount	680,640	730,770
Capital Lease Obligations	121,958	142,986
Deferred Rent	62,241	25,314
Total Long-Term Liabilities	30,311,941	24,411,906
Total Liabilities	31,238,798	30,218,773
Commitments and Contingencies (Note 3)		
Stockholders' Deficit		
Preferred Stock, \$0.001 par value, 5,000,000 shares authorized, no shares issued and outstanding at September 30, 2014 and December 31, 2013	-	-
Common Stock, \$0.001 par value, 45,000,000 shares authorized, 19,827,542 shares issued and outstanding at September 30, 2014 and December 31, 2013	19,828	19,828
Additional Paid-in Capital	97,454,657	93,059,983

Edgar Filing: MobileSmith, Inc. - Form 10-Q

Accumulated Deficit	(127,226,436)	(121,865,665)
Total Stockholders' Deficit	(29,751,951 )	(28,785,854 )
Total Liabilities and Stockholders' Deficit	\$1,486,847	\$1,432,919

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

1

---

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

	Three Months Ended		Nine Months Ended	
	September 30, 2014	September 30, 2013	September 30, 2014	September 30, 2013
<b>REVENUES:</b>				
Subscription and Support	\$ 157,675	\$ 102,326	\$ 540,403	\$ 227,534
Professional Services and Other	20,000	-	20,000	-
<b>Total Revenue</b>	<b>177,675</b>	<b>102,326</b>	<b>560,403</b>	<b>227,534</b>
<b>COST OF REVENUES:</b>				
Subscription and Support	137,523	120,939	397,792	396,166
Professional Services and Other	9,790	-	9,790	-
<b>Total Cost of Revenue</b>	<b>147,313</b>	<b>120,939</b>	<b>407,582</b>	<b>396,166</b>
<b>GROSS PROFIT (LOSS)</b>	<b>30,362</b>	<b>(18,613 )</b>	<b>152,821</b>	<b>(168,632 )</b>
<b>OPERATING EXPENSES:</b>				
Sales and Marketing	247,214	214,428	702,998	766,881
Research and Development	294,818	195,660	825,432	585,876
General and Administrative	325,229	317,049	1,007,798	1,081,558
Impairment of Long Lived Assets, Net	24,952	72,016	41,248	110,952
<b>Total Operating Expenses</b>	<b>892,213</b>	<b>799,153</b>	<b>2,577,476</b>	<b>2,545,267</b>
<b>LOSS FROM OPERATIONS</b>	<b>(861,851 )</b>	<b>(817,766 )</b>	<b>(2,424,655 )</b>	<b>(2,713,899 )</b>
<b>OTHER INCOME (EXPENSE):</b>				
Other Income	3,537	-	5,425	-
Interest Expense, Net	(1,239,846 )	(611,082 )	(3,161,531 )	(1,592,780 )
Gain on Reversal of a Liability	-	-	169,861	-
Gain on Legal Settlements and Insurance Claims	-	51,030	-	56,265
Gain (Loss) On Debt Extinguishment	-	-	50,129	(21,793,055)
Change in the Market Value of Settlement Related Financial Instrument	-	147,500	-	147,500
<b>Total Other Expense</b>	<b>(1,236,309 )</b>	<b>(412,552 )</b>	<b>(2,936,116 )</b>	<b>(23,182,070)</b>
<b>LOSS FROM CONTINUING OPERATIONS</b>	<b>\$(2,098,160 )</b>	<b>\$(1,230,318 )</b>	<b>\$(5,360,771 )</b>	<b>\$(25,895,969)</b>
Income (Loss) from Discontinued Operations	-	(14,941 )	-	(14,778 )
Impairment of Assets of Discontinued Operations	-	-	-	(14,654 )
<b>NET LOSS</b>	<b>\$(2,098,160 )</b>	<b>\$(1,245,259 )</b>	<b>\$(5,360,771 )</b>	<b>\$(25,925,401)</b>
<b>NET LOSS PER COMMON SHARE:</b>				
Basic and Fully Diluted from Continuing Operations	\$(0.11 )	\$(0.07 )	\$(0.27 )	\$(1.41 )
Basic and Fully Diluted from Discontinued Operations	\$-	\$-	\$-	\$-
<b>WEIGHTED-AVERAGE NUMBER OF SHARES USED IN COMPUTING NET LOSS PER COMMON SHARE:</b>				
Basic And Fully Diluted	19,827,542	18,352,542	19,827,542	18,352,542

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



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

	Nine Months Ended	
	September 30, 2014	September 30, 2013
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net Loss	\$(5,360,771)	\$(25,925,401)
Adjustments to Reconcile Net Loss to Net Cash Used in Operating Activities:		
Depreciation and Amortization	124,358	113,308
Bad Debt Expense	11,500	-
Amortization of Debt Discount	1,310,833	72,364
Share Based Compensation	78,108	35,624
Impairment of Long Lived Assets	41,248	125,606
Loss (Gain) on Debt Extinguishment	(50,129 )	21,793,055
Changes in Assets and Liabilities:		
Accounts Receivable	(40,883 )	(42,849 )
Prepaid Expenses and Other Current Assets	(6,878 )	(3,085 )
Accounts Payable	(20,918 )	(146,169 )
Deferred Revenue	237,771	55,206
Accrued and Other Expenses	(61,611 )	155,708
Net Cash Used in Operating Activities	(3,737,372)	(3,766,633 )
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Payments to Acquire Property, Plant and Equipment	(10,239 )	(21,834 )
Investment in Internally Developed Software	-	(302,068 )
Net Cash Used in Investing Activities	(10,239 )	(323,902 )
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Restricted Cash Used to Pay Interest Expense	144,267	135,566
Deposit of Cash to Restricted Account	(125,000 )	(202,886 )
Repayment of Bank Loan	(5,000,000)	-
Proceeds from Bank Loan	5,000,000	-
Proceeds from Issuance of Long Term Debt	3,940,000	4,375,000
Repayments of Debt Borrowings	(19,355 )	(38,858 )
Net Cash Provided by Financing Activities	3,939,912	4,268,822
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>192,301</b>	<b>178,287</b>