

SMART ONLINE INC
Form 10-Q
November 14, 2007

**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, 2007

OR

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

Commission File Number: 001-32634

**SMART ONLINE, 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.)**

**2530 Meridian Parkway, 2nd Floor
Durham, North Carolina
(Address of principal executive offices)**

**27713
(Zip Code)**

**(919) 765-5000
(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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer Accelerated Filer Non-accelerated Filer

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 12, 2007, there were approximately 18,010,000 shares of the registrant's common stock outstanding.

Smart Online, Inc.

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PART I. FINANCIAL INFORMATION
1. Financial Statements

SMART ONLINE, INC.
CONSOLIDATED BALANCE SHEETS

	September 30, 2007 (unaudited)	December 31, 2006
Assets		
CURRENT ASSETS:		
Cash and Cash Equivalents	\$ 2,228,027	\$ 326,905
Restricted Cash (See Note 5)	250,000	250,000
Accounts Receivable, Net	964,264	247,618
Current Portion of Note Receivable	50,000	-
Prepaid Expenses	119,109	100,967
Deferred Financing Costs (See Note 5)	414,220	-
Total Current Assets	\$ 4,025,620	\$ 925,490
PROPERTY AND EQUIPMENT, Net	\$ 187,195	\$ 180,360
LONG TERM PORTION OF NOTE RECEIVABLE	230,000	-
INTANGIBLE ASSETS, Net	3,036,419	3,617,477
GOODWILL	2,696,642	2,696,642
OTHER ASSETS	75,311	13,040
TOTAL ASSETS	\$ 10,251,187	\$ 7,433,009
Liabilities and Stockholders' Equity		
CURRENT LIABILITIES:		
Accounts Payable	\$ 720,845	\$ 850,730
Accrued Registration Rights Penalty	-	465,358
Current Portion of Notes Payable (See Note 6)	3,187,346	2,839,631
Deferred Revenue (See Note 5)	475,099	313,774
Accrued Liabilities (See Note 5)	629,997	301,266
Total Current Liabilities	\$ 5,013,287	\$ 4,770,759
LONG-TERM LIABILITIES:		
Long-Term Portion of Notes Payable (See Note 6)	\$ 165,863	\$ 825,000
Deferred Revenue	259,534	11,252
Total Long-Term Liabilities	425,397	836,252
Total Liabilities	\$ 5,438,684	\$ 5,607,011
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY:		
Common Stock, \$.001 Par Value, 45,000,000 Shares Authorized, Shares Issued and Outstanding:		
September 30, 2007 - 18,009,564; December 31, 2006 - 15,379,030	18,009	15,379
Additional Paid-in Capital	66,231,024	59,159,919
Accumulated Deficit	(61,436,530)	(57,349,300)
Total Stockholders' Equity	4,812,503	1,825,998
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 10,251,187	\$ 7,433,009

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

SMART ONLINE, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS (unaudited)

	Three Months Ended		Nine Months Ended	
	September 30, 2007	September 30, 2006	September 30, 2007	September 30, 2006
REVENUES:				
Integration Fees	\$ -	\$ 6,250	\$ 5,000	\$ 182,660
Syndication Fees	15,000	57,352	45,000	183,619
Subscription Fees (See Note 3)	830,660	429,426	2,040,243	1,476,194
Professional Services Fees	378,068	242,177	984,548	601,200
License Fees	200,000	-	480,000	450,000
Other Revenues	5,467	14,001	20,720	54,312
Total Revenues	\$ 1,429,195	\$ 749,206	\$ 3,575,511	\$ 2,947,985
COST OF REVENUES				
	\$ 168,035	\$ 31,311	\$ 355,942	\$ 212,515
GROSS PROFIT				
	\$ 1,261,160	\$ 717,895	\$ 3,219,569	\$ 2,735,470
OPERATING EXPENSES:				
General and Administrative	1,398,170	1,208,044	3,567,385	4,844,464
Sales and Marketing	635,201	135,027	1,563,653	666,940
Research and Development	636,780	455,997	1,908,644	1,279,198
Total Operating Expenses	\$ 2,670,151	\$ 1,799,068	\$ 7,039,682	\$ 6,790,602
LOSS FROM CONTINUING OPERATIONS				
	(1,408,991)	(1,081,173)	(3,820,113)	(4,055,132)
OTHER INCOME (EXPENSE):				
Interest Expense, Net	(139,124)	(51,746)	(400,910)	(190,802)
Takeback of Investor Relations Shares	-	1,562,500	-	3,125,000
Legal Reserve and Debt Forgiveness, Net	(39,477)	-	(34,877)	144,351
Writeoff of Investment	-	-	-	(25,000)
Other Income	24,866	-	168,672	-
Total Other Income (Expense)	\$ (153,735)	\$ 1,510,754	(267,115)	3,053,549
NET INCOME (LOSS) FROM CONTINUING OPERATIONS				
	(1,562,726)	429,581	(4,087,228)	(1,001,583)
DISCONTINUED OPERATIONS				
Loss of Operations of Smart CRM, net of tax	-	(2,329,429)	-	(2,525,563)
NET LOSS attributed to common stockholders	\$ (1,562,726)	(1,899,848)	\$ (4,087,228)	\$ (3,527,146)
NET LOSS PER SHARE:				
Continuing Operations				
Basic and Fully Diluted	\$ (0.09)	\$ 0.03	\$ (0.24)	\$ (0.07)

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Discontinued Operations								
Basic and Fully Diluted	\$	-	\$	(0.15)	\$	-	\$	(0.17)
Net Loss Attributed to Common Stockholders								
Basic	\$	(0.09)		(0.13)		(0.24)		(0.23)
Fully Diluted		(0.09)		(0.12)		(0.24)		(0.23)
SHARES USED IN COMPUTING NET LOSS PER SHARE								
Basic		17,292,639		15,127,510		17,002,827		15,077,583
Fully Diluted		17,292,639		15,387,110		17,002,827		15,077,583

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

SMART ONLINE, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)

	Nine Months Ended September 30, 2007	Nine Months Ended September 30, 2006
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Loss	\$ (4,087,228)	\$ (1,001,583)
Adjustments to reconcile Net Loss to Net Cash used in Operating Activities:		
Depreciation and Amortization	631,267	530,969
Amortization of Deferred Financing Costs	320,083	-
Takeback of Investor Relation Shares	-	(3,125,000)
Stock Option Related Compensation Expense	574,343	622,442
Writeoff of Investment	-	25,000
Registration Rights Penalty	(320,632)	345,870
Gain on Debt Forgiveness	(215,123)	