

SMITH MICRO SOFTWARE INC
Form 10-Q
May 09, 2014
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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, 2014

OR

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

Commission file number 01-35525

SMITH MICRO SOFTWARE, INC.

(Exact name of registrant as specified in its charter)

DELAWARE
(State or other jurisdiction of
incorporation or organization)

33-0029027
(I.R.S. Employer
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)

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, 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 (Do not check if a smaller reporting company)

Small reporting company

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

As of April 18, 2014 there were 38,566,187 shares of common stock outstanding.

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Table of Contents**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, 2014 (unaudited)	December 31, 2013 (audited)
Assets		
Current assets:		
Cash and cash equivalents	\$ 8,620	\$ 11,763
Short-term investments	2,625	3,078
Accounts receivable, net of allowances for doubtful accounts and other adjustments of \$608 (2014) and \$617 (2013)	7,042	7,563
Income tax receivable	699	699
Inventories, net of reserves for excess and obsolete inventory of \$274 (2014) and \$301 (2013)	167	167
Prepaid expenses and other current assets	734	871
Deferred tax asset	152	152
Total current assets	20,039	24,293
Equipment and improvements, net	6,161	7,023
Other assets	223	222
Total assets	\$ 26,423	\$ 31,538
Liabilities and Stockholders Equity		
Current liabilities:		
Accounts payable	\$ 1,623	\$ 1,632
Accrued liabilities	7,160	7,734
Deferred revenue	201	464
Total current liabilities	8,984	9,830
Non-current liabilities:		
Deferred rent and other long-term liabilities	3,573	3,383
Deferred tax liability	154	154
Total non-current liabilities	3,727	3,537
Commitments and contingencies		
Stockholders equity:		

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Preferred stock, par value \$0.001 per share; 5,000,000 shares authorized; none issued or outstanding

Common stock, par value \$0.001 per share; 100,000,000 shares authorized; 38,566,187 and 36,994,318 shares issued and outstanding at March 31, 2014 and December 31, 2013, respectively	39	37
Additional paid-in capital	215,325	214,619
Accumulated comprehensive deficit	(201,652)	(196,485)
Total stockholders' equity	13,712	18,171
Total liabilities and stockholders' equity	\$ 26,423	\$ 31,538

See accompanying notes to the consolidated financial statements.

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SMITH MICRO SOFTWARE, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(in thousands, except per share data)

	Three Months Ended March 31,	
	2014 (unaudited)	2013 (unaudited)
Revenues	\$ 8,449	\$ 11,602
Cost of revenues	2,420	2,444
Gross profit	6,029	9,158
Operating expenses:		
Selling and marketing	3,036	4,381
Research and development	4,249	5,936
General and administrative	3,878	4,942
Total operating expenses	11,163	15,259
Operating loss	(5,134)	(6,101)
Interest and other income, net		12
Loss before provision for income taxes	(5,134)	(6,089)
Provision for income tax expense	33	69
Net loss	(5,167)	(6,158)
Other comprehensive income, before tax:		
Unrealized holding gains on available-for-sale securities		18
Income tax expense related to items of other comprehensive income		
Other comprehensive income, net of tax		18
Comprehensive loss	\$ (5,167)	\$ (6,140)
Net loss per share:		
Basic and diluted	\$ (0.14)	\$ (0.17)
Weighted average shares outstanding:		
Basic and diluted	37,714	36,614

See accompanying notes to the consolidated financial statements.

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SMITH MICRO SOFTWARE, INC.

CONSOLIDATED STATEMENT OF STOCKHOLDERS EQUITY

(in thousands)

	Common stock		Additional	Accumulated	
	Shares	Amount	paid-in	comprehensive	Total
			capital	deficit	
BALANCE, December 31, 2013	36,994	\$ 37	\$ 214,619	\$ (196,485)	\$ 18,171
Exercise of common stock options	4		6		6
Non-cash compensation recognized on stock options and ESPP			40		40
Restricted stock grants, net of cancellations	1,570	2	675		677
Cancellation of shares for payment of withholding tax	(16)		(26)		(26)
Employee stock purchase plan (ESPP)	14		11		11
Comprehensive loss				(5,167)	(5,167)
BALANCE, March 31, 2014 (unaudited)	38,566	\$ 39	\$ 215,325	\$ (201,652)	\$ 13,712

See accompanying notes to the consolidated financial statements.

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SMITH MICRO SOFTWARE, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

	Three Months Ended March 31,	
	2014	2013
	(unaudited)	(unaudited)
Operating activities:		
Net loss	\$ (5,167)	\$ (6,158)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	872	1,073
Provision for doubtful accounts and other adjustments to accounts receivable	72	145
Provision for excess and obsolete inventory	22	35
Non-cash compensation related to stock options, ESPP and restricted stock	717	905
Change in operating accounts:		
Accounts receivable	449	(996)
Inventories	(22)	8
Prepaid expenses and other assets	136	171
Accounts payable and accrued liabilities	(677)	931
Net cash used in operating activities	(3,598)	(3,886)
Investing activities:		
Capital expenditures	(15)	(90)
Sales (purchases) of short-term investments	453	(2,167)
Net cash provided by (used in) investing activities	438	(2,257)
Financing activities:		
Cash received from stock sale for employee stock purchase plan	11	21
Cash received from exercise of stock options	6	
Net cash provided by financing activities	17	21
Net decrease in cash and cash equivalents	(3,143)	(6,122)
Cash and cash equivalents, beginning of period	11,763	18,873
Cash and cash equivalents, end of period	\$ 8,620	\$ 12,751
Supplemental disclosures of cash flow information:		
Cash paid for income taxes	\$ 15	\$ 71

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. (we, us, our, Smith Micro, or the Company) provides software and services that simulate and secure and enhance the mobile experience. The Company's portfolio of wireless solutions includes a wide range of client and server applications that manage devices, communications and network connectivity for end-users as well as Machine-to-Machine (M2M) endpoints. Our primary customers are the world's leading wireless service providers, mobile device and chipset manufacturers, and enterprise businesses. In addition to our wireless and mobility software, Smith Micro offers personal productivity, graphics and animation products distributed through a variety of consumer channels worldwide.

On May 6, 2014, the Board of Directors approved a plan of restructuring intended to streamline and flatten the Company's organization, reduce overall headcount by approximately 20% and reduce its overall cost structure by approximately \$2.0 million per quarter. The restructuring includes an update to the assumptions used in the Company's 2013 restructuring related to subleases of its facility consolidations and closures of \$0.5 million. The total one-time restructuring charges of approximately \$1.6 - \$2.0 million will be recorded in the fiscal quarter ending June 30, 2014. Of these charges, approximately \$1.2 - \$1.4 million will be cash expenditures, and approximately \$0.4 - \$0.6 million will be non-cash stock compensation.

2. Basis of Presentation

The accompanying interim consolidated balance sheet and statement of stockholders' equity as of March 31, 2014, and the related statements of comprehensive loss and cash flows for the three months ended March 31, 2014 and 2013 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, 2013 filed with the SEC on March 7, 2014.

Intercompany balances and transactions have been eliminated in consolidation.

Operating results for the three months ended March 31, 2014 are not necessarily indicative of the results that may be expected for any other interim period or for the fiscal year ending December 31, 2014.

3. Liquidity and Capital Resources

At March 31, 2014, we had \$11.2 million in cash and cash equivalents and short-term investments and \$11.1 million of working capital.

The Company believes that our existing cash, cash equivalents and short-term investment balances will be sufficient to fund the Company's operations through at least the next twelve months. As mentioned above, the Board has approved a restructuring plan (see Note 15) that will be implemented during the fiscal quarter ending June 30, 2014 which will lower our overall cost structure by approximately \$2.0 million per quarter. We are hopeful that our new product strategies and their associated products will start to gain market acceptance and that we will be able to return to profitability by year-end. If market acceptance of our strategy and products is slower than anticipated, then we will need to:

undertake additional restructuring to lower costs to bring those more in line with actual revenues;

raise additional funds to support the Company's operations beyond the first quarter of 2015. There is no assurance that the Company will be able to raise such additional funds on acceptable terms, if at all. If the Company raises additional funds by issuing securities, existing stockholders may be diluted; and

review strategic alternatives for one or more of our product lines.

If adequate funds are not available, we may be required to curtail our operations or other business activities significantly or to obtain funds through arrangements with strategic partners or others that may require us to relinquish rights to certain technologies or potential markets.

4. Net Income (Loss) Per Share

The Company calculates earnings per share (EPS) as required by Financial Accounting Standards Board (FASB) Accounting Standards Codification (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 and options are considered to be common stock equivalents and are only included in the calculation of diluted earnings per share when their effect is dilutive.

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	Three Months Ended March 31,	
	2014	2013
	(unaudited, in thousands, except per share amounts)	
Numerator:		
Net loss available to common stockholders	\$ (5,167)	\$ (6,158)
Denominator:		
Weighted average shares outstanding - basic	37,714	36,614
Potential common shares - options (treasury stock method)		
Weighted average shares outstanding - diluted	37,714	36,614
Shares excluded (anti-dilutive)	186	70
Shares excluded due to an exercise price greater than weighted average stock price for the period	1,340	1,473
Net loss per common share:		
Basic	(\$ 0.14)	(\$ 0.17)
Diluted	(\$ 0.14)	(\$ 0.17)

5. Stock-Based Compensation*Stock Plans*

During the three months ended March 31, 2014, the Company granted 1.6 million shares of restricted stock with a weighted average grant date fair value of \$1.79 per share. This cost will be amortized ratably over a period of 12 to 48 months.

As of March 31, 2014, there were 1.2 million shares available for future grants under the 2005 Stock Plan.

Employee Stock Purchase Plan

The Company's most recent six-month offering period ended March 31, 2014 and resulted in 14,000 shares being purchased/granted at a fair value of \$0.30 per share.

Stock Compensation

The Company accounts for all stock-based payment awards made to employees and directors based on their fair values and recognized as compensation expense over the vesting period using the straight-line method over the requisite service period for each award as required by FASB ASC Topic No. 718, Compensation-Stock Compensation. Restricted stock is valued using the closing stock price on the date of the grant. Options are valued

using a Black-Scholes valuation model.

Stock-based non-cash compensation expense related to stock options, restricted stock grants and the employee stock purchase plan were recorded in the financial statements as follows (in thousands):

	Three Months Ended March 31,	
	2014	2013
	(unaudited)	
Cost of revenues	\$ 5	\$ 5
Selling and marketing	76	226
Research and development	169	209
General and administrative	467	465
Total non-cash stock compensation expense	\$ 717	\$ 905

Total share-based compensation for each quarter includes cash payment of income taxes related to grants of restricted stock in the amount of \$0.1 million and \$0.2 million for the three months ended March 31, 2014 and 2013, respectively.

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6. Fair Value of Financial Instruments

The Company measures and discloses fair value