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, 2024
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 incorporation or organization)	**(I.R.S. Employer Identification No.)**

5800 Corporate Drive
Pittsburgh, PA 15237
(Address of principal executive offices, including zip code)
(412) 837-5300
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, par value $0.001 per share	SMSI	The Nasdaq Capital Market

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 every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a 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	☒	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 Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

As of May 6, 2024, there were 9,601,582 shares of common stock outstanding.

SMITH MICRO SOFTWARE, INC.
QUARTERLY REPORT ON FORM 10-Q
March 31, 2024

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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, 2024	December 31, 2023
	(unaudited)	(audited)
Assets		
Current assets:		
Cash and cash equivalents	$ 6,155	$ 7,125
Accounts receivable, net of related allowances of $3 and $3 at 2024 and 2023, respectively	4,301	7,912
Prepaid expenses and other current assets	1,800	1,843
Total current assets	12,256	16,880
Equipment and improvements, net	790	883
Right-of-use assets	3,147	2,759
Other assets	480	482
Intangible assets, net	27,715	29,532
Goodwill	11,052	35,041
Total assets	$ 55,440	$ 85,577
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 2,218	$ 2,522
Accrued payroll and benefits	2,653	2,500
Current operating lease liabilities	1,272	1,483
Other current liabilities	1,048	1,137
Total current liabilities	7,191	7,642
Non-current liabilities:		
Warrant liabilities	411	597
Operating lease liabilities	2,228	1,780
Deferred tax liabilities, net	168	168
Total non-current liabilities	2,807	2,545
Commitments and contingencies		
Stockholders' equity:		
Common stock, par value $0.001 per share; 100,000,000 shares authorized; 9,601,504 and 9,347,979 shares issued and outstanding 2024 and 2023, respectively*	10	9
Additional paid-in capital	382,387	381,329
Accumulated comprehensive deficit	(336,955)	(305,948)
Total stockholders’ equity	45,442	75,390
Total liabilities and stockholders' equity	$ 55,440	$ 85,577

*After giving effect to the Reverse Stock Split (as defined in Note 1).

See accompanying notes to the consolidated financial statements.

SMITH MICRO SOFTWARE, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per share data)

	For the Three Months Ended March 31,	
	2024	2023
	(unaudited)	(unaudited)
Revenues	$ 5,798	$ 10,930
Cost of revenues (including depreciation of $6 and $14 in the three months ended March 31, 2024 and 2023, respectively)	1,988	3,282
Gross profit	3,810	7,648
Operating expenses:		
Selling and marketing	2,614	3,554
Research and development	3,989	5,868
General and administrative	2,756	3,475
Depreciation and amortization	1,908	1,686
Goodwill impairment	23,989	—
Total operating expenses	35,256	14,583
Operating loss	(31,446)	(6,935)
Other income (expense):		
Change in fair value of warrant and derivative liabilities	185	2,984
Loss on derecognition of debt	—	(627)
Interest income (expense), net	74	(2,260)
Other income (expense), net	219	(40)
Loss before provision for income taxes	(30,968)	(6,878)
Provision for income tax expense	39	9
Net loss	$ (31,007)	$ (6,887)
Loss per share:		
Basic and diluted *	$ (3.28)	$ (0.97)
Weighted average shares outstanding:		
Basic and diluted *	9,466	7,121

*After giving effect to the Reverse Stock Split.

See accompanying notes to the consolidated financial statements.

SMITH MICRO SOFTWARE, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(in thousands)

	Common Stock		Additional Paid-in Capital*	Accumulated Comprehensive Deficit	Total
	Shares *	Amount*			
BALANCE, December 31, 2023 (audited)	9,348	$ 9	$ 381,329	$ (305,948)	$ 75,390
Non-cash compensation recognized on stock options and employee stock purchase plan ("ESPP")	—	—	6	—	6
Restricted stock grants, net of cancellations	266	1	1,129	—	1,130
Cancellation of shares for payment of withholding tax	(13)	—	(79)	—	(79)
ESPP shares issued	1	—	2	—	2
Net loss	—	—	—	(31,007)	(31,007)
BALANCE, March 31, 2024 (unaudited)	9,602	10	382,387	(336,955)	45,442

*After giving effect to the Reverse Stock Split.

	Common Stock		Additional Paid-in Capital*	Accumulated Comprehensive Deficit	Total
	Shares *	Amount*			
BALANCE, December 31, 2022 (audited)	7,025	$ 7	$ 357,924	$ (281,552)	$ 76,379
Non-cash compensation recognized on stock options and ESPP	—	—	9	—	9
Restricted stock grants, net of cancellations	158	—	934	—	934
Cancellation of shares for payment of withholding tax	(14)	—	(211)	—	(211)
ESPP shares issued	1	—	8	—	8
Employee stock purchase plan expense	—	—	2	—	2
Common shares issued in settlement and prepayment of notes payable	405	1	3,649	—	3,650
Net loss	—	—	—	(6,887)	(6,887)
BALANCE, March 31, 2023 (unaudited)	7,575	8	362,315	(288,439)	73,884

*After giving effect to the Reverse Stock Split.

SMITH MICRO SOFTWARE, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	For the Three Months Ended March 31,	
	2024	**2023**
	(unaudited)	**(unaudited)**
Operating activities:		
Net loss	$ (31,007)	$ (6,887)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	1,914	1,700
Goodwill impairment charge	23,989	—
Non-cash lease expense	(151)	(27)
Change in fair value of warrant and derivative liabilities	(185)	(2,984)
Loss on derecognition of debt	—	627
Amortization of debt discount and issuance costs	—	2,117
Stock based compensation	1,136	945
Gain on license of patents, net	(198)	—
Gain on disposal of assets	—	(3)
Changes in operating accounts:		
Accounts receivable	3,611	(685)
Prepaid expenses and other assets	44	164
Accounts payable and accrued liabilities	(469)	(65)
Other liabilities	(29)	(237)
Net cash used in operating activities	(1,345)	(5,335)
Investing activities:		
Capital expenditures, net	(4)	3
Proceeds from license of patents, net	198	—
Net cash provided by investing activities	194	3
Financing activities:		
Proceeds from financing arrangements	468	442
Repayments of financing arrangements	(289)	(420)
Other financing activities	2	8
Net cash provided by financing activities	181	30
Net decrease in cash and cash equivalents	(970)	(5,302)
Cash and cash equivalents, beginning of period	7,125	14,026
Cash and cash equivalents, end of period	$ 6,155	$ 8,724
Supplemental disclosures of cash flow information:		
Non-cash investing and financing activities:		
Issuance of common stock in settlement and prepayment of notes payable	$ —	$ 3,000

See accompanying notes to the consolidated financial statements.

SMITH MICRO SOFTWARE, INC.
Notes to the Consolidated Financial Statements
(Unaudited)

1. The Company

Smith Micro Software, Inc. (“Smith Micro” or “the Company”) develops software to simplify and enhance the mobile experience, providing solutions to some of the leading wireless service providers around the world. From enabling the family digital lifestyle to providing powerful voice messaging capabilities, the Company strives to enrich today’s connected lifestyles while creating new opportunities to engage consumers via smartphones and consumer Internet of Things (“IoT”) devices. Smith Micro’s portfolio includes a wide range of products for creating, sharing, and monetizing rich content, such as visual voice messaging, retail content display optimization and performance analytics on various product sets.

Smith Micro’s solution portfolio is comprised of proven products that enable its customers to provide:

- In-demand digital services that connect today’s digital lifestyle, including family location services, parental controls, and consumer IoT devices to mobile consumers worldwide;
- Easy visual access to voice messages on mobile devices through visual voicemail and voice-to-text transcription functionality; and
- Strategic, consistent, and measurable digital demonstration experiences that educate retail shoppers, create awareness of products and services, drive in-store sales, and optimize retail experiences with actionable analytics derived from in-store customer behavior.

On April 3, 2024, the Company filed a certificate of amendment to its Amended and Restated Certificate of Incorporation with the Secretary of State of the State of Delaware to effect a one-for-eight (1:8) reverse stock split of the shares of the Company's common stock, par value $0.001 per share (the "Common Stock"), with an effective time of 11:59 p.m., Eastern Time on April 10, 2024 (the "Reverse Stock Split"). At the effective time, every eight shares of common stock, whether issued and outstanding or held by the Company as treasury stock were automatically combined and converted (without any further act) into one share of fully paid and nonassessable common stock, with any fractional shares resulting from the Reverse Stock Split rounded up to the nearest whole share. The number of outstanding shares of common stock was reduced from approximately 76.8 million shares to approximately 9.6 million shares due to the Reverse Stock Split.

The Reverse Stock Split did not change the Company's authorized shares of common stock from 100,000,000 shares or the par value of the common stock, and, therefore, the Company reclassified an amount equal to the reduction in the number of shares of common stock at par value to additional paid-in-capital. Proportionate adjustments were made to the per share exercise price and/or the number of shares issuable upon the exercise of stock options and the settlement of restricted stock awards and the number of shares authorized and reserved for issuance pursuant to the Company's equity incentive plans (see Note 9). Additionally, there were adjustments to the per share exercise price and the number of shares issuable upon exercise of warrants (see Note 5).

All share and per share amounts for common stock (including share amounts underlying convertible securities and the applicable exercise prices of such convertible securities) in these consolidated financial statements and notes thereto have been retroactively adjusted for all periods presented to give effect to the Reverse Stock Split, including reclassifying an amount equal to the reduction in the number of shares of common stock at par value to additional paid-in capital.

2. Accounting Policies

Basis of Presentation

The accompanying interim consolidated balance sheet as of March 31, 2024, and the related consolidated statements of operations and stockholders’ equity for the three months ended March 31, 2024 and 2023, and the consolidated statements of cash flows for the three months ended March 31, 2024 and 2023, 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 of America (“U.S. GAAP”) 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, and necessary to fairly state the financial position, results of operations, and cash flows of the Company. These unaudited consolidated financial statements should be read in conjunction with the audited financial statements included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2023 filed with the SEC on February 26, 2024 (the "2023 Form 10-K").

Intercompany balances and transactions have been eliminated in consolidation.

Operating results for the three months ended March 31, 2024 are not necessarily indicative of the results that may be expected for any other interim period or for the fiscal year ending December 31, 2024.

New Accounting Pronouncements

In November 2023, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2023-07, "Improvements to Reportable Segment Disclosures". This update was issued to improve and enhance reportable segment disclosure requirements. The amendments in this update require annual and interim disclosures on significant segment expenses that are regularly provided to the chief operating decision maker and require annual and interim disclosures on "other segment items" that comprise the difference between segment revenue less segment expense compared to the reported measure of segment profit or loss. In addition, the amendments will require all annual disclosures that are currently required to be reported on an interim basis and requires disclosure of the title and position of the chief operating decision maker and how that position uses the information to assess segment performance and the allocation of resources. ASU 2023-07 also requires entities that have a single reportable segment, such as the Company, to provide all disclosures required in this update and the existing segment disclosures in Topic 280. The amendments in this update are effective for fiscal years beginning after December 15, 2023, and interim periods within fiscal years beginning after December 15, 2024. The Company is evaluating the accounting and disclosure requirements of ASU 2023-07 and does not expect them to have a material effect on the consolidated financial statements.

In December 2023, FASB issued ASU 2023-09, "Income Tax Disclosures". ASU 2023-09 was issued to require annual disclosures on specific categories in the income tax rate reconciliation and provide additional information for reconciling items that meet a quantitative threshold. Annual disclosures are required on income taxes paid, including the amounts paid for federal, state and foreign taxes and the amount paid in individual jurisdictions if the amount is equal to or greater than 5% of total income taxes paid (net of refunds received). Additional annual disclosures are required on pre-tax income from continuing operations and income tax expense, disaggregated by domestic and foreign amounts. The amendments in this update are effective for fiscal years beginning after December 15, 2024. The Company is evaluating the accounting and disclosure requirements of ASU 2023-09 and does not expect them to have a material effect on the consolidated financial statements.

Reclassifications

Certain reclassifications have been made to the prior year financial statements to conform to the current presentation.

3. Going Concern

The Company's financial statements have been presented on the basis that it is a going concern, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. In connection with preparing interim consolidated financial statements for the three months ended March 31, 2024, certain conditions in the Company's evaluation, considered in the aggregate, have 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, which has not been alleviated. The evaluation considered the Company's financial condition, including its liquidity sources, funds necessary to maintain the Company's operations considering the current financial condition, obligations, and other expected cash flows, and negative financial trends of recurring operating losses and negative cash flows.

The Company has no outstanding debt and is continuing operations and generating revenues in the normal course, however the Company is dependent, to an extent, on the timing of subscriber and revenue growth for its products and the related cash generation from that growth and/or the ability to obtain the necessary capital to meet its obligations and fund its working capital requirements to maintain normal business operations. Management believes that the actions presently being taken to implement the Company's business plan to expand subscriber growth, including dynamic marketing campaigns, to acquire new customers and to expand its offerings to existing customers to generate increased revenues, and, if necessary, to raise additional capital will support the Company's operations; as such the financial statements do not include any adjustments that may be necessary if the Company is unable to continue as a going concern. The Company believes that it would be able to raise additional funds as necessary, through public or private equity offerings, including via accessing its currently effective shelf registration, debt financings, or a combination of these funding sources as evidenced by the Company historically being able to complete debt and equity financings, however it may not be able to secure such incremental capital in a timely manner or on favorable terms, if at all. In order to preserve liquidity, the Company may also take one or more of the following additional actions:

- Implement additional restructuring and cost reductions,
- Secure a revolving line of credit,
- Dispose of one or more product lines and/or,
- Sell or license intellectual property.

While management believes that the Company's plans for growing revenue and the other potential actions available to it would alleviate the conditions that raise substantial doubt, these strategies are not entirely within the Company's control and cannot be assessed as being probable of occurring.

4. Common Stock

On December 27, 2023, the Company received a notice (the "Notice") from the Nasdaq Stock Market ("Nasdaq") that the Company was not in compliance with the $1.00 minimum bid price requirement for continued listing, as set forth in Nasdaq Listing Rule 5550(a)(2) (the "Minimum Bid Price Requirement"), as the closing bid price of the Company's common stock had been below $1.00 per share for more than thirty (30) consecutive business days as of the date of the Notice.

As previously noted, the Company undertook the Reverse Stock Split, which became effective April 10, 2024 at 11:59 pm Eastern time, to enable the Company to regain compliance with the Minimum Bid Price Requirement. On April 29, 2024, the Company received notice from Nasdaq that it had regained compliance with the Minimum Bid Price Requirement, and the matter is now closed.

5. Warrant Liabilities

On August 11, 2022, warrants to purchase 279,851 shares of common stock were issued with an exercise price of $26.80 per share (the "Notes Warrants") in conjunction with a notes and warrants offering (the "Notes and Warrants Offering"), at an initial fair value of $3.8 million. The related senior secured convertible notes (the "Notes") were retired at maturity at December 31, 2023. The exercise price and number of shares of Notes Warrants were immediately proportionately repriced pursuant to the Reverse Stock Split, and on May 2, 2024, due to the Reverse Stock Split the warrant exercise price for each of the Notes Warrants was further adjusted to $2.06 in accordance with their terms.

Additional warrants to purchase 141,509 shares of common stock were issued on August 12, 2022 with an exercise price of $21.20 per share (the "Additional Warrants") in conjunction with a registered direct offering for the sale of shares of the Company's common stock and the Additional Warrants ("Stock and Additional Warrants Offering"). The Additional Warrants do not reprice further beyond the immediate proportionate adjustments to the per share exercise price and number of shares issuable that occurred upon and as a result of the Reverse Stock Split.

All changes in the fair value of the Notes Warrant and Additional Warrants liabilities are recognized in the Company's consolidated statements of operations until they are either exercised or expire. Since issuance of the Notes Warrants and Additional Warrants, there have been no warrant exercises. The Notes Warrants and Additional Warrants are not traded in an active securities market and, as such, the estimated fair value is determined by using a Black-Scholes option pricing model which considers the likelihood of repricing adjustments and utilizes assumptions noted in the following table. The risk-free interest rate is based on the U.S. Treasury yield curve in effect at the time of grant. Expected volatility is based on the historical volatility over the expected term of the warrants. The Company has no reason to believe future volatility over the expected remaining life of the Notes Warrants and Additional Warrants is likely to differ materially from historical volatility. Expected life is based on the contractual term of the applicable warrants. Below are the specific assumptions utilized:

Notes Warrants	March 31, 2024	December 31, 2023
Common stock market price	$ 2.72	$ 6.64
Risk-free interest rate	4.29 %	4.10 %
Expected dividend yield	—	—
Expected term (in years)	3.36	3.61
Expected volatility	74.1 %	66.8 %

Additional Warrants	March 31, 2024	December 31, 2023
Common stock market price	$ 2.72	$ 6.64
Risk-free interest rate	4.29 %	4.10 %
Expected dividend yield	—	—
Expected term (in years)	3.87	4.12
Expected volatility	71.5 %	68.7 %

6. Fair Value of Financial Instruments

The Company measures and discloses fair value measurements as required by FASB ASC Topic No. 820, *Fair Value Measurements and Disclosures*.

Fair value is an exit price, representing the amount that would be received upon the sale of an asset or the amount that would be 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.

The following table presents information about the financial liabilities that are measured at fair value on a recurring basis at March 31, 2024 and December 31, 2023 (unaudited, in thousands):

Level 3	March 31, 2024	December 31, 2023
Notes Warrants	$ 362	$ 334
Additional Warrants	49	263
Total	$ 411	$ 597

The following tables present the changes in the fair value (unaudited, except for December 31, 2023, and 2022, respectively, in thousands), and also includes the derivative associated with the Notes and Warrant Offering ("Notes and Warrants Offering Derivative"), which was extinguished with the retirement of the Notes on December 31, 2023:

	Notes Warrants	Additional Warrants	Total
Measurement at December 31, 2023	$ 334	$ 263	$ 597
Change in fair value	28	(214)	$ (186)
Measurement at March 31, 2024	$ 362	$ 49	$ 411

	Notes and Warrants Offering Derivative	Notes Warrants	Additional Warrants	Total
Measurement at December 31, 2022	$ 1,575	$ 2,052	$ 1,265	$ 4,892
Change in fair value	(1,021)	(1,222)	(741)	(2,984)
Derecognition of debt	(22)	—	—	(22)
Measurement at March 31, 2023	$ 532	830	524	1,886

7. Goodwill and Intangible Assets

In accordance with FASB ASC Topic No. 350, *Intangibles-Goodwill and Other*, Smith Micro reviews the recoverability of the carrying value of its single reporting unit goodwill at least annually or whenever events or circumstances indicate a potential impairment. Different judgments relating to the determination of reporting units could significantly affect the testing of goodwill for impairment and the amount of any impairment recognized. Recoverability of goodwill is determined by comparing the estimated fair value of reporting units to the carrying value of the underlying net assets in the reporting units. If the estimated fair value of a reporting unit is determined to be less than the fair 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 estimated fair value of the reporting unit and the fair value of its other assets and liabilities.

During the three months ended March 31, 2024, as a result of the sustained decrease in the Company's common stock share price and overall market capitalization subsequent to February 23, 2024, management concluded that a triggering event occurred, indicating goodwill may be impaired. The Company conducted a quantitative impairment test of its goodwill as of February 29, 2024 and as a result of this interim assessment, the Company recorded a goodwill impairment charge totaling $24.0 million during the three months ended March 31, 2024. Subsequent to this write-down, the fair value of the Company's single reporting unit approximated its carrying value. The fair value of the reporting unit was determined utilizing level 3 inputs (including estimates of revenue growth, earnings before interest taxes depreciation and amortization ("EBITDA") contribution and discount rates) and a combination of the income approach using the estimated discounted cash flows and a market-based valuation methodology. If current projections are not achieved or specific valuation factors outside the Company's control, such as discount rates and continued economic and industry challenges, significantly change, goodwill could be subject to future impairment.

The components of the Company's intangible assets were as follows for the periods presented:

	March 31, 2024 (in thousands, except for useful life data)			
	Weighted Average Remaining Useful Life (in Years)	Gross Carrying Amount	Accumulated Amortization	Net Book Value
Purchased technology	5	$ 13,330	$ (7,624)	$ 5,706
Customer relationships	11	27,548	(9,235)	18,313
Customer contracts	1	7,000	(6,434)	566
Software license	5	5,419	(2,546)	2,873
Patents	3	600	(343)	257
Total		$ 53,897	$ (26,182)	$ 27,715

	December 31, 2023 (in thousands, except for useful life data)			
	Weighted Average Remaining Useful Life (in Years)	Gross Carrying Amount	Accumulated Amortization	Net Book Value
Purchased technology	5	$ 13,330	$ (7,243)	$ 6,087
Customer relationships	11	27,548	(8,111)	19,437
Customer contracts	1	7,000	(6,337)	663
Software license	6	5,419	(2,353)	3,066
Patents	3	600	(321)	279
Total		$ 53,897	$ (24,365)	$ 29,532

The Company amortizes intangible assets over the pattern of economic benefit expected to be generated from the use of the assets, with a total weighted average amortization period of approximately nine years as of both March 31, 2024 and December 31, 2023. During the three months ended March 31, 2024 and 2023, intangible asset amortization expense was $1.8 million and $1.5 million, respectively.

As of March 31, 2024, estimated amortization expense for the remainder of 2024 and thereafter was as follows (unaudited, in thousands):

Year Ending December 31,	Amortization Expense
2024	$ 4,119
2025	5,106
2026	4,709
2027	3,834
2028	2,790
2029 and thereafter	7,157
Total	$ 27,715

8. 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, warrants, and convertible notes 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 (unaudited, in thousands, except per share amounts):

	For the Three Months Ended March 31,	
	2024	2023
Numerator:		
Net loss	$ (31,007)	$ (6,887)
Denominator:		
Weighted average shares outstanding – basic	9,466	7,121
Potential common shares – options / warrants (treasury stock method) and convertible notes (as if converted method)	—	—
Weighted average shares outstanding – diluted	9,466	7,121
Shares excluded (anti-dilutive)	431	1,004
Net loss per common share:		
Basic	$ (3.28)	$ (0.97)
Diluted	$ (3.28)	$ (0.97)

The following shares were excluded from the computation of diluted net loss per share as the impact of including those shares would be anti-dilutive (unaudited, in thousands):

	For the Three Months Ended March 31,	
	2024	2023
Convertible notes, as if converted	—	559
Outstanding stock options	10	12
Outstanding warrants	421	433
Total anti-dilutive shares	431	1,004

9. Stock-Based Compensation

Stock Plans

During the three months ended March 31, 2024, the Company granted 0.3 million shares of restricted stock under the Company’s 2015 Omnibus Equity Incentive Plan, as amended ("2015 OEIP"), which was approved by Smith Micro’s stockholders on June 18, 2015 and subsequent amendments to the 2015 OEIP to increase the number of shares reserved thereunder were subsequently approved by its stockholders on June 14, 2018, June 9, 2020, and June 6, 2023. The 2015 OEIP replaced the 2005 Stock Option / Stock Issuance Plan (“2005 Plan”) which was due to expire on July 28, 2015. As of March 31, 2024, there were approximately 0.1 million shares available for future grants under the Company’s 2015 OEIP.

Certain options issued under the 2005 Plan remain outstanding currently, but no new grants have been made under the 2005 Plan since the adoption of the 2015 OEIP. The maximum number of shares of the Company’s common stock available for issuance over the term of the 2015 OEIP may not exceed 1,203,125 shares.

The 2015 OEIP provides for the issuance of full value awards (restricted stock, performance stock, dividend equivalent right or restricted stock units) and partial value awards (stock options or stock appreciation rights) to employees, non-employee members of the Company's Board of Directors and consultants. Any full value award settled in shares will be debited as 1.2 shares, and partial value awards settled in shares will be debited as 1.0 shares against the share reserve. The exercise price per share for stock option grants is not to be less than the fair market value per share of the Company's common stock on the date of grant. The Compensation Committee of the Board of Directors administers the 2015 OEIP and determines the vesting schedule at the time of grant. Stock options may be exercisable immediately or in installments, but generally vest over a four-year period from the date of grant. In the event the holder ceases to be employed by the Company, all unvested stock awards terminate, and all vested stock options may be exercised within a period of 90 days following termination of employment. In general, stock options expire ten years from the date of grant. Restricted stock is valued using the closing stock price on the date of the grant. The total value is expensed over the vesting period, which typically ranges from 12 to 48 months, however in the quarters ended September 30, 2023 and March 31, 2024, there were new grants issued with tranched vesting periods of 2 to 7 months.

Employee Stock Purchase Plan

The Company has a stockholder approved employee stock purchase plan ("ESPP"), under which substantially all employees may purchase the Company's common stock through payroll deductions at a price equal to the lower of the fair market values of the stock as of the beginning and end of six-month offering periods. Payroll deductions under the ESPP are limited to 10% of the employee's compensation and employees may not purchase more than the lesser of $25,000 of stock or 31 shares for any purchase period. Additionally, no more than 31,250 shares in the aggregate may be purchased under the ESPP.

Stock Compensation Expense

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*.

Compensation Costs

Non-cash stock-based compensation expenses related to stock options, restricted stock grants and the ESPP were recorded in the financial statements as follows (unaudited, in thousands):

	Three Months Ended March 31,	
	2024	**2023**
Sales and marketing	$ 309	$ 162
Research and development	264	224
General and administrative	563	559
Total non-cash stock compensation expense	$ 1,136	$ 945

As of March 31, 2024, there was approximately $5.4 million in unrecognized compensation costs related to non-vested stock options and restricted stock granted under the 2015 OEIP and the 2005 Plan.

Stock Options

A summary of the Company's stock options outstanding and related information under the 2015 OEIP and 2005 Plan for the three months ended March 31, 2024 are as follows (unaudited, in thousands except weighted average exercise price and weighted average remaining contractual life):

	Shares	Weighted Avg. Exercise Price	Wtd. Avg. Remaining Contractual Life (Yrs)	Aggregate Intrinsic Value
Outstanding as of December 31, 2023	10	$ 26.42	3.9	$ —
Forfeited	—	15.04	—	—
Outstanding as of March 31, 2024	10	$ 26.48	3.6	$ —
Vested and expected to vest at March 31, 2024	10	$ 26.45	3.6	$ —
Exercisable as of March 31, 2024	9	$ 25.91	3.4	$ —

Restricted Stock Awards

A summary of the Company's restricted stock awards outstanding under the 2015 OEIP for the three months ended March 31, 2024 are as follows (unaudited, in thousands, except weighted average grant date fair value):

	Shares	Weighted average grant date fair value
Unvested at December 31, 2023	255	$ 21.29
Granted	275	6.46
Vested	(69)	18.68
Canceled and forfeited	(9)	11.49
Unvested at March 31, 2024	452	$ 12.84

10. Revenues

Revenue Recognition

In accordance with FASB ASC Topic No. 606, *Revenue from Contracts with Customers*, the Company recognizes the sale of goods and services based on the five-step analysis of transactions as provided in Topic 606, which requires an entity to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for such goods and services. For all contracts with customers, the Company first identifies the contract which usually is established when a contract is fully executed by each party and consideration is expected to be received. Next, the Company identifies the performance obligations in the contract. A performance obligation is a promise in a contract to transfer a distinct good or service to the customer. The Company then determines the transaction price in the arrangement and allocates the transaction price, if necessary, to each performance obligation identified in the contract. The allocation of the transaction price to the performance obligations are based on the relative standalone selling prices for the goods and services contained in a particular performance obligation. The transaction price is adjusted for the Company's estimate of variable consideration which may include certain incentives and discounts, product returns, distributor fees, and storage fees. The Company evaluates the total amount of variable consideration expected to be earned by using the expected value method, as the Company believes this method represents the most appropriate estimate for this consideration, based on historical service trends, the individual contract considerations, and its best judgment at the time. The Company includes estimates of variable consideration in revenues only to the extent that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved. The Company generates the majority of its revenue on usage-based fees which are variable and depend entirely on customers' use of perpetual licenses, transactions processed on the Company's hosted environment, advertisement placements on the Company's service platform, and activity on the Company's cloud-based service platform.

The Company's contracts with mobile network operator ("MNO") customers include promises to transfer multiple products and services. Determining whether products and services are considered distinct performance obligations that should be accounted for separately versus together may require significant judgment. Smith Micro's cloud-based services include a software solution license integrated with cloud-based services. Since the Company does not allow its customers to take possession of the cloud-based elements of its software solutions, and since the utility of the license comes from the cloud-based services that the Company provides, Smith Micro considers the software license and the cloud services to be a single performance obligation. The Company recognizes revenue associated with its MNO customers based upon their active subscribers' access and usage of Smith Micro's software licenses and cloud-based services on Smith Micro's platforms or satisfaction of the performance obligations as indicated in the contracts.

Smith Micro has made accounting policy elections to exclude all taxes by governmental authorities from the measurement of the transaction price, and since the Company's standard payment terms are less than one year, the Company has elected the practical expedient not to assess whether a contract has a significant financing component.

Disaggregation of Revenues

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

	For the Three Months Ended March 31,	
	2024	2023
License and service fees	$ 777	$ 1,000
Hosted environment usage fees	665	819
Cloud based usage fees	4,025	8,677
Consulting services and other	331	434
Total revenues	$ 5,798	$ 10,930

11. 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 one primary business unit based on how management internally evaluates separate financial information, business activities and management responsibility: Wireless. The Wireless segment includes the Family Safety (which includes SafePath®), CommSuite®, and ViewSpot® families of products.

The Company does not separately allocate operating expenses to these product lines, nor does it allocate specific assets. Therefore, product line information reported includes only revenues.

The following table presents the Wireless revenues by product line (unaudited, in thousands):

	For the Three Months Ended March 31,	
	2024	2023
Family Safety	$ 4,464	$ 9,089
CommSuite	665	826
ViewSpot	669	1,015
Total Wireless revenues	$ 5,798	$ 10,930

Customer Concentration Information

The Company has certain customers whose revenues individually represented greater than 10% of the Company's total revenues, or whose accounts receivable balances individually represented greater than 10% of the Company's total accounts receivable.

For the three months ended March 31, 2024, three customers made up 54%, 18% and 11% of revenues. For the three months ended March 31, 2023, three customers made up 37%, 37% and 14% of revenues.

As of March 31, 2024, two customers accounted for 51% and 21%, of accounts receivable. As of March 31, 2023, three customers accounted for 37%, 34%, and 17% of accounts receivable.

Geographical Information

During the three months ended March 31, 2024 and 2023, the Company operated in two geographic locations: the Americas and Europe, Middle East and Africa ("EMEA"). Revenues attributed to the geographic location of the customers' bill-to address were as follows (unaudited, in thousands):

	For the Three Months Ended March 31,	
	2024	2023
Americas	$ 5,477	$ 10,511
EMEA	321	419
Total revenues	$ 5,798	$ 10,930

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

12. 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 connection with certain transactions. These include: indemnities to the Company's customers pursuant to contracts for the Company's products and services, including indemnities with respect to intellectual property, confidentiality and data privacy; indemnities to various lessors in connection with facility leases for certain claims arising from use of such facility or under such 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 or may make 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.

13. Leases

The Company leases office space and equipment. Management determines if a contract is a lease at the inception of the arrangement and reviews all options to extend, terminate, or purchase its right-of-use assets at the inception of the lease and accounts for these options when they are reasonably certain of being exercised.

Leases with an initial term of greater than twelve months are recorded on the consolidated balance sheet. Lease expense is recognized on a straight-line basis over the lease term.

The Company's lease contracts generally do not provide a readily determinable implicit rate. For these contracts, the estimated incremental borrowing rate is based on information available at the inception of the lease.

Operating lease costs were $0.4 million and $0.4 million for the three months ended March 31, 2024 and 2023, respectively.

During the three months ended March 31, 2024, the Company recognized a noncash increase for the right-of-use asset obtained in exchange for the new operating lease liability due to a lease renewal in the amount of $1.0 million. There were no such transactions during the three months ended March 31, 2023. The maturity of operating lease liabilities is presented in the following table (unaudited, in thousands):

	As of March 31, 2024
2024	$ 1,149
2025	1,399
2026	906
2027	359
2028	61
Total lease payments	3,874
Less imputed interest	374
Present value of lease liabilities	$ 3,500

Additional information relating to the Company's operating leases follows (unaudited):

	As of March 31, 2024
Weighted average remaining lease term (years)	2.62
Weighted average discount rate	7.3 %

14. Income Taxes

The Company accounts for income taxes as required by FASB ASC Topic No. 740, *Income Taxes*. 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 given to evidence that can be objectively verified. Realization of deferred tax assets is dependent upon the generation of future taxable income. As required by ASC 740, Smith Micro has evaluated the positive and negative evidence bearing upon its ability to realize the deferred tax assets and determined that it was more likely than not that the Company would not realize the deferred tax assets due to the Company's cumulative losses and uncertain near-term market and economic conditions, which reduce 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 March 31, 2024, and after consideration of the Company's cumulative loss position as of December 31, 2023, the Company will continue to reserve its U.S.-based deferred tax amounts, which total $58.5 million as of March 31, 2024.

The Company is subject to U.S. federal income tax as well as income tax of multiple state jurisdictions. The Company is no longer subject to examination for U.S. federal income tax returns for years before December 31, 2019 and for state income tax returns, the Company is no longer subject to examination for years before December 31, 2018. As of March 31, 2024, the Company had no outstanding tax audits. 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. Smith Micro 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 the consolidated financial results of the Company. 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.

15. 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.

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 Quarterly Report on Form 10-Q (this "Report") contains forward-looking statements regarding Smith Micro which include, but are not limited to, statements concerning customer concentration, projected revenues, market acceptance of products, the success and timing of new product introductions, the competitive factors affecting our business, our ability to raise additional capital, gross profit and income, our expenses, the protection of our intellectual property, and our ability to remain a going concern. 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 or performance could differ materially 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 customer concentration, given that the majority of our sales currently depend on a few large client relationships;
- our ability to establish and maintain strategic relationships with our customers and mobile device manufacturers, their ability to attract customers, and their willingness to promote our products;
- our ability and/or customers' ability to distribute our mobile software applications to their end users through third party mobile software application stores, which we do not control;
- our dependency upon effective operation with operating systems, devices, networks and standards that we do not control and on our continued relationships with mobile operating system providers, device manufacturers and mobile software application stores on commercially reasonable terms or at all;
- our ability to hire and retain key personnel;
- the possibility of security and privacy breaches in our systems and in the third-party software and/or systems that we use, 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;
- the existence of undetected software defects in our products and our failure to resolve detected defects in a timely manner;
- our ability to remain a going concern;
- our ability to raise additional capital and the risk of such capital not being available to us at commercially reasonable terms or at all;
- our ability to be profitable;
- changes in our operating income due to shifts in our sales mix and variability in our operating expenses;
- our current client concentration within the vertical wireless carrier market, and the potential impact to our business resulting from changes within this vertical market, or failure to penetrate new markets;
- 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 the core vertical markets in which we operate, and our ability to successfully compete;
- the risks inherent with international operations;
- the impact of evolving information security and data privacy laws on our business and industry;
- the impact of governmental regulations on our business and industry;
- our ability to protect our intellectual property and our ability to operate our business without infringing on the rights of others;

- the risk of being delisted from Nasdaq if we fail to meet any of its applicable listing requirements;
- our ability to assimilate acquisitions without diverting management attention and impacting current operations;
- failure to realize the expected benefits of prior acquisitions;
- the availability of third-party intellectual property and licenses needed for our operations on commercially reasonable terms, or at all;
- 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; and
- those additional factors which are listed under Item 1A of Part I of our Annual Report on Form 10-K for the year ended December 31, 2023 filed with the SEC on February 26, 2024 (the "2023 Form 10-K") under the caption “RISK FACTORS.”

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”). In addition, we operate in a highly competitive and rapidly changing environment; therefore, new risk factors can arise, and it is not possible for management to predict all such risk factors, nor to assess the impact of all such risk factors on our business or the extent to which any individual risk factor, or combination of risk factors, may cause results to differ materially from those contained in any forward-looking statement. 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 provides software solutions that simplify and enhance the mobile experience to some of the leading wireless service providers around the globe. From delivering Digital Family Lifestyle™ solutions to providing powerful voice messaging capabilities, we strive to enrich today’s connected lifestyles while creating new opportunities to engage consumers via smartphones and consumer IoT devices. Our portfolio includes a wide range of products for creating, sharing, and monetizing rich content, such as visual voice messaging, retail content display optimization and performance analytics on any product set.

We continue to innovate and evolve our business to respond to industry trends and maximize opportunities in emerging markets, such as digital lifestyle services and online safety, “Big Data” analytics, automotive telematics, and the consumer IoT marketplace. The key to our longevity, however, is not simply technological innovation, but our focus on understanding our customers’ needs and delivering value.

In the first quarter of 2024, our revenues declined by 47% to $5.8 million compared to the first quarter of 2023, primarily driven by a $4.6 million decrease in our Family Safety product line, coupled with a $0.3 million decrease in ViewSpot revenues. These revenue declines primarily resulted from the loss of a Family Safety contract with a Tier 1 carrier during 2023 coupled with decreases associated with legacy Sprint Safe & Found revenue declining as subscribers are migrating to the T-Mobile network. As a result of the decline in revenues, our gross profit decreased during the first quarter of 2024 to $3.8 million, representing a decrease of $3.8 million as compared to the first quarter of the prior year. Our operating expenses have increased during the first quarter of 2024 compared to the first quarter of 2023 by approximately $20.7 million, primarily due to a goodwill impairment charge of $24.0 million recorded in the first quarter of 2024, offset primarily by quarter-over-quarter reductions in Research and Development expenses of $1.9 million as SafePath migration efforts have now been completed. The net loss for the first quarter of 2024 was $31.0 million, resulting in a net loss of $3.28 per basic and diluted share.

We currently provide white label Family Safety applications to two Tier 1 wireless carriers in the United States, and believe that we remain strategically positioned to offer our market-leading family safety platform to the majority of U.S. mobile subscribers. Since our acquisitions of Circle Media Labs, Inc.'s ("Circle") operator business in 2020 and the Family Safety Mobile Business from Avast in April 2021, we have been focused on migrating those customers from the acquired software platforms to our flagship SafePath platform, with the first such migration being completed during the first quarter of 2022 at one of our U.S. Tier 1 carrier customers. Another U.S. Tier 1 carrier customer successfully migrated to the SafePath platform during the third quarter of 2023. We believe that with these transitions to the SafePath platform now complete, we have an opportunity to increase the respective subscriber bases, and in turn, grow the revenues associated with these Tier 1 carriers. Further, we executed new, multi-year Family Safety agreements with a Tier 1 carrier in Europe in the fourth quarter of 2023 and a U.S.-based carrier in the first quarter of 2024, which are both anticipated to launch in 2024.

As a result of a sustained decrease in our common stock share price and market capitalization that have occurred since February 23, 2024, we evaluated our goodwill balance during the three months ended March 31, 2024, and we determined that the carrying value of our single reporting unit exceeded its fair value which resulted in a non-cash pretax impairment charge of $24.0 million for the quarter.

Refer to the section titled "Liquidity and Capital Resources" for discussion of significant material changes in cash, and Note 4 of our Notes to the Consolidated Financial Statements for discussion regarding the changes related to common stock and Note 5 for discussion regarding changes related to the warrant liabilities, and Note 7 for discussion regarding changes to goodwill.

Results of Operations

On April 3, 2024, we filed a certificate of amendment to our Amended and Restated Certificate of Incorporation with the Secretary of State of the State of Delaware to effect a one-for-eight (1:8) reverse stock split of the shares of the Company's common stock, par value $0.001 per share, with an effective time of 11:59 p.m., Eastern Time on April 10, 2024 (the "Reverse Stock Split"). At the effective time, every eight shares of our common stock, whether issued and outstanding or held by the Company as treasury stock were automatically combined and converted (without any further act) into one share of fully paid and nonassessable common stock, with any fractional shares resulting from the Reverse Stock Split rounded up to the nearest whole share. See further information in Note 1. All shares and per share amounts in this Report have been retroactively adjusted for all periods presented to give effect to the Reverse Stock Split.

The table below sets forth certain statements of operations and comprehensive loss data expressed as a percentage of revenues for the three months ended March 31, 2024 and 2023. 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,	
	2024	2023
Revenues	100.0 %	100.0 %
Cost of revenues	34.3	30.0
Gross profit	65.7	70.0
Operating expenses:		
Selling and marketing	45.1	32.5
Research and development	68.8	53.7
General and administrative	47.5	31.8
Depreciation and amortization	32.9	15.4
Goodwill impairment	413.7	—
Total operating expenses	608.1	133.4
Operating loss	(542.4)	(63.4)
Change in fair value of warrant and derivative liabilities	3.2	27.3
Loss on derecognition of debt	—	(5.7)
Interest income (expense), net	1.3	(20.7)
Other income (expense), net	3.8	(0.4)
Loss before provision for income taxes	(534.1)	(62.9)
Provision for income tax expense	0.7	0.1
Net loss	(534.8)%	(63.0)%

Three Months Ended March 31, 2024 Compared to the Three Months Ended March 31, 2023

Revenues. Revenues were $5.8 million and $10.9 million for the three months ended March 31, 2024 and 2023, respectively, representing a decrease of $5.1 million, or 47%. This decrease was primarily related to the loss of a Family Safety contract with a Tier 1 carrier during the fourth quarter of 2023 coupled with legacy Sprint Safe & Found revenue declining as legacy Sprint subscribers are migrating to the T-Mobile network. Also contributing to the decrease was a decline in ViewSpot revenue primarily due to one of our contracts concluding as of the end of September 2023.

Cost of revenues. Cost of revenues were $2.0 million and $3.3 million for the three months ended March 31, 2024 and 2023, respectively. This decrease of $1.3 million was primarily due to cost reduction efforts and the period-over-period decline in revenue.

Gross profit. Gross profit was $3.8 million, or 66% of revenues, for the three months ended March 31, 2024, compared to $7.6 million, or 70.0% of revenues, for the three months ended March 31, 2023. The decrease of $3.8 million in gross profit was primarily driven by the period-over-period decline in revenues.

Selling and marketing. Selling and marketing expenses were $2.6 million and $3.6 million for the three months ended March 31, 2024 and 2023, respectively. This decrease of approximately $0.9 million was due to decreases in personnel-related costs and marketing costs.

Research and development. Research and development expenses were $4.0 million and $5.9 million for the three months ended March 31, 2024 and 2023, respectively. This decrease of $1.9 million was primarily due to the decline in personnel-related costs of approximately $1.7 million associated with the workforce reduction efforts undertaken in response to the loss of one of our Tier 1 Carrier Family Safety contracts during 2023 and reductions in contractor costs of $0.2 million due to the substantial completion of SafePath migration efforts during 2023.

General and administrative. General and administrative expenses were $2.8 million and $3.5 million for the three months ended March 31, 2024 and 2023, respectively. This decrease of approximately $0.7 million was primarily related to declines in personnel related costs of approximately $0.5 million associated with the workforce reduction efforts referenced above, and a decrease in occupancy costs of approximately $0.1 million.

Depreciation and amortization. Depreciation expense was $0.1 million and $0.2 million for the three months ended March 31, 2024 and 2023, respectively. Amortization expense was $1.8 million and $1.5 million for the three months ended March 31, 2024 and 2023, respectively. The total decrease in depreciation expense of approximately $0.1 million was primarily due to certain fixed assets that have now been fully depreciated. Amortization expense is recognized based on the pattern of economic benefit expected to be generated from the use of the intangible assets, and as such it increased by approximately $0.3 million period-over-period.

Goodwill impairment. The impairment charge for the three months ended March 31, 2024 was triggered by the sustained decrease in our common stock share price and overall market capitalization during the quarter, which led to an analysis whereby we concluded that the carrying value of our single reporting unit exceeded its fair value by $24.0 million. We did not have a similar charge in the prior period.

Change in fair value of warrant and derivative liabilities. Change in fair value of warrant and derivative liabilities was $0.2 million and $3.0 million for the three months ended March 31, 2024 and 2023, respectively. The total decrease of $2.8 million resulted from valuation related impacts to the warrant and derivative liabilities in the respective periods.

Loss on derecognition of debt. The loss recognized on derecognition of debt was $0.6 million for the three months ended March 31, 2023. The $0.6 million loss recognized for the three months ended March 31, 2023 resulted from installment payments made on the convertible notes in the form of shares, and the required derecognition of the net debt position related to that principal balance, including the derivative and discounts.

Interest income (expense), net. Interest income, net was $0.1 million and interest expense, net was $2.3 million for the three months ended March 31, 2024 and 2023, respectively. The interest expense, net of $2.3 million was primarily related to the amortization of the discount and debt issuance costs and stated interest expense related to the financing transaction from August of 2022 which was fully retired effective December 31, 2023.

Other income (expense), net. Other income was $0.2 million for the three months ended March 31, 2024, and other expense was nominal for the three months ended March 31, 2023. The quarter-over-quarter change was primarily related to the licensing of several of our patents in February 2024.

Provision for income tax expense. Because of our cumulative loss position, the provision for income tax expense consists of state income taxes, foreign tax withholdings, and foreign income taxes for the three months ended March 31, 2024 and 2023. There were no material changes in the period-to-period comparison.

Liquidity and Capital Resources

The Company's principal sources of liquidity are its existing cash and cash equivalents, and cash generated by operations. The Company's primary needs for liquidity relate to working capital requirements for operations. As of March 31, 2024, the Company's cash and cash equivalents were approximately $6.2 million.

Our liquidity may be adversely impacted by the anticipated effect of the aforementioned loss during 2023 of our Family Safety contract with a Tier 1 carrier on our results of operations, since we are receiving no revenue from that contract during 2024. While we anticipate marketing efforts to accelerate for one of our existing Tier 1 carrier customers in order to drive subscriber growth on our Family Safety product, the timing of that anticipated revenue growth versus the immediate and current impact of the contract loss could cause the cash and cash equivalents on hand and expected to be generated in the next twelve months and beyond to be insufficient to fund operations at the current levels.

This potential adverse impact on liquidity does not trigger a violation of any covenants in our material agreements, particularly as all of our outstanding debt was retired as of December 31, 2023. The availability of sufficient funds will depend to an extent on the timing of subscriber growth and the related cash generation thereof, and/or the ability to obtain the necessary capital to meet our obligations and fund our working capital requirements to maintain normal business operations. However, if we begin to trend unfavorably with respect to our current internal profitability and cash flow projections, the Company may determine to take additional actions, as noted in the Risk Factors in our 2023 Form 10-K, "If we are unable to meet our obligations as they become due over the next twelve months, the Company may not be able to continue as a going concern." There can be no assurance that any such potential actions will be available or will be available on satisfactory terms. Our ability to obtain additional financing in the debt and equity capital markets is subject to several factors, including market and economic conditions, our performance and investor sentiment with respect to us and our industry. As a result of these uncertainties, and notwithstanding management's plans and efforts to date, we have been unable to alleviate substantial doubt about our ability to continue as a going concern within one year from the date that the financial statements are issued.

Operating activities

Net cash used in operating activities was $1.3 million for the three months ended March 31, 2024. The primary uses of operating cash were a net loss of $31.0 million less non-cash expenses totaling $26.7 million, driven by a goodwill impairment charge, and a decrease in accounts payable and accrued liabilities of $0.5 million, partially offset by a decrease in accounts receivable of $3.6 million.

Net cash used in operating activities was $5.3 million for the three months ended March 31, 2023. The primary uses of operating cash were the net loss of $6.9 million less non-cash expenses totaling $2.4 million, an increase in accounts receivable of $0.7 million and a decrease in accounts payable and accrued liabilities of $0.1 million.

Investing activities

Net cash provided by investing activities of $0.2 million for the three months ended March 31, 2024 was attributable to the net proceeds from licensing several of our patents in February 2024. Net cash used in investing activities for three months ended March 31, 2023 was nominal.

Financing activities

Net cash provided by financing activities of $0.2 million for the three months ended March 31, 2024 was primarily attributable to the timing of borrowings and repayments from short-term insurance premium financing arrangements.

Net cash provided by financing activities was nominal for the three months ended March 31, 2023.

Recent Accounting Guidance

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

Critical Accounting 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 U.S. GAAP. 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 ongoing basis, we review our estimates to ensure that they appropriately reflect changes in our business or new information as it becomes available. See Note 1 of our Notes to the Consolidated Financial

Statements in our 2023 Form 10-K for information regarding our critical accounting estimates. There have been no material changes to the Company's critical accounting estimates since the 2023 Form 10-K.

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 Rule 13a-15(e) under the Securities Exchange Act of 1934 ("Exchange Act")) as of March 31, 2024. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer have determined that as of March 31, 2024, 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 SEC'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 U.S. GAAP 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 Company's 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 control over financial reporting during the quarter ended March 31, 2024 that have materially affected, or are reasonably likely to materially affect, our internal control 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 1A. Risk Factors

In addition to the other information included in this Report, you should carefully consider the factors discussed in Part I, Item 1A. "Risk Factors" in our 2023 Form 10-K, and the factors identified at the beginning of Part I, Item 2 of this Report, under the heading, "Management's Discussion and Analysis of Financial Condition and Results of Operations," which could materially affect our business, financial condition, cash flows, or results of operations. The risks described in the 2023 Form 10-K are not the only risks facing the Company. Additional risks and uncertainties not currently known to the Company or that the Company currently considers immaterial also may materially adversely affect its business, financial condition, and/or operating results. There have been no material changes to the risk factors included in our 2023 Form 10-K.

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, 2024:

ISSUER PURCHASES OF EQUITY SECURITIES

Period	Total Number of Shares (or Units) Purchased	Average Price Paid per Share (or Unit)	Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs
January 1 - 31, 2024	2,866	$ 6.24	—	—
February 1 - 29, 2024	2,745	$ 6.26	—	—
March 1 - 31, 2024	8,021	$ 2.71	—	—
Total	13,632	$ 5.07		

(1) Shares of the Company's common stock repurchased by the Company as payment of withholding taxes in connection with the vesting of restricted stock awards during the applicable period. All of the shares were cancelled when they were acquired by the Company.

Item 3. Defaults Upon Senior Securities

None

Item 4. Mine Safety Disclosures

None

Item 5. Other Information

Trading Arrangements

During the fiscal quarter ended on March 31, 2024, none of the Company's directors or "officers", as defined in Rule 16a-1(f) of the Exchange Act, adopted, modified or terminated any "Rule 10b5-1 trading arrangement" or a "non-Rule 10b5-1 trading arrangement" as each term is defined in Item 408 of Regulation S-K.

Item 6. Exhibits

Exhibit	Description
3.1	Amended and Restated Certificate of Incorporation, incorporated by reference to the Registrant's Registration Statement No. 33-95096 (P)
3.1.1	Certificate of Amendment to Amended and Restated Certificate of Incorporation dated July 11, 2000, incorporated by reference to Exhibit 3.1.1 to the Registrant's Quarterly Report on Form 10-Q for the period ended June 30, 2000, filed on August 14, 2000
3.1.2	Certificate of Amendment of Amended and Restated Certificate of Incorporation dated August 17, 2005, incorporated by reference to Exhibit 3.1.2 to the Registrant's Annual Report on Form 10-K for the period ended December 31, 2005, filed on March 31, 2006
3.1.3	Certificate of Amendment to Amended and Restated Certificate of Incorporation dated June 21, 2012, incorporated by reference to Appendix B to the Registrant's Definitive Proxy Statement on Schedule 14A filed on April 27, 2012
3.1.4	Certificate of Elimination of Series A Junior Participating Preferred Stock dated October 16, 2015, incorporated by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K filed on October 16, 2015
3.1.5	Certificate of Designation of Series A Participating Preferred Stock dated October 16, 2015, incorporated by reference to Exhibit 3.2 to the Registrant's Current Report on Form 8-K filed on October 16, 2015
3.1.6	Certificate of Amendment to Amended and Restated Certificate of Incorporation dated August 15, 2016, incorporated by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K filed on August 17, 2016
3.1.7	Certificate of Designation of Preferences, Rights and Limitations of Series B 10% Convertible Preferred Stock, dated September 29, 2017, incorporated by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K filed on October 4, 2017
3.1.8	Certificate of Amendment to Amended and Restated Certificate of Incorporation, incorporated by reference to Exhibit 3.1(a) to the Registrant's Current Report on Form 8-K filed April 4, 2024
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	Certifications of the Chief Executive Officer and the Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	Inline XBRL Instance Document - the instance document does not appear in the Interactive Data File because its Inline XBRL tags are embedded within the Inline XBRL document
101.SCH	Inline XBRL Taxonomy Extension Schema Document
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104	Cover Page Interactive Data File (formatted as inline XBRL and contained in Exhibit 101)
(P)	Paper Filing Exhibit

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 8, 2024	By /s/ William W. Smith, Jr.
	William W. Smith, Jr.
	Chairman of the Board, President and Chief Executive Officer
	(Principal Executive Officer)
May 8, 2024	By /s/ James M. Kempton
	James M. Kempton
	Vice President and Chief Financial Officer
	(Principal Financial and Accounting Officer)

Exhibit 31.1

CERTIFICATIONS

I, William W. Smith, Jr., certify that:

1. I have reviewed this quarterly report on Form 10-Q of Smith Micro Software, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 8, 2024

/s/ William W. Smith, Jr.

William W. Smith, Jr.
Chairman of the Board, President and Chief Executive Officer
(Principal Executive Officer)

Exhibit 31.2

CERTIFICATIONS

I, James M. Kempton, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Smith Micro Software, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 8, 2024

/s/ James M. Kempton

James M. Kempton
Vice President and Chief Financial Officer
(Principal Financial and Accounting Officer)

Exhibit 32.1

CERTIFICATION
PURSUANT TO 18 U.S.C. SECTION 1350 (AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002)

Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, William W. Smith Jr., the Chief Executive Officer of Smith Micro Software, Inc. (the "Company"), and James M. Kempton, the Chief Financial Officer of the Company, hereby certify, that, to their knowledge:

1. The quarterly report on Form 10-Q for the period ended March 31, 2024 of the Company (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

May 8, 2024	By /s/ William W. Smith, Jr. William W. Smith, Jr. Chairman of the Board, President and Chief Executive Officer *(Principal Executive Officer)*
May 8, 2024	By /s/ James M. Kempton James M. Kempton Vice President and Chief Financial Officer *(Principal Financial and Accounting Officer)*