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 June 30, 2021

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	NASDAQ

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 August 10, 2021, there were 53,546,068 shares of common stock outstanding.

SMITH MICRO SOFTWARE, INC.
QUARTERLY REPORT ON FORM 10-Q
June 30, 2021

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)

	June 30, 2021 (unaudited)	December 31, 2020 (audited)
Assets		
Current assets:		
Cash and cash equivalents	$ 29,936	$ 25,754
Accounts receivable, net of allowance for doubtful accounts and other adjustments of $0 and $10 (2021 and 2020, respectively)	14,941	12,347
Prepaid expenses and other current assets	2,046	1,189
Total current assets	46,923	39,290
Equipment and improvements, net	3,186	2,170
Right-of-use assets	5,379	5,785
Other assets	597	694
Intangible assets, net	41,255	12,698
Goodwill	40,085	12,266
Total assets	$ 137,425	$ 72,903
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 3,372	$ 2,282
Accrued payroll and benefits	4,748	2,867
Current operating lease liabilities	1,401	1,433
Other accrued liabilities	2,327	216
Deferred revenue	864	1,572
Total current liabilities	12,712	8,370
Non-current liabilities:		
Operating lease liabilities	4,311	4,805
Deferred rent	804	887
Deferred tax liabilities, net	59	59
Other long term liabilities	66	66
Total non-current liabilities	5,240	5,817
Commitments and contingencies		
Stockholders' equity:		
Common stock, par value $0.001 per share; 100,000,000 shares authorized; 53,575,888 and 41,232,804 shares issued and outstanding (2021 and 2020, respectively)	54	41
Additional paid-in capital	349,077	279,905
Accumulated comprehensive deficit	(229,658)	(221,230)
Total stockholders' equity	119,473	58,716
Total liabilities and stockholders' equity	$ 137,425	$ 72,903

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 June 30,		For the Six Months Ended June 30,	
	2021 (unaudited)	2020 (unaudited)	2021 (unaudited)	2020 (unaudited)
Revenues	$ 15,919	$ 12,933	$ 27,300	$ 26,255
Cost of revenues	3,358	1,269	4,903	2,441
Gross profit	12,561	11,664	22,397	23,814
Operating expenses:				
Selling and marketing	4,853	2,613	9,085	5,400
Research and development	7,972	4,604	13,155	8,333
General and administrative	4,946	3,070	8,604	6,744
Total operating expenses	17,771	10,287	30,844	20,477
Operating income (loss)	(5,210)	1,377	(8,447)	3,337
Other income:				
Interest income, net	16	2	24	87
Other income	5	—	9	—
Income (loss) before provision for income taxes	(5,189)	1,379	(8,414)	3,424
Provision for income tax expense	14	—	14	—
Net income (loss)	$ (5,203)	$ 1,379	$ (8,428)	$ 3,424
Earnings (loss) per share:				
Basic and diluted	$ (0.10)	$ 0.03	$ (0.17)	$ 0.08
Weighted average shares outstanding:				
Basic	53,017	41,127	48,219	40,305
Diluted	53,017	43,079	48,219	42,346

See accompanying notes to the consolidated financial statements.

Error! Reference source not found. SMITH MICRO SOFTWARE, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(in thousands)

	Common Stock		Additional	Accumulated	
	Shares	Amount	Paid-in Capital	Comprehensive Deficit	Total
BALANCE, March 31, 2021 (unaudited)	51,646	$ 52	$ 340,058	$ (224,455)	$ 115,655
Non-cash compensation recognized on stock options and ESPP	—	—	21	—	21
Restricted stock grants, net of cancellations	100	—	1,258	—	1,258
Cancellation of shares for payment of withholding tax	(90)	—	(484)	—	(484)
Costs associated with common stock offering	—	—	(188)	—	(188)
Common shares issued in connection with Avast Family Safety Mobile acquisition, net	1,460	1	8,380	—	8,381
Exercise of common stock warrants	451	1	(1)	—	—
Exercise of stock options	9	—	33	—	33
Net loss	—	—	—	(5,203)	(5,203)
BALANCE, June 30, 2021 (unaudited)	53,576	$ 54	$ 349,077	$ (229,658)	$ 119,473

	Common Stock		Additional	Accumulated	
	Shares	Amount	Paid-in Capital	Comprehensive Deficit	Total
BALANCE, December 31, 2020 (audited)	41,233	$ 41	$ 279,905	$ (221,230)	$ 58,716
Non-cash compensation recognized on stock options and ESPP	—	—	39	—	39
Restricted stock grants, net of cancellations	1,070	1	2,254	—	2,255
Cancellation of shares for payment of withholding tax	(211)	—	(1,309)	—	(1,309)
Employee stock purchase plan	4	—	15	—	15
Common shares issued in stock offering, net of offering costs	9,521	10	59,701	—	59,711
Common shares issued in connection with Avast Family Safety Mobile Software acquisition, net	1,460	1	8,380	—	8,381
Exercise of common stock warrants	484	1	39	—	40
Exercise of stock options	15	—	53	—	53
Net loss	—	—	—	(8,428)	(8,428)
BALANCE, June 30, 2021 (unaudited)	53,576	$ 54	$ 349,077	$ (229,658)	$ 119,473

See accompanying notes to the consolidated financial statements.

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

	Common Stock		Additional Paid-in	Accumulated Comprehensive	
	Shares	Amount	Capital	Deficit	Total
BALANCE, March 31, 2020 (unaudited)	40,383	$ 40	$ 276,163	$ (223,350)	$ 52,853
Non-cash compensation recognized on stock options and ESPP	—	—	17	—	17
Restricted stock grants, net of cancellations	—	—	791	—	791
Cancellation of shares for payment of withholding tax	(66)	—	(296)	—	(296)
Exercise of warrants	1,038	1	2,150	—	2,151
Exercise of stock options	1	—	3	—	3
Net income	—	—	—	1,379	1,379
BALANCE, June 30, 2020 (unaudited)	41,356	$ 41	$ 278,828	$ (221,971)	$ 56,898

	Common Stock		Additional Paid-in	Accumulated Comprehensive	
	Shares	Amount	Capital	Deficit	Total
BALANCE, December 31, 2019 (audited)	38,475	$ 38	$ 274,041	$ (225,395)	$ 48,684
Non-cash compensation recognized on stock options and ESPP	—	—	30	—	30
Restricted stock grants, net of cancellations	1,000	1	1,410	—	1,411
Cancellation of shares for payment of withholding tax	(176)	—	(868)	—	(868)
Employee stock purchase plan	2	—	5	—	5
Exercise of common stock warrants	2,047	2	4,194	—	4,196
Exercise of stock options	8	—	16	—	16
Net income	—	—	—	3,424	3,424
BALANCE, June 30, 2020 (unaudited)	41,356	$ 41	$ 278,828	$ (221,971)	$ 56,898

See accompanying notes to the consolidated financial statements.

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

	For the Six Months Ended June 30, 2021 (unaudited)	For the Six Months Ended June 30, 2020 (unaudited)
Operating activities:		
Net income (loss)	$ (8,428)	$ 3,424
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	5,481	1,662
Non-cash lease expense	618	511
Provision for doubtful accounts and other adjustments to accounts receivable	(3)	(9)
Provision for excess and obsolete inventory	(97)	—
Stock based compensation	2,295	1,441
Changes in operating accounts:		
Accounts receivable	3,640	(1,637)
Prepaid expenses and other assets	(225)	(633)
Accounts payable and accrued liabilities	(1,077)	(686)
Deferred revenue	(708)	262
Net cash provided by operating activities	1,496	4,335
Investing activities:		
Acquisitions, net	(56,865)	(12,150)
Capital expenditures	(336)	(852)
Other investing activities	69	(204)
Net cash used in investing activities	(57,132)	(13,206)
Financing activities:		
Proceeds from common stock offering, net of offering expenses	59,711	—
Proceeds from exercise of common stock warrants	40	4,196
Other financing activities	67	21
Net cash provided by financing activities	59,818	4,217
Net increase (decrease) in cash and cash equivalents	4,182	(4,654)
Cash and cash equivalents, beginning of period	25,754	28,268
Cash and cash equivalents, end of period	$ 29,936	$ 23,614
Supplemental disclosures of cash flow information:		
Cash paid for income taxes	$ 63	$ 40
Supplemental disclosures of non-cash activities:		
Issuance of common stock in connection with Avast Family Safety Mobile business acquisition	$ 8,381	$ —

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", the "Company", "we", "us", or "our") develops software to simplify and enhance the mobile experience, providing solutions to some of the leading wireless and cable service providers around the world. From enabling the family digital lifestyle 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.

2. Accounting Policies

Basis of Presentation

The accompanying interim consolidated balance sheet as of June 30, 2021, and the related consolidated statements of operations, stockholders' equity, and cash flows for the three and six months ended June 30, 2021 and 2020, 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 ("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 our Annual Report on Form 10-K for the fiscal year ended December 31, 2020 filed with the SEC on March 8, 2021.

Intercompany balances and transactions have been eliminated in consolidation.

Operating results for the three and six months ended June 30, 2021 are not necessarily indicative of the results that may be expected for any other interim period or for the fiscal year ending December 31, 2021.

Impact of COVID-19

In March 2020, the World Health Organization categorized coronavirus disease 2019 (COVID-19) as a pandemic, and the President of the United States declared the COVID-19 outbreak a national emergency. We continue to monitor the spread of COVID-19 throughout the United States and other countries across the world. The duration and severity of its effects continue to be uncertain. While the response to the COVID-19 outbreak continues to rapidly evolve, it has led to stay-at-home orders and social distancing guidelines that have seriously disrupted, and continue to disrupt, activities in large segments of the economy.

During the past five quarters, we saw a reduction in the number of SafePath® platform subscribers compared to March 2020 and customer decision delays regarding our ViewSpot platform, which we believe were largely driven by the COVID-19 related economic slowdown. The Company's consolidated financial statements presented herein reflect estimates and assumptions made by management that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and reported amounts of revenue and expenses during the reporting periods presented. The severity of the impact of the COVID-19 pandemic on the Company's business will depend on a number of factors, including, but not limited to, the duration and severity of the pandemic and the extent and severity of the impact on the Company's customers, all of which are uncertain and cannot be predicted.

As the impact of the COVID-19 pandemic on the economy and the Company's operations continue to evolve, we will continue to monitor the impact on the Company's operations and, if needed, postpone non-essential capital expenditures, reduce operating costs, and substantially reduce discretionary spending.

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.

We transfer software licenses to our customers on a royalty free, non-exclusive, non-transferrable, limited use basis during the term of the agreement. In some instances, we perform customization services to ensure the software operates within our customers' operating platforms as well as the operating platforms of the mobile devices used by their end customers, before transferring the license. Revenue related to these services is recognized at a point in time upon acceptance of the software license by the customer. We also earn usage based revenue on our platforms. Usage based revenue is generated based on active licenses used by our customers' end customers, the provision of hosting services, revenue share based on media placements on our platform, and use of our cloud based services. We recognize our usage based revenue when we have completed our performance obligation and have the right to invoice the customer. This revenue is generally recognized monthly or quarterly. Finally, in this segment, we ratably recognize revenue over the contract period when customers pay in advance of our service delivery.

In February 2020, we acquired certain assets from Circle Media Labs Inc. ("Circle"), encompassing its operator business, including a source code license to Circle's parental control software solution and two customer contracts. Pursuant to these contracts, the customer parties thereto license the parental control software solution for distribution to their respective subscribers in designated markets. In each case, the contracts allow the customer to take possession of the software solution and to host it on their platform or with an independent third party hosting service provider without significant cost. We also provide significant services that are required by the customer to ensure they have the utility of the license. As the license to the software solution and the services we provide are highly interrelated, we have concluded that the license and our services are a single performance obligation. The license fee is earned and recognized on a pro-rata basis over the contract term based on our customer's continued use of the license and our services.

In April 2021, as further discussed in Note 3, we acquired certain assets and liabilities from Avast plc ("Avast"). Acquired assets include the source code to Avast's family safety mobile software solution and cloud-based services (a portion of which was acquired through a perpetual license grant), and its existing contracts with AT&T, Verizon, T-Mobile, and Sprint. Each contract involves the grant of software licenses and provision of cloud-based services. We do not allow our customers to take possession of the software solution, and since the utility of the license comes from the cloud-based services that we provide, we consider the software license and the cloud services to be a single performance obligation.

We also provide consulting services to develop customer-specified functionality that is generally not on our software development roadmap. We recognize revenue from our consulting services upon delivery and acceptance by the customer of our software enhancements and upgrades. For certain customers we provide maintenance and technology support services for which the customer either pays upfront or as we provide the services. When the customer pays upfront, we record the payments as contract liabilities and recognize revenue ratably over the contract period as this is our stand ready performance obligation that is satisfied ratably over the maintenance and technology services period.

We receive upfront payments from customers from services to be provided under our ViewSpot contracts. The advance receipts are deferred and subsequently recognized ratably over the contract period. We also provide consulting services to configure ad hoc targeted promotional content for our customers upon request. These requests are driven by our customers' marketing initiatives and tend to be short term "bursts" of activity. We recognize these revenues upon delivery of the configured promotional content to the cloud platform.

Fair Value Measurements

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 to sell an asset, or 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.

As required by FASB ASC Topic No. 820, we measure our cash and cash equivalents at fair value. Our cash equivalents are classified within Level 1 by using quoted market prices utilizing market observable inputs.

As required by FASB ASC Topic No. 350, for goodwill and other intangibles impairment analysis, we utilize fair value measurements which are categorized within Level 3 of the fair value hierarchy.

As required by FASB ASC Topic No. 805, we measure acquisition-related contingent consideration at fair value on a recurring basis and may include the use of significant unobservable inputs, and therefore, these instruments represent Level 3 measurements within the fair value hierarchy.

3. Acquisitions

On April 16, 2021, the Company acquired substantially all the assets related to Avast's and its subsidiaries' family safety mobile software business (the "Family Safety Mobile Business") and certain specified assumed liabilities, which included all of the outstanding membership interests of Location Labs, LLC pursuant to a Membership Interest and Asset Purchase Agreement (the "Purchase Agreement").

The following table summarizes the consideration paid for the acquisition of the Family Safety Mobile Business (unaudited, in thousands):

Fair value of assets acquired	$	75,626
Fair value of liabilities assumed		2,893
Total purchase price	$	72,733
Components of purchase price:		
Cash	$	63,216
Common stock		8,381
Contingent consideration		1,136
Total purchase price	$	72,733

The Company's preliminary allocation of the purchase price is summarized as follows (unaudited, in thousands):

Assets:		
Cash	$	6,351
Accounts receivable		6,225
Prepaid expenses		513
Fixed assets		1,218
Intangible assets		33,500
Goodwill		27,819
Total assets	$	75,626
Liabilities:		
Accounts payable	$	403
Accrued payroll and benefits		1,767
Accrued expenses		723
Total liabilities		2,893
Total purchase price	$	72,733

The purchase price allocation presented above has been prepared on a preliminary basis, and changes to the preliminary purchase price allocations may occur as additional information concerning asset and liability valuations are finalized.

The Purchase Agreement includes an earn-out provision that may result in additional future payments to Avast of up to $14.0 million. As of June 30, 2021, approximately $1.1 million in contingent consideration was included within "other accrued liabilities" in the accompanying consolidated balance sheet.

The goodwill recognized is attributable primarily to expected synergies and the assembled workforce of the Family Safety Mobile Business. None of the goodwill is expected to be deductible for income tax purposes.

Approximately $6.0 million in revenues and $1.7 million in cost of revenues from the Family Safety Mobile Business are included in the consolidated statement of operations for the period from April 16, 2021 through June 30, 2021.

Unaudited pro forma results of operations for the three and six months ended June 30, 2021 and 2020 are included below as if the acquisition of the Family Safety Mobile business occurred on January 1, 2020. This summary of the unaudited pro forma results of operations is not necessarily indicative of what the Company's results of operations would have been had the Family Safety Mobile Business been acquired at the beginning of 2020, nor does it purport to represent results of operations for any future periods.

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2021	2020	2021	2020
	(unaudited, in thousands, except per share amounts)		(unaudited, in thousands, except per share amounts)	
Revenues	$ 17,146	$ 22,085	$ 36,532	$ 44,559
Net income (loss)	(5,396)	409	(10,092)	1,485
Earnings (loss) per share:				
Basic	$ (0.10)	$ 0.01	$ (0.21)	$ 0.04
Diluted	$ (0.10)	$ 0.01	$ (0.21)	$ 0.04

4. Goodwill and Intangible Assets

In accordance with FASB ASC Topic No. 350, *Intangibles-Goodwill and Other*, we review the recoverability of the carrying value of goodwill at least annually or whenever events or circumstances indicate a potential impairment. The Company's impairment testing will be performed annually on December 31. Recoverability of goodwill is determined by comparing the fair value of the Company's reporting units to the carrying value of the underlying net assets in the reporting units. If the fair value of a reporting unit is determined to be less than the carrying 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 fair value of the reporting unit and the fair value of its other assets and liabilities. The Company determined that there was no goodwill impairment at June 30, 2021 and December 31, 2020.

During the first quarter of 2021, we received a customer contract termination notice related to a customer contract acquired in the acquisition of Circle's operator business in February 2020, which was otherwise set to expire in the second quarter of 2024. The contract was terminated effective April 15, 2021; however, in accordance with its terms, we continue to deliver wind-down services under the contract. While the terms of the contract allow for a wind-down period of up to two years post termination, the Company expects to continue services under this contract through the second quarter of 2022. The Company determined the customer contract should be accounted for under the contract modification guidance in Topic 606. As a result, the Company recognized deferred revenue of $0.6 million which was being amortized over the customer contract term and will amortize the remaining $0.3 million over the remaining service period. Additionally, the Company reviewed its customer contract intangible asset associated with this customer contract and determined that the carrying value was in excess of its fair value. Accordingly, the Company recorded a $1.5 million impairment charge within "selling and marketing expenses" in the consolidated statements of operations during the six months ended June 30, 2021 and will amortize the remaining $0.4 million over the remaining service period.

5. 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, and warrants 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:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2021	2020	2021	2020
	(unaudited, in thousands, except per share amounts)		(unaudited, in thousands, except per share amounts)	
Numerator:				
Net income (loss)	$ (5,203)	$ 1,379	$ (8,428)	$ 3,424
Denominator:				
Weighted average shares outstanding – basic	53,017	41,127	48,219	40,305
Potential common shares – options / warrants (treasury stock method)	—	1,952	—	2,041
Weighted average shares outstanding – diluted	53,017	43,079	48,219	42,346
Shares excluded (anti-dilutive)	1,871	98	1,965	98
Net earnings (loss) per common share:				
Basic	$ (0.10)	$ 0.03	$ (0.17)	$ 0.08
Diluted	$ (0.10)	$ 0.03	$ (0.17)	$ 0.08

6. Stock-Based Compensation

Stock Plans

During the three and six months ended June 30, 2021, the Company granted 100,000 and 1,100,000 shares of restricted stock, respectively, and incentive stock options exercisable for 10,000 and 20,000 shares, respectively, under the Company's 2015 Omnibus Equity Incentive Plan, as amended (the "2015 Plan"). As of June 30, 2021, there were approximately 3.8 million shares available for future grants under the Company's 2015 Plan.

7. Revenues

Revenue Recognition

We primarily sell our software solutions, cloud-based services and consulting services to major wireless network and cable operators.

We recognize sales of goods and services based on the five-step analysis of transactions as provided in Topic 606. For all contracts with customers, we first identify the contract which usually is established when a contract is fully executed by each party and consideration is expected to be received. Next, we identify 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. We then determine the transaction price in the arrangement and allocate the transaction price, if necessary, to each performance obligation identified in the contract. The allocation of the transaction price to the performance obligations is 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. We evaluate the total amount of variable consideration expected to be earned by using the expected value method, as we believe this method represents the most appropriate estimate for this consideration, based on historical service trends, the individual contract considerations and our best judgment at the time. We include 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. We also generate the majority of our revenue on usage based fees which are variable and depend entirely on our customers' use of perpetual licenses, transactions processed on our hosted environment, advertisement placements on our service platform, and activity on our cloud-based service platform. On February 12, 2020, we purchased two customer contracts, among other assets, from Circle. Under these contracts, we provide our customers with licenses to software solutions and related services, for which we earn license fees, managed and hosting service fees, and consulting services which are provided throughout the life of the licensing arrangement. As discussed in Note 3, on April 16, 2021, we purchased customer contracts, among other assets and liabilities, from Avast. Under these contracts, we provide our Tier 1 US Mobile Network Operators (MNO) and their end customers with access to our software licenses and cloud-based services.

Our contracts with the Tier 1 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. Our cloud-based service includes a software solution license integrated with cloud-based services. Judgment is required to determine whether the software license is considered distinct and accounted for separately, or not distinct and accounted for together with the cloud service and recognized over time. Since we do not allow our customers to take possession of the software solution, and since the utility of the license comes from the could-based services that we provide, we consider the software license and the cloud services to be a single performance obligation. We provide the Circle software solution license together with highly integrated consulting services to generate the utility of the license to the customers. Since the software solution and consulting services provided are highly interrelated, we consider the license and the consulting services to be a single performance obligation. We recognize revenue associated with our MNO customers based on their active subscribers' access and usage of our software licenses and cloud-based services on our platforms.

We also provide consulting services to configure ad hoc targeted promotional content to be presented on our solutions, as well as consulting services to provide additional functionality for our software solutions based on our customers' request. These requests are driven by our customers' marketing initiatives and tend to be short term "bursts" of activity or specific incremental functionality to existing software solutions. We recognize these revenues upon delivery and acceptance of the configured promotional content or additional functionality to the software solution.

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

Deferred Revenue

Deferred revenue represents amounts billed to customers for which revenue has not been recognized. Deferred revenue primarily consists of the unearned portion of monthly, quarterly and annually billed service fees and prepayments made by customers for a future period. We recognize revenue upon transfer of control. During the six months ended June 30, 2021, we recognized $0.7 million of revenue in our consolidated statements of operations that was previously recorded as deferred revenue in the consolidated balance sheet as of December 31, 2020. As of June 30, 2021, our total deferred revenue balance was $0.9 million, of which $0.8 million was related to the acquisition of the Circle operator business.

As also discussed in Note 4, during the first quarter of 2021, we received a customer contract termination notice related to a customer contract acquired in the acquisition of Circle's operator business, which was otherwise set to expire in the second quarter of 2024. The contract was terminated effective April 15, 2021; however, in accordance with its terms, we continue to deliver wind-down services under the contract. While the terms of the contract allow for a wind-down period of up to two years post termination, the Company expects to continue services under this contract through the second quarter of 2022. The Company determined the customer contract should be accounted for under the contract modification guidance in Topic 606. As a result, the Company recognized deferred revenue of $0.6 million which was being amortized over the customer contract term and will amortize the remaining $0.3 million over the remaining service period. Additionally, the Company reviewed its customer contract intangible asset associated with this customer contract and determined that the carrying value was in excess of its fair value. Accordingly, the Company recorded a $1.5 million impairment charge within "selling and marketing expenses" in the consolidated statements of operations during the six months ended June 30, 2021 and will amortize the remaining $0.4 million over the remaining service period.

Disaggregation of Revenues

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2021	2020	2021	2020
	(unaudited)		(unaudited)	
License and service fees	$ 795	$ 1,008	$ 2,382	$ 1,563
Hosted environment usage fees	3,956	4,341	8,097	8,890
Cloud based usage fees	10,555	6,705	15,602	14,352
Consulting services and other	613	879	1,219	1,450
Total revenues	$ 15,919	$ 12,933	$ 27,300	$ 26,255

8. 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 our SafePath®, CommSuite®, and ViewSpot® families of products.

The Company does not separately allocate operating expenses to these business units, nor does it allocate specific assets. Therefore, business unit information reported includes only revenues.

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2021	2020	2021	2020
	(unaudited)		(unaudited)	
Family Safety Mobile	$ 11,119	$ 7,344	$ 17,385	$ 15,193
CommSuite	3,944	4,330	8,073	8,869
ViewSpot	817	971	1,746	1,716
Other	39	288	96	477
Total wireless revenues	$ 15,919	$ 12,933	$ 27,300	$ 26,255

Customer Concentration Information

The Company has certain customers whose revenues individually represented 10% or more of the Company's total revenues, or whose accounts receivable balances individually represented 10% or more of the Company's total accounts receivable, as follows:

For the three months ended June 30, 2021 and 2020, two customers accounted for 82% and one customer accounted for 86% of revenues, respectively. For the six months ended June 30, 2021 and 2020, two customers accounted for 79% and one customer accounted for 89% of revenues, respectively.

As of June 30, 2021, three customers accounted for 86% of accounts receivable, and at June 30, 2020, one customer accounted for 83% of accounts receivable.

Geographical Information

During the three and six months ended June 30, 2021 and 2020, the Company operated in three geographic locations; the Americas, EMEA (Europe, the Middle East, and Africa), and Asia Pacific. Revenues attributed to the geographic location of the customers' bill-to address were as follows (in thousands):

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2021	2020	2021	2020
	(unaudited)		(unaudited)	
Americas	$ 15,351	$ 12,378	$ 25,496	$ 25,407
EMEA	568	546	1,804	830
Asia Pacific	—	9	—	18
Total revenues	$ 15,919	$ 12,933	$ 27,300	$ 26,255

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

9. 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: intellectual property indemnities to the Company's customers and licensees in connection with the use, sale, and/or license of Company products; 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 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.

10. Leases

The Company leases office space and equipment, and certain office space is subleased. 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 cost consists of the following (in thousands):

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2021	2020	2021	2020
	(unaudited)			
Lease cost	$ 560	$ 533	$ 1,120	$ 1,061
Sublease income	(151)	(151)	(301)	(301)
Total lease cost	$ 409	$ 382	$ 819	$ 760

The maturity of operating lease liabilities is presented in the following table (in thousands):

	As of June 30, 2021
	(unaudited)
2021	$ 916
2022	1,621
2023	1,606
2024	1,227
2025	867
Thereafter	291
Total lease payments	6,528
Less imputed interest	(816)
Present value of lease liabilities	$ 5,712

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

	As of June 30, 2021
	(unaudited)
Weighted average remaining lease term (years)	4.06
Weighted average discount rate	6.75%

11. Income Taxes

We account for income taxes as required by FASB ASC Topic No. 740, *Income Taxes*. This Topic clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements and prescribes a recognition threshold and measurement process for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The Topic also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. The Topic requires an entity to recognize the financial statement impact of a tax position when it is more likely than not that the position will be sustained upon examination. The amount recognized is measured as the largest amount of benefit that is greater than fifty percent likely of being realized upon ultimate settlement. In addition, the Topic permits an entity to recognize interest and penalties related to tax uncertainties as either income tax expense or operating expenses. The Company has chosen to recognize interest and penalties related to tax uncertainties as income tax expense.

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 to be given to evidence that can be objectively verified. A significant factor in the Company's assessment is that the Company was in a five-year historical cumulative loss as of the end of fiscal 2018. These facts, combined with uncertain near-term market and economic conditions, reduced 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 December 31, 2020, and after consideration of the Company's cumulative loss position as of December 31, 2020, the Company will continue to reserve its U.S.-based deferred tax amounts, which total $49.4 million as of June 30, 2021.

The Company is subject to U.S. federal income tax as well as income tax of multiple state jurisdictions. Currently there are no audits in process or pending from Federal or state tax authorities. State income tax returns are subject to examination for a period of three to four years after filing. As of December 31, 2020, 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. We 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 our consolidated financial results. 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.

On March 27, 2020, the Coronavirus Aid, Relief and Economic Security Act (CARES Act) was enacted in response to the COVID-19 pandemic. The CARES Act, among other things, permits NOL carryovers and carrybacks to offset taxable income for years beginning before 2021. The CARES Act also made modifications to IRC Sec. 163(j) to increase the allowable interest from 30% of adjusted taxable income to 50% of adjusted taxable income. The CARES Act changes in NOL carrybacks interest expense limitation had no impact on the Company's tax provision. We continue to analyze the different aspects of the CARES Act to determine whether any specific provisions may impact us.

12. Equity Transactions

On March 15, 2021, the Company completed a registered public offering ("Offering"), wherein a total of 9,520,787 shares of the Company's common stock were issued at a purchase price of $6.85 per share, for a total purchase price of $65.2 million. The Offering raised net cash proceeds of approximately $59.7 million after deducting the underwriting discount and fees and expenses of the Offering. The Company used the net cash proceeds from the Offering to fund, in part, the acquisition of the Family Safety Mobile Business completed on April 16, 2021 (see Note 3 for additional information).

13. 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. Subsequent events have been evaluated as of the date of this filing and no further disclosures are required.

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 ("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 ability to remain a going concern, our expenses, and the protection of our intellectual property. 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 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;
- our ability to hire and retain key personnel;
- the possibility of security and privacy breaches in our systems damaging client relations and inhibiting our ability to grow;
- failure to realize the expected benefits of recent asset acquisitions;
- interruptions or delays in the services we provide from our data center hosting facilities that could harm our business;
- 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 and device manufacturers;
- the existence of undetected software defects in our products;
- intense competition in our industry and the core vertical markets in which we operate, and our ability to successfully compete;
- the impact of the COVID-19 pandemic on our business and financial results;
- rapid technological evolution and resulting changes in demand for our products from our key customers and their end users;
- the risks inherent with international operations;
- the impact of evolving information security and data privacy laws on our business and industry;
- the impact of U.S. 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 raise additional capital and the risk of such capital not being available to us at commercially reasonable terms or at all;
- our ability to remain profitable;
- our ability to remain a going concern;
- changes in our operating income due to shifts in our sales mix and variability in our operating expenses;
- our ability to assimilate acquisitions without diverting management attention and impacting current operations;
- the availability of third-party intellectual property and licenses needed for our operations on commercially reasonable terms, or at all; and
- 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.

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 develops software to simplify and enhance the mobile experience, providing solutions to some of the leading wireless and cable service providers around the world. From enabling the family digital lifestyle 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 never-ending focus on understanding our customers' needs and delivering value.

In future quarters, we expect our family safety platform revenue, comprised of the combined revenue from both our SafePath product and the Family Safety Mobile Business that we acquired from Avast on April 16, 2021, to increase based on the newly acquired business, offset by a reduced number of SafePath subscribers from a lack of marketing initiatives sponsored by our largest customer as it continues its acquisition integration.

Results of Operations

The table below sets forth certain statements of operations and comprehensive loss data expressed as a percentage of revenues for the three and six months ended June 30, 2021 and 2020. Our historical results are not necessarily indicative of the operating results that may be expected in the future.

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2021	2020	2021	2020
Revenues	100.0 %	100.0 %	100.0 %	100.0 %
Cost of revenues	21.1	9.8	18.0	9.3
Gross profit	78.9	90.2	82.0	90.7
Operating expenses:				
Selling and marketing	30.5	20.2	33.3	20.6
Research and development	50.1	35.6	48.2	31.7
General and administrative	31.1	23.7	31.5	25.7
Total operating expenses	111.7	79.5	113.0	78.0
Operating income (loss)	(32.8)	10.7	(31.0)	12.7
Interest income, net	0.1	—	0.1	0.3
Other income	—	—	—	—
Income (loss) before provision for income taxes	(32.7)	10.7	(30.9)	13.0
Provision for income tax expense	0.1	—	0.1	—
Net income (loss)	(32.8)%	10.7 %	(31.0)%	13.0 %

Three Months Ended June 30, 2021 Compared to the Three Months Ended June 30, 2020

Revenues. Revenues were $15.9 million and $12.9 million for the three months ended June 30, 2021 and 2020, respectively, representing an increase of $3.0 million, or 23%. This increase is primarily related to the acquisition of the Family Safety Mobile Business in April 2021, offset by a reduced number of SafePath subscribers, which we believe is mostly due to reduced marketing initiatives with our current customers.

Cost of revenues. Cost of revenues were $3.4 million and $1.3 million for the three months ended June 30, 2021 and 2020, respectively. This increase was primarily due to supporting the increased revenues associated with the recently acquired Family Safety Mobile Business and higher external costs associated with maintaining the newer SafePath platform.

Gross profit. Gross profit was $12.6 million, or 79% of revenues, for the three months ended June 30, 2021, compared to $11.7 million, or 90% of revenues, for the three months ended June 30, 2020. The decrease in gross profit is a result of higher costs associated with operating the Family Safety Mobile Business and higher operational costs associated with the fully integrated SafePath and Circle operator business application.

Selling and marketing. Selling and marketing expenses were $4.9 million and $2.6 million for the three months ended June 30, 2021 and 2020, respectively. This increase is primarily due the additional costs associated with operating the Family Safety Mobile Business, the related intangible asset amortization, and an increase in headcount from the prior year. The amortization of intangible assets in selling and marketing expense was $1.7 million and $0.5 million for the three months ended June 30, 2021 and 2020, respectively.

Research and development. Research and development expenses were $8.0 million and $4.6 million for the three months ended June 30, 2021 and 2020, respectively. This increase was primarily due to the additional costs associate with the Family Safety Mobile Business, the related intangible asset amortization, and additional headcount related expenses. The amortization of intangible assets in research and development expense was $0.9 million and $0.4 million for the three months ended June 30, 2021 and 2020, respectively.

General and administrative. General and administrative expenses were $4.9 million and $3.1 million for the three months ended June 30, 2021 and 2020, respectively. This increase was primarily due to transaction and professional service costs associated with our acquisition of the Family Safety Mobile Business.

Six months Ended June 30, 2021 Compared to the Six months Ended June 30, 2020

Revenues. Revenues were $27.3 million and $26.3 million for the six months ended June 30, 2021 and 2020, respectively, representing an increase of $1.0 million, or 4%. This increase is primarily related to the acquisition of the Family Safety Mobile Business in April 2021, offset by a reduced number of SafePath subscribers, which we believe is mostly due to reduced marketing initiatives with our current customers.

Cost of revenues. Cost of revenues were $4.9 million and $2.4 million for the six months ended June 30, 2021 and 2020, respectively. This increase was primarily due to supporting the increased revenues associated with the Family Safety Mobile Business and higher external costs associated with maintaining the newer SafePath platform.

Gross profit. Gross profit was $22.4 million, or 82% of revenues, for the six months ended June 30, 2021, compared to $23.8 million, or 91% of revenues, for the six months ended June 30, 2020. The decrease in gross profit is a result of higher costs associated with operating the Family Safety Mobile Business and higher operational costs associated with the fully integrated SafePath and Circle operator business application.

Selling and marketing. Selling and marketing expenses were $9.1 million and $5.4 million for the six months ended June 30, 2021 and 2020, respectively. This increase is primarily due the additional costs associated with operating the Family Safety Mobile Business, the related intangible asset amortization, and an increase in headcount from the prior year. The amortization of intangible assets in selling and marketing expense was $3.7 million and $0.8 million for the six months ended June 30, 2021 and 2020, respectively.

Research and development. Research and development expenses were $13.2 million and $8.3 million for the six months ended June 30, 2021 and 2020, respectively. This increase was primarily due to the additional costs associate with the Family Safety Mobile Business, the related intangible asset amortization, and additional headcount related expenses. The amortization of intangible assets in research and development expense was $1.2 million and $0.6 million for the six months ended June 30, 2021 and 2020, respectively.

General and administrative. General and administrative expenses were $8.6 million and $6.7 million for the six months ended June 30, 2021 and 2020, respectively. This increase was primarily due to transaction and professional service costs associated with our acquisition of the Family Safety Mobile Business.

Liquidity and Capital Resources

As of June 30, 2021, we had $29.9 million in cash and cash equivalents and $34.2 million of working capital.

Operating activities

Net cash provided by operating activities was $1.5 million for the six months ended June 30, 2021. The primary sources of operating cash were net add-backs of non-cash expenses totaling $8.3 million, and a decrease in accounts receivable of $3.6 million. The primary uses of operating cash were a net loss of $8.4 million, an increase in prepaid expenses and other assets of $0.2 million, a decrease in accounts payable and accrued expenses of $1.1 million, and a decrease in deferred revenue of $0.7 million.

Net cash provided by operating activities was $4.3 million for the six months ended June 30, 2020. The primary sources of operating cash were income from operations of $3.4 million, an add-back of non-cash expenses totaling $3.6 million, and an increase in deferred revenue of $0.3 million. The primary uses of operating cash were an increase in accounts receivable of $1.6 million, an increase in prepaid expenses and other assets of $0.6 million, and a decrease in accounts payable and accrued expenses of $0.7 million.

Investing activities

Net cash used in investing activities was $57.1 million for the six months ended June 30, 2021, relating primarily to a $56.9 million net cash payment for the acquisition of the Family Safety Mobile Business and $0.3 million in capital expenditures.

Net cash used in investing activities was $13.2 million for the six months ended June 30, 2020, relating primarily to a $12.2 million net cash payment for the acquisition of the Circle operator business and $0.9 million of capital expenditures.

Financing activities

Net cash provided by financing activities was $59.8 million for the six months ended June 30, 2021, relating primarily to the March 2021 common stock offering.

Net cash provided by financing activities was $4.2 million for the six months ended June 30, 2020, which relates to $4.2 million in proceeds from the exercise of common stock warrants.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements.

During our normal course of business, we have made certain indemnities, commitments, and guarantees under which we may be required to make payments in relation to certain transactions. These include: intellectual property indemnities to our customers and licensees in connection with the use, sale and/or license of our products; indemnities to various lessors in connection with facility leases for certain claims arising from such facility or lease; indemnities to vendors and service providers pertaining to claims based on negligence or willful misconduct; 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. We 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 we could be obligated to make. We have not recorded any liability for these indemnities, commitments, and guarantees in the accompanying consolidated balance sheets. There were no material changes in our contractual obligations and other commercial commitments that would require an update to the disclosure provided in our 2020 Annual Report on Form 10-K, filed with the SEC on March 8, 2021 (“Annual Report”).

Recent Accounting Guidance

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

Critical Accounting Policies and 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 on-going basis, we review our estimates to ensure that they appropriately reflect changes in our business or new information as it becomes available. See Note 2 of our Notes to the Consolidated Financial Statements for information regarding our critical accounting policies and estimates.

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 Rules 13a-15(e) under the Securities Exchange Act of 1934 ("Exchange Act")) as of June 30, 2021. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer have determined that as of June 30, 2021, 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 Securities and Exchange Commission'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 controls over financial reporting during the quarter ended June 30, 2021 that have materially affected, or are reasonably likely to materially affect, our internal controls 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 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 June 30, 2021:

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
April 1 - 30, 2021	29,312	$ 5.65	—	—
May 1 - 31, 2021	31,068	5.05	—	—
June 1 - 30, 2021	29,894	5.43	—	—
Total	90,274 (1)	$ 5.37		

(1) Shares of 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 6. Exhibits

Exhibit	Description
10.1	Registration Rights Agreement by and among Smith Micro, Avast and certain subsidiaries of Avast, dated April 16, 2021 (incorporated by reference to Exhibit 1.1 to the Company's Current Report on Form 8-K filed on April 19, 2021).
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	Certification 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)

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.
August 12, 2021	By /s/ William W. Smith, Jr. William W. Smith, Jr. Chairman of the Board, President and Chief Executive Officer *(Principal Executive Officer)*
August 12, 2021	By /s/ Timothy C. Huffmyer Timothy C. Huffmyer Vice President and Chief Financial Officer *(Principal Financial and Accounting Officer)*