
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549**

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 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
(State or other jurisdiction of
incorporation or organization)

33-0029027
(I.R.S. Employer
Identification No.)

5800 Corporate Drive, Pittsburgh, PA
(Address of principal executive offices)

15237
(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	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input checked="" type="checkbox"/>	Smaller reporting company	<input checked="" type="checkbox"/>
Emerging growth company	<input type="checkbox"/>		

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 November 11, 2024, there were 17,736,708 shares of Common Stock outstanding.

SMITH MICRO SOFTWARE, INC.
QUARTERLY REPORT ON FORM 10-Q
September 30, 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)**

	<u>September 30, 2024</u>	<u>December 31, 2023</u>
	<u>(unaudited)</u>	<u>(audited)</u>
Assets		
Current assets:		
Cash and cash equivalents	\$ 1,509	\$ 7,125
Accounts receivable, net of related allowances of \$3 and \$3 at 2024 and 2023, respectively	3,406	7,912
Prepaid expenses and other current assets	1,505	1,843
Total current assets	<u>6,420</u>	<u>16,880</u>
Equipment and improvements, net	615	883
Right-of-use assets	2,657	2,759
Other assets	504	482
Intangible assets, net	24,931	29,532
Goodwill	11,052	35,041
Total assets	<u>\$ 46,179</u>	<u>\$ 85,577</u>
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 2,050	\$ 2,522
Accrued payroll and benefits	2,121	2,500
Current operating lease liabilities	1,228	1,483
Other current liabilities	1,011	1,137
Total current liabilities	<u>6,410</u>	<u>7,642</u>
Non-current liabilities:		
Warrant liabilities	149	597
Operating lease liabilities	1,706	1,780
Deferred tax liabilities, net	168	168
Total non-current liabilities	<u>2,023</u>	<u>2,545</u>
Commitments and contingencies		
Stockholders' equity:		
Common stock, par value \$0.001 per share; 100,000,000 shares authorized; 11,857,234 and 9,347,979 shares issued and outstanding 2024 and 2023, respectively	12	9
Additional paid-in capital	387,988	381,329
Accumulated comprehensive deficit	(350,254)	(305,948)
Total stockholders' equity	<u>37,746</u>	<u>75,390</u>
Total liabilities and stockholders' equity	<u>\$ 46,179</u>	<u>\$ 85,577</u>

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 September 30,		For the Nine Months Ended September 30,	
	2024	2023	2024	2023
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Revenues	\$ 4,648	\$ 11,001	\$ 15,585	\$ 32,269
Cost of revenues (including depreciation of \$3, \$12, \$14, and \$40 in the three and nine months ended September 30, 2024 and 2023, respectively)	1,321	2,528	4,915	8,400
Gross profit	3,327	8,473	10,670	23,869
Operating expenses:				
Selling and marketing	2,060	2,449	7,202	8,631
Research and development	3,637	3,704	11,328	13,276
General and administrative	2,715	2,934	8,213	9,448
Depreciation and amortization	1,422	1,567	4,872	4,872
Goodwill impairment	—	—	23,989	—
Total operating expenses	9,834	10,654	55,604	36,227
Operating loss	(6,507)	(2,181)	(44,934)	(12,358)
Other income (expense):				
Change in fair value of warrant and derivative liabilities	221	73	448	3,486
Loss on derecognition of debt	—	(1,583)	—	(2,985)
Interest (expense) income, net	(12)	(1,443)	89	(5,740)
Other (expense) income, net	(71)	15	130	(62)
Loss before provision for income taxes	(6,369)	(5,119)	(44,267)	(17,659)
Provision for income tax expense	—	14	39	25
Net loss	\$ (6,369)	\$ (5,133)	\$ (44,306)	\$ (17,684)
Loss per share:				
Basic and diluted	\$ (0.54)	\$ (0.61)	\$ (4.17)	\$ (2.27)
Weighted average shares outstanding:				
Basic and diluted	11,832	8,419	10,626	7,787

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, June 30, 2024 (unaudited)	10,625	\$ 11	\$ 386,775	\$ (343,885)	\$ 42,901
Non-cash compensation recognized on stock options and employee stock purchase plan ("ESPP")	—	—	7	—	7
Restricted stock grants, net of cancellations	417	—	1,243	—	1,243
Cancellation of shares for payment of withholding tax	(33)	—	(39)	—	(39)
ESPP shares issued	4	—	3	—	3
Issuance of Common Stock for Pre-Funded Warrants Exercise	844	1	(1)	—	—
Net loss	—	—	—	(6,369)	(6,369)
BALANCE, September 30, 2024 (unaudited)	11,857	\$ 12	\$ 387,988	\$ (350,254)	\$ 37,746

	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 ESPP	—	—	16	—	16
Restricted stock grants, net of cancellations	683	1	3,506	—	3,507
Cancellation of shares for payment of withholding tax	(88)	—	(217)	—	(217)
ESPP shares issued	5	—	5	—	5
Issuance of Common Stock, Warrants, and Pre-Funded Warrants in connection with Common Stock Offering, net of issuance costs	1,065	1	3,350	—	3,351
Issuance of Common Stock for Pre-Funded Warrants Exercise	844	1	(1)	—	—
Net loss	—	—	—	(44,306)	(44,306)
BALANCE, September 30, 2024 (unaudited)	11,857	\$ 12	\$ 387,988	\$ (350,254)	\$ 37,746

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

	Common Stock		Additional Paid-in Capital	Accumulated Comprehensive Deficit	Total
	Shares	Amount			
BALANCE, June 30, 2023 (unaudited)	8,150	\$ 8	\$ 368,584	\$ (294,103)	\$ 74,489
Non-cash compensation recognized on stock options and employee stock purchase plan ("ESPP")	—	—	6	—	6
Restricted stock grants, net of cancellations	72	—	1,334	—	1,334
Cancellation of shares for payment of withholding tax	(8)	—	(89)	—	(89)
ESPP shares issued	1	—	7	—	7
Common shares issued in settlement and prepayment of notes payable	583	1	6,276	—	6,277
Net loss	—	—	—	(5,133)	(5,133)
BALANCE, September 30, 2023 (unaudited)	8,798	\$ 9	\$ 376,118	\$ (299,236)	\$ 76,891

	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	—	—	24	—	24
Restricted stock grants, net of cancellations	230	—	3,292	—	3,292
Cancellation of shares for payment of withholding tax	(31)	—	(381)	—	(381)
ESPP shares issued	2	—	15	—	15
Common shares issued in settlement and prepayment of notes payable	1,572	2	15,244	—	15,246
Net loss	—	—	—	(17,684)	(17,684)
BALANCE, September 30, 2023 (unaudited)	8,798	\$ 9	\$ 376,118	\$ (299,236)	\$ 76,891

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

	For the Nine Months Ended September 30,	
	2024	2023
	(unaudited)	(unaudited)
Operating activities:		
Net loss	\$ (44,306)	\$ (17,684)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	4,886	4,912
Goodwill impairment charge	23,989	—
Non-cash lease expense	(227)	(160)
Change in fair value of warrant and derivative liabilities	(448)	(3,486)
Loss on derecognition of debt	—	2,985
Amortization of debt discount and issuance costs	—	5,398
Stock based compensation	3,520	3,316
Gain on license of patents, net	(198)	—
Loss on disposal of assets	—	12
Changes in operating accounts:		
Accounts receivable	4,506	208
Prepaid expenses and other assets	315	220
Accounts payable and accrued liabilities	(1,375)	(2,224)
Other liabilities	(30)	553
Net cash used in operating activities	<u>(9,368)</u>	<u>(5,950)</u>
Investing activities:		
Capital expenditures, net	(17)	(5)
Proceeds from license of patents, net	198	—
Other investing activities, net	—	71
Net cash provided by investing activities	<u>181</u>	<u>66</u>
Financing activities:		
Proceeds from Common Stock, Warrants, and Pre-Funded Warrants Offering, net	3,351	—
Proceeds from financing arrangements	1,044	981
Repayments of financing arrangements	(829)	(1,156)
Other financing activities	5	15
Net cash provided by (used in) financing activities	<u>3,571</u>	<u>(160)</u>
Net decrease in cash and cash equivalents	(5,616)	(6,044)
Cash and cash equivalents, beginning of period	<u>7,125</u>	<u>14,026</u>
Cash and cash equivalents, end of period	<u>\$ 1,509</u>	<u>\$ 7,982</u>
Non-cash investing and financing activities:		
Issuance of Common Stock in settlement and prepayment of notes payable	<u>\$ —</u>	<u>\$ 12,180</u>

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”) provides software solutions that simplify and enhance the mobile experience to some of the leading wireless service providers around the globe. From enabling the Digital Family 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 family safety software solutions to support families in the digital age and 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.

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. 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 September 30, 2024, and the related consolidated statements of operations and stockholders’ equity for the three and nine months ended September 30, 2024 and 2023, and the consolidated statements of cash flows for the nine months ended September 30, 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 and nine months ended September 30, 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, the 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.

In November 2024, the FASB issued ASU 2024-03, "Income Statement - Reporting Comprehensive Income - Expense Disaggregation Disclosures." This requires additional disaggregated disclosures of certain amounts included in the expense captions presented in the Statement of Operations as well as disclosures about selling expenses. This ASU is effective on a prospective basis, with the option for retrospective application, for fiscal years beginning after December 15, 2026 and interim reporting periods beginning after December 15, 2027 and early adoption is permitted. The Company is currently evaluating the impact the adoption of this guidance will have on the Company's financial statement disclosures.

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 and nine months ended September 30, 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 of business, 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, based on its history of being able to complete previous debt and equity financings, that it would be able to raise additional funds as necessary, through public or private equity offerings, including by filing one or more registration statements, through debt financings, or from a combination of these funding sources. However, it may not be able to secure such incremental capital in a timely manner or on favorable terms, if at all. 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, if available,
- 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

Minimum Bid Price Requirement and Reverse Stock Split

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.

May 2024 Registered Direct Offering & Private Placement

On May 10, 2024, the Company entered into a securities purchase agreement (the "Purchase Agreement") with certain institutional and accredited investors (the "Purchasers") relating to the registered direct offering and sale of an aggregate of 1,065,000 shares of the Company's Common Stock at an offering price of \$2.15 per share of Common Stock and pre-funded warrants ("Pre-Funded Warrants") to purchase up to 845,000 shares of Common Stock (the "Registered Direct Offering"). The Pre-Funded Warrants were purchased at a price of \$2.149 per underlying share and had an exercise price of \$0.001 per share and could be exercised at any time after their original issuance until such Pre-Funded Warrants were exercised in full. The shares of Common Stock and Pre-Funded Warrants (including the shares of Common Stock underlying the warrants) were offered by the Company pursuant to a prospectus supplement dated May 10, 2024, and accompanying prospectus dated May 12, 2022, in connection with a takedown from the Company's shelf registration statement on Form S-3 (File No. 333-264667), which was declared effective by the SEC on May 12, 2022.

In a private placement on May 14, 2024, concurrent with the Registered Direct Offering, the Company also sold to the Purchasers unregistered warrants (the "Common Warrants") to purchase up to an aggregate of 1,910,000 shares of Common Stock (the "Private Placement"). Each unregistered Common Warrant has an exercise price of \$2.34 per share, is exercisable at any time beginning November 14, 2024 and will expire November 14, 2029. Both the Registered Direct Offering and the Private Placement closed on May 14, 2024.

Roth Capital Partners, LLC ("Roth") acted as the exclusive placement agent for the Registered Direct Offering and the Private Placement pursuant to a placement agency agreement (the "Placement Agency Agreement") dated May 10, 2024, by and between the Company and Roth, and a related engagement letter with Roth. Pursuant to the Placement Agency Agreement, on May 14, 2024 the Company issued to Roth warrants to purchase up to 133,700 shares of Common Stock (the "Placement Agent Warrants"), which represented 7.0% of the aggregate number of shares of Common Stock and Pre-Funded Warrants sold in the Registered Direct Offering. The Placement Agent Warrants are exercisable at any time beginning November 14, 2024, have an exercise price equal to \$2.86, and expire November 16, 2026.

The shares of Common Stock underlying the Common Warrants and the Placement Agent Warrants (collectively referred to herein as the “Warrants”) were registered on a registration statement on Form S-1 (File No. 333-280542) filed with the SEC on June 27, 2024, which was declared effective by the SEC on July 10, 2024. Shares of Common Stock issued by the Company upon exercise of the Warrants may be resold by the holders pursuant to the prospectus dated July 11, 2024. The filings made by the Company in connection with the potential resale of the Common Stock underlying the Warrants were filed within the time period agreed by the parties in the Purchase Agreement.

The net cash proceeds to the Company, after deducting offering related expenses was \$3.4 million. The Pre-Funded Warrants, Common Warrants, and Placement Agent Warrants were all assessed and recorded as equity instruments.

During the three and nine months ended September 30, 2024, all 845,000 Pre-Funded Warrants from the May Registered Direct Offering and Private Placement were exercised on a cashless basis resulting in the issuance of 844,061 shares of Common Stock. No other warrants were exercised during the three and nine months ended September 30, 2024.

5. Warrant Liabilities

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

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

All changes in the fair value of the Notes Warrants and Additional Warrants liabilities are recognized in the Company's consolidated statements of operations until they are either exercised or expire. Since their issuance, none of the Notes Warrants or Additional Warrants have been exercised. 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 valuation. Expected volatility is based on the historical volatility over the expected remaining 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 term of the applicable warrants. Below are the specific assumptions utilized (unaudited, except for December 31, 2023):

Notes Warrants	September 30, 2024	December 31, 2023
Common Stock market price	\$ 1.02	\$ 6.64
Risk-free interest rate	3.5 %	4.1 %
Expected dividend yield	—	—
Expected term (in years)	2.86	3.61
Expected volatility	99.0 %	66.8 %

Additional Warrants	September 30, 2024	December 31, 2023
Common Stock market price	\$ 1.02	\$ 6.64
Risk-free interest rate	3.5 %	4.1 %
Expected dividend yield	—	—
Expected term (in years)	3.37	4.12
Expected volatility	92.6 %	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 September 30, 2024 and December 31, 2023 (unaudited except for December 31, 2023, in thousands):

Level 3	September 30, 2024	December 31, 2023
Notes Warrants	\$ 135	\$ 334
Additional Warrants	14	263
Total	<u>\$ 149</u>	<u>\$ 597</u>

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
Change in fair value	(24)	(18)	(42)
Measurement at June 30, 2024	\$ 338	\$ 31	\$ 369
Change in fair value	(203)	(17)	(220)
Measurement at September 30, 2024	<u>\$ 135</u>	<u>\$ 14</u>	<u>\$ 149</u>

	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
Change in fair value	(270)	(108)	(52)	(430)
Derecognition of debt	(45)	—	—	(45)
Measurement at June 30, 2023	\$ 217	\$ 722	\$ 472	\$ 1,411
Change in fair value	(157)	20	64	(73)
Derecognition of debt	(14)	\$ —	\$ —	(14)
Measurement at September 30, 2023	\$ 46	\$ 742	\$ 536	\$ 1,324

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, the Company conducted an interim quantitative impairment test of its goodwill as of February 29, 2024 and recorded a goodwill impairment charge totaling \$24.0 million during the three months ended March 31, 2024. 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 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 (unaudited except for December 31, 2023, in thousands, except for useful life data):

	September 30, 2024			
	Weighted Average Remaining Useful Life (in Years)	Gross Carrying Amount	Accumulated Amortization	Net Book Value
Purchased technology	4	\$ 13,330	\$ (8,382)	\$ 4,948
Customer relationships	10	27,548	(10,637)	16,911
Customer contracts	0	7,000	(6,628)	372
Software license	5	5,419	(2,933)	2,486
Patents	2	600	(386)	214
Total		\$ 53,897	\$ (28,966)	\$ 24,931

December 31, 2023				
	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		<u>\$ 53,897</u>	<u>\$ (24,365)</u>	<u>\$ 29,532</u>

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 eight years as of September 30, 2024 and nine years as of December 31, 2023. During the three months ended September 30, 2024 and 2023, intangible asset amortization expense was \$1.3 million and \$1.5 million, respectively. During the nine months ended September 30, 2024 and 2023, intangible asset amortization expense was \$4.6 million and \$4.4 million, respectively.

As of September 30, 2024, estimated amortization expense for the remainder of 2024 and thereafter was as follows (unaudited, in thousands):

Year Ending December 31,	Amortization Expense
2024	\$ 1,334
2025	5,105
2026	4,709
2027	3,834
2028	2,790
2029 and thereafter	7,159
Total	<u>\$ 24,931</u>

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.

The 845,000 shares of the Company's Common Stock issuable upon exercise of the Pre-Funded Warrants, described in Note 4 to these consolidated financial statements, were included in the weighted average outstanding Common Stock in the calculation of basic and diluted net loss per share from May 2024 through their exercise in August 2024, as the exercise price was non-substantive at \$0.001 per share.

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 (other than the Pre-Funded 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 September 30,		For the Nine Months Ended September 30,	
	2024	2023	2024	2023
Numerator:				
Net loss	\$ (6,369)	\$ (5,133)	\$ (44,306)	\$ (17,684)
Denominator:				
Weighted average shares outstanding – basic	11,832	8,419	10,626	7,787
Potential common shares – options / warrants (treasury stock method) and convertible notes (as if converted method)	—	—	—	—
Weighted average shares outstanding – diluted	11,832	8,419	10,626	7,787
Shares excluded (anti-dilutive)	2,474	895	1,468	1,090
Net loss per common share:				
Basic	\$ (0.54)	\$ (0.61)	\$ (4.17)	\$ (2.27)
Diluted	\$ (0.54)	\$ (0.61)	\$ (4.17)	\$ (2.27)

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 September 30,		For the Nine Months Ended September 30,	
	2024	2023	2024	2023
Convertible notes, as if converted	—	272	—	425
Outstanding stock options	9	10	9	10
Outstanding warrants	2,465	613	1,459	655
Total anti-dilutive shares	2,474	895	1,468	1,090

9. Stock-Based Compensation

Stock Plans

On June 18, 2024, the Company's stockholders approved the Company's Amended and Restated Omnibus Equity Incentive Plan (the "OEIP") which amended and restated (and renamed) the Company's 2015 Omnibus Equity Incentive Plan (as previously amended, the "2015 Plan") and increased the number of shares reserved thereunder by 3 million shares. As of September 30, 2024, there were approximately 2.9 million shares available for future grants under the Company's OEIP. References to the OEIP herein include the 2015 Plan prior to its amendment and restatement. The maximum number of shares available for issuance over the term of the OEIP may not exceed 4.2 million shares.

During the nine months ended September 30, 2024, the Company granted 0.7 million shares of restricted stock under the OEIP. There were 0.4 million shares of restricted stock granted during the three months ended September 30, 2024.

The Company previously maintained a 2005 Stock Option / Stock Issuance Plan (the "2005 Plan"), which was replaced by the 2015 Plan. Certain options issued under the 2005 Plan remain outstanding, but no new grants have been made under the 2005 Plan since the adoption of the 2015 Plan.

The 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 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, 2024, March 31, 2024 and September 30, 2023, the Company granted restricted stock awards with tranching vesting periods of two to seven 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 85% of 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 in any calendar year employees may not purchase more than the lesser of \$25,000 of stock or 250 shares, as set by the Compensation Committee of the Board of Directors in accordance with the terms of the ESPP. 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*.

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):

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2024	2023	2024	2023
Sales and marketing	\$ 315	\$ 300	\$ 968	\$ 653
Research and development	318	290	827	754
General and administrative	616	751	1,725	1,909
Total non-cash stock compensation expense	<u>\$ 1,249</u>	<u>\$ 1,341</u>	<u>\$ 3,520</u>	<u>\$ 3,316</u>

As of September 30, 2024, there was approximately \$3.7 million in unrecognized compensation costs related to unvested stock options and restricted stock awards granted under the OEIP and the 2005 Plan.

Stock Options

For the nine months ended September 30, 2024, the Company had approximately nine thousand stock options outstanding under the OEIP and 2005 Plan with a weighted average exercise price of \$26.88 per share, a remaining weighted average contractual life of 3.2 years and nominal intrinsic value. No options were granted in the nine months ended September 30, 2024 or 2023.

Restricted Stock Awards

A summary of the Company’s restricted stock awards outstanding under the OEIP for the nine months ended September 30, 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	256	\$ 21.31
Granted	695	3.77
Vested	(290)	11.90
Canceled and forfeited	(11)	11.02
Unvested at September 30, 2024	<u>650</u>	<u>\$ 6.75</u>

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 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 September 30,		For the Nine Months Ended September 30,	
	2024	2023	2024	2023
License and service fees	\$ 788	\$ 741	\$ 2,326	\$ 2,619
Hosted environment usage fees	644	749	1,840	2,309
Cloud based usage fees	3,196	9,254	10,865	26,438
Consulting services and other	20	257	554	903
Total revenues	<u>\$ 4,648</u>	<u>\$ 11,001</u>	<u>\$ 15,585</u>	<u>\$ 32,269</u>

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 September 30,		For the Nine Months Ended September 30,	
	2024	2023	2024	2023
Family Safety	\$ 3,939	\$ 9,179	\$ 12,623	\$ 27,016
CommSuite	644	749	1,840	2,310
ViewSpot	65	1,073	1,122	2,943
Total Wireless revenues	<u>\$ 4,648</u>	<u>\$ 11,001</u>	<u>\$ 15,585</u>	<u>\$ 32,269</u>

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 and nine months ended September 30, 2024 and 2023.

For the three months ended September 30, 2024, three customers made up 63%, 21% and 14% of revenues. For the three months ended September 30, 2023, three customers made up 45%, 32% and 10% of revenues.

For the six months ended September 30, 2024, three customers made up 58%, 20%, and 12% of revenues. For the six months ended September 30, 2023, three customers made up 41%, 35%, and 10% of revenues.

As of September 30, 2024, two customers accounted for 53% and 25% of accounts receivable. As of September 30, 2023, three customers accounted for 33%, 32%, and 18% of accounts receivable.

Geographical Information

During the three and nine months ended September 30, 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 September 30,		For the Nine Months Ended September 30,	
	2024	2023	2024	2023
Americas	\$ 4,628	\$ 10,787	\$ 15,047	\$ 31,380
EMEA	20	214	538	889
Total revenues	<u>\$ 4,648</u>	<u>\$ 11,001</u>	<u>\$ 15,585</u>	<u>\$ 32,269</u>

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. The Company 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 for each of the three months ended September 30, 2024 and 2023. For the six months ended September 30, 2024, and 2023, operating lease costs were \$1.2 million for each period.

During the nine months ended September 30, 2024, the Company recognized noncash increases for the right-of-use asset obtained in exchange for new operating lease liabilities due to a lease renewal and the entry into a new lease for an aggregate amount of \$1.0 million. There were no such transactions during the nine months ended September 30, 2023. The maturity of operating lease liabilities is presented in the following table (unaudited, in thousands):

	<u>As of September 30, 2024</u>	
2024	\$	363
2025		1,458
2026		958
2027		376
2028		62
Total lease payments	\$	3,217
Less imputed interest		283
Present value of lease liabilities	\$	<u>2,934</u>

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

	<u>As of September 30, 2024</u>	
Weighted average remaining lease term (years)		2.18
Weighted average discount rate		7.4 %

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 September 30, 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 September 30, 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 September 30, 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.

On October 3, 2024, the Company announced its completion of two securities offerings raising aggregate gross proceeds of \$6.9 million: a registered offering of Common Stock and concurrent private placement of warrants exercisable for Common Stock with certain institutional and accredited investors, and an unregistered private placement transaction of Common Stock and warrants exercisable for Common Stock with William W. Smith Jr., the Company's Chief Executive Officer, a related party, who participated in the private placement through a trust for which he serves as co-trustee. The registered offering of 3,321,881 registered shares of the Company's Common Stock together with the concurrent private placement of unregistered warrants to purchase an equal number of shares of the Company's Common Stock resulted in gross proceeds to the Company of approximately \$3.9 million, including \$0.2 million from another related party, prior to transaction expenses. The private placement transaction with the Company's Chief Executive Officer of 2,575,107 unregistered shares of the Company's Common Stock together with unregistered warrants to purchase an equal number of shares of the Company's Common Stock resulted in gross proceeds to the Company of approximately \$3.0 million prior to transaction expenses. Both offerings were approved by an independent special committee of the Company's Board of Directors and were priced based on the market value of the offered securities, at a purchase price of \$1.165 per share of Common Stock with a warrant exercise price of \$1.04 per share of Common Stock. Each of the warrants issued in the October 2024 offerings are exercisable at any time beginning six months following their original issuance and will expire five years from such date.

Pursuant to the terms of an agreement previously entered into with Roth, which expired on September 29, 2024, Roth received certain "tail" compensation in the form of a cash fee of \$54,000. In addition, concurrent with the offerings, the Company issued to Roth a warrant to purchase up to 20,000 shares of the Company's Common Stock (the "Roth Warrant"), which has substantially the same terms as the warrants issued in the registered offering, except that the Roth Warrant has an exercise price of \$1.46 per share of Common Stock and will expire two-and-a-half years from the effective date of the October registered offering.

On October 21, 2024, the Company filed a definitive proxy statement for a Special Meeting of Stockholders that was set for November 12, 2024 to approve the issuance of the number of shares of the Company's Common Stock that would cause William W. Smith, Jr. to beneficially own twenty percent or more of the Company, through the exercise of the warrants purchased in the unregistered private placement transaction. The Special Meeting of Stockholders was subsequently adjourned until December 10, 2024. On October 28, 2024, the Company filed a registration statement with the SEC (File No. 333-282858) registering the resale of the shares of stock in the aforementioned private placement transaction and the shares of common stock issuable upon exercise of the warrants issued concurrently with the registered offering and the warrants issued in the separate private placement transaction with our Chief Executive Officer. This registration statement was declared effective by the SEC on November 8, 2024.

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 enabling the Digital Family 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 Internet of Things ("IoT") devices. Our portfolio includes family safety software solutions to support families in the digital age and 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 growing and evolving 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 third quarter of 2024, our revenues declined by 58% to \$4.6 million compared to the third quarter of 2023, primarily driven by a \$5.2 million decrease in our Family Safety product line, coupled with a \$1.0 million decrease in ViewSpot revenues. These revenue declines primarily resulted from the losses of a Family Safety contract with a Tier 1 carrier during 2023 and two ViewSpot contracts coupled with decreases associated with legacy Sprint Safe & Found revenue as subscribers migrate to the T-Mobile network. As a result of the decline in revenues, our gross profit decreased during the third quarter of 2024 to \$3.3 million, representing a decrease of \$5.1 million as compared to the third quarter of the prior year. Our operating expenses decreased during the third quarter of 2024 compared to the third quarter of 2023 by approximately \$0.8 million, primarily due to quarter-over-quarter reductions in sales and marketing expenses coupled with a decline in general and administrative costs. The net loss for the third quarter of 2024 was \$6.4 million, resulting in a net loss of \$0.54 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. We believe that 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. The new Family Safety solution with the U.S. based carrier launched on our SafePath Global platform during the second quarter of 2024, and associated marketing activities for that product have begun. Additionally, the Family Safety solution for the Tier 1 European carrier is expected to launch in the near term, and we are anticipating this carrier to conduct robust marketing activities related to that solution.

Refer to the section titled "Liquidity and Capital Resources" for discussion of material changes in cash, Note 4 of our Notes to the Consolidated Financial Statements for discussion regarding the changes related to Common Stock, Note 5 for discussion regarding changes related to the warrant liabilities, 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 and nine months ended September 30, 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 September 30,		For the Nine Months Ended September 30,	
	2024	2023	2024	2023
Revenues	100.0 %	100.0 %	100.0 %	100.0 %
Cost of revenues	28.4	23.0	31.5	26.0
Gross profit	71.6 %	77.0 %	68.5 %	74.0 %
Operating expenses:				
Selling and marketing	44.3	22.3	46.2	26.7
Research and development	78.2	33.7	72.7	41.1
General and administrative	58.4	26.7	52.7	29.3
Depreciation and amortization	30.6	14.2	31.3	15.1
Goodwill impairment	—	—	153.9	—
Total operating expenses	211.6 %	96.8 %	356.8 %	112.3 %
Operating loss	(140.0)	(19.8)	(288.3)	(38.3)
Change in fair value of warrant and derivative liabilities	4.8	0.7	2.9	10.8
Loss on derecognition of debt	—	(14.4)	—	(9.3)
Interest (expense) income, net	(0.3)	(13.1)	0.6	(17.8)
Other (expense) income, net	(1.5)	0.1	0.8	(0.2)
Loss before provision for income taxes	(137.0)%	(46.5)%	(284.0)%	(54.7)%
Provision for income tax expense	—	0.1	0.3	0.1
Net loss	(137.0)%	(46.7)%	(284.3)%	(54.8)%

Three Months Ended September 30, 2024 Compared to the Three Months Ended September 30, 2023

Revenues. Revenues were \$4.6 million and \$11.0 million for the three months ended September 30, 2024 and 2023, respectively, representing a decrease of \$6.4 million, or 58%. This decrease was primarily related to declines associated with our Family Safety product line of \$5.2 million, which was primarily resulting from the loss of revenue from a Family Safety contract with a Tier 1 carrier that concluded during the fourth quarter of 2023 and the legacy Sprint Safe & Found revenue declining as legacy Sprint subscribers migrated to the T-Mobile network coupled with a decline in ViewSpot revenue of \$1.0 million that was primarily due to two of our contracts that concluded since September 2023.

Cost of revenues. Cost of revenues were \$1.3 million and \$2.5 million for the three months ended September 30, 2024 and 2023, respectively. This decrease of \$1.2 million was primarily due to the period-over-period decline in revenue coupled with cost reduction efforts.

Gross profit. Gross profit was \$3.3 million, or 71.6% of revenues, for the three months ended September 30, 2024, compared to \$8.5 million, or 77.0% of revenues, for the three months ended September 30, 2023. The decrease of approximately \$5.1 million in gross profit was primarily driven by the period-over-period decline in revenue volume.

Selling and marketing. Selling and marketing expenses were \$2.1 million and \$2.4 million for the three months ended September 30, 2024 and 2023, respectively. This decrease of approximately \$0.4 million was primarily due to decreases in personnel related costs due to cost reduction activities undertaken by the Company.

Research and development. Research and development expenses were \$3.6 million and \$3.7 million for the three months ended September 30, 2024 and 2023, respectively. Decreases in personnel related costs of \$0.3 million were partially offset by increases in severance related costs of \$0.2 million.

General and administrative. General and administrative expenses were \$2.7 million and \$2.9 million for the three months ended September 30, 2024 and 2023, respectively. This decrease of approximately \$0.2 million was primarily related to declines in personnel related costs of approximately \$0.1 million and decreases in stock-based compensation of approximately \$0.1 million.

Depreciation and amortization. Depreciation expense was \$0.1 million for both the three months ended September 30, 2024 and 2023. Amortization expense was \$1.3 million and \$1.5 million for the three months ended September 30, 2024 and 2023, respectively. 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 decreased by approximately \$0.2 million period-over-period.

Change in fair value of warrant and derivative liabilities. Change in fair value of warrant and derivative liabilities was \$0.2 million and \$0.1 million for the three months ended September 30, 2024 and 2023, respectively. The total increase in income of approximately \$0.1 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 \$1.6 million for the three months ended September 30, 2023, resulting from installment payments made on the convertible notes issued under the Note and Stock offering in August 2022 (the "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. There was nothing commensurate in the three months ended September 30, 2024 as the convertible notes were retired at maturity as of December 31, 2023.

Interest (expense) income, net. Interest expense, net was nominal for the three months ended September 30, 2024 and \$1.4 million for the three months ended September 30, 2023. The period-over-period change of \$1.4 million was primarily related to the amortization of the discount and debt issuance costs and stated interest expense related to the Notes, which were fully retired effective December 31, 2023.

Other (expense) income, net. Other expense, net was \$0.1 million for the three months ended September 30, 2024 and nominal for the three months ended September 30, 2023.

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 September 30, 2024 and 2023. There were no material changes in the period-to-period comparison.

Nine Months Ended September 30, 2024 Compared to the Nine Months Ended September 30, 2023

Revenues. Revenues were \$15.6 million and \$32.3 million for the nine months ended September 30, 2024 and 2023, respectively, representing a decrease of \$16.7 million, or 52%. This decrease was primarily related to declines associated with our Family Safety product line of \$14.4 million, which was primarily resulting from the loss of revenue from a Family Safety contract with a Tier 1 carrier that concluded during the fourth quarter of 2023 coupled with legacy Sprint Safe & Found revenue declining as legacy Sprint subscribers migrated to the T-Mobile network. Also contributing to the period-over-period revenue decrease was a decline in ViewSpot revenue of \$1.8 million primarily due to two of our contracts concluding subsequent to the end of September 2023.

Cost of revenues. Cost of revenues were \$4.9 million and \$8.4 million for the nine months ended September 30, 2024 and 2023, respectively. This decrease of \$3.5 million was primarily due to the period-over-period decline in revenue coupled with cost reduction efforts.

Gross profit. Gross profit was \$10.7 million, or 68.5% of revenues, for the nine months ended September 30, 2024, compared to \$23.9 million, or 74.0% of revenues, for the nine months ended September 30, 2023. The decrease of \$13.2 million in gross profit was primarily driven by the period-over-period decline in revenue volume.

Selling and marketing. Selling and marketing expenses were \$7.2 million and \$8.6 million for the nine months ended September 30, 2024 and 2023, respectively. This decrease of \$1.4 million was primarily due to decreases in personnel-related costs of \$1.0 million coupled with a period-over-period decline in marketing costs of \$0.6 million and a decrease in travel costs of \$0.1 million, partially offset by an increase in stock-based compensation of approximately \$0.3 million.

Research and development. Research and development expenses were \$11.3 million and \$13.3 million for the nine months ended September 30, 2024 and 2023, respectively. This decrease of approximately \$1.9 million was primarily due to a decline in personnel-related costs of approximately \$1.6 million and reductions in contractor costs of \$0.2 million coupled with a decline in severance related costs of approximately \$0.2 million, partially offset by an increase in stock-based compensation of approximately \$0.1 million.

General and administrative. General and administrative expenses were \$8.2 million and \$9.4 million for the nine months ended September 30, 2024 and 2023, respectively. This decrease of \$1.2 million was primarily related to declines in personnel-related costs of approximately \$0.7 million, a decrease in professional fees of approximately \$0.2 million and a reduction in occupancy costs of approximately \$0.2 million.

Depreciation and amortization. Depreciation expense was \$0.3 million and \$0.5 million for the nine months ended September 30, 2024 and 2023, respectively. Amortization expense was \$4.6 million and \$4.4 million for the nine months ended September 30, 2024 and 2023, respectively. The decrease in depreciation expense of approximately \$0.2 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 \$0.2 million period-over-period.

Goodwill impairment. The impairment charge for the nine months ended September 30, 2024 occurred during the first quarter of 2024 and was based on a quantitative valuation which led to the conclusion that that the carrying value of our single reporting unit exceeded its fair value by \$24.0 million.

Change in fair value of warrant and derivative liabilities. Change in fair value of warrant and derivative liabilities was \$0.4 million of income for the nine months ended September 30, 2024 and \$3.5 million for the nine months ended September 30, 2023, a decrease of approximately \$3.0 million. The fair value adjustments resulted from valuation related impacts to the warrant and derivative liabilities combined with the settlements of the Notes in the nine months ended September 30, 2023. The Notes were retired at maturity in December 2023, and thus there were no changes in the fair value of the derivative liability in 2024.

Loss on derecognition of debt. The loss recognized on derecognition of debt was \$3.0 million for the nine months ended September 30, 2023. The \$3.0 million loss recognized for the nine months ended September 30, 2023 resulted from installment payments made on the 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. There was nothing commensurate in the nine months ended September 30, 2024 as the convertible notes were retired at maturity as of December 31, 2023.

Interest (expense) income, net. Interest income, net was \$0.1 million for the nine months ended September 30, 2024 and interest expense, net was \$5.7 million for the nine months ended September 30, 2023. The period-over-period change in interest income (expense), net of \$5.8 million was primarily related to the amortization of the discount and debt issuance costs and stated interest expense related to the Notes, which were fully retired effective December 31, 2023.

Other (expense) income, net. Other income, net was \$0.1 million for the nine months ended September 30, 2024 and Other expense, net was \$0.1 million for the nine months ended September 30, 2023. The period-over-period change was primarily related to income derived from 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 nine months ended September 30, 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.

As of September 30, 2024, the Company's cash and cash equivalents were approximately \$1.5 million. Subsequent to September 30, 2024, as more fully described in Note 15 of our Notes to the Consolidated Financial Statements included in this Report, in order to fund working capital and for other general corporate purposes, we received net cash proceeds of approximately \$6.5 million through the issuance of our Common Stock pursuant to a registered direct offering and a concurrent private placement, in each case, with accompanying unregistered warrants.

Our liquidity is being adversely impacted by the 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 have adjusted our cost structure and we anticipate marketing efforts to expand for one of our existing Tier 1 carrier customers in order to drive subscriber growth on our Family Safety product, and we expect to generate additional revenues from our launch with a carrier customer in the U.S. and our upcoming launch with a Tier 1 carrier in Europe, 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 adverse impact on liquidity does not trigger a violation of any covenants in our material agreements, particularly as all 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. To meet future cash needs, the Company may determine to take additional actions, as noted in the Risk Factor appearing in our 2023 Form 10-K under the heading, "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.

Cash Flows

Changes in cash and cash equivalents are as follows:

<i>(in thousands)</i>	For the Nine Months Ended September 30,	
	2024	2023
Net cash used in operating activities	\$ (9,368)	\$ (5,950)
Net cash provided by investing activities	181	66
Net cash provided by (used in) financing activities	3,571	(160)
Net decrease in cash and cash equivalents	<u>\$ (5,616)</u>	<u>\$ (6,044)</u>

Operating activities

Net cash used in operating activities was \$9.4 million for the nine months ended September 30, 2024. The primary uses of operating cash were a net loss of \$44.3 million less non-cash expenses totaling \$31.7 million, including a goodwill impairment charge of \$24.0 million, depreciation and amortization of \$4.9 million and stock compensation expense of \$3.5 million, coupled with a decrease in accounts payable and accrued liabilities of \$1.4 million primarily due to the timing and change in payments for accounts payable and payroll, partially offset by a decrease in accounts receivable of \$4.5 million due to the timing of cash collections from customers.

Net cash used in operating activities was \$6.0 million for the nine months ended September 30, 2023. The primary uses of operating cash were the net loss of \$17.7 million less non-cash expenses totaling \$13.0 million, and a decrease in accounts payable and accrued liabilities of \$2.2 million partially offset by an increase in other liabilities of \$0.6 million, a decrease in accounts receivable of \$0.2 million and a decrease in prepaid expenses and other assets of \$0.2 million.

Investing activities

Net cash provided by investing activities of \$0.2 million for the nine months ended September 30, 2024 was primarily attributable to the net proceeds from licensing several of our patents in February 2024. Net cash provided by investing activities for nine months ended September 30, 2023 was \$0.1 million.

Financing activities

Net cash provided by financing activities of \$3.6 million for the nine months ended September 30, 2024 was primarily attributable to the net cash proceeds of \$3.4 million from the Registered Direct Offering and Private Placement conducted in May 2024 and borrowings of \$1.0 million less repayments of \$0.8 million from short-term insurance premium financing arrangements.

Net cash used by financing activities was \$0.2 million for the nine months ended September 30, 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 we believe 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 September 30, 2024. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer have determined that as of September 30, 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 September 30, 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 September 30, 2024:

ISSUER PURCHASES OF EQUITY SECURITIES					
Period	Total Number of Shares (or Units) Purchased ⁽¹⁾ (a)	Average Price Paid per Share (or Unit) (b)	Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs (c)	Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs (d)	
July 1 - 31, 2024	8,881	\$ 2.28	—	—	
August 1 - 31, 2024	19,961	\$ 0.80	—	—	
September 1 - 30, 2024	4,527	\$ 0.58	—	—	
Total	33,369	\$ 1.16			

- (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 the shares were cancelled when they were acquired by the Company.

Item 6. Exhibits

<u>Exhibit</u>	<u>Description</u>
4.1	Form of Common Stock Purchase Warrant, incorporated by reference to Exhibit 4.1 to the Registrant's Current Report on Form 8-K filed on October 3, 2024
4.2	Form of Private Placement Common Warrant, incorporated by reference to Exhibit 4.2 to the Registrant's Current Report on Form 8-K filed on October 3, 2024
4.3	Form of Roth Warrant, incorporated by reference to Exhibit 4.3 to the Registrant's Current Report on Form 8-K filed on October 3, 2024
10.1*	Form of RDO Purchase Agreement by and among the Registrant and the Purchasers signatory thereto, dated October 1, 2024, incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on October 3, 2024
10.2*	Form of Private Placement Purchase Agreement by and among the Registrant and the Purchasers signatory thereto, dated October 1, 2024 incorporated by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed on October 3, 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 with Embedded Linkbase Documents
104	Cover Page Interactive Data File (formatted as inline XBRL and contained in Exhibit 101)

* Certain exhibits and schedules have been omitted pursuant to Item 601(a)(5) of Regulation S-K. The Company hereby undertakes to furnish a copy any of the omitted exhibits or schedules upon request by the SEC.

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.

November 13, 2024

By /s/ William W. Smith, Jr.

William W. Smith, Jr.

Chairman of the Board, President and Chief Executive Officer

(Principal Executive Officer)

November 13, 2024

By /s/ James M. Kempton

James M. Kempton

Vice President, Chief Financial Officer and Treasurer

(Principal Financial and Accounting Officer)

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: November 13, 2024

/s/ William W. Smith, Jr.

William W. Smith, Jr.

Chairman of the Board, President and Chief Executive Officer

(Principal Executive Officer)

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: November 13, 2024

/s/ James M. Kempton

James M. Kempton

Vice President, Chief Financial Officer and Treasurer

(Principal Financial and Accounting Officer)

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 September 30, 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.

November 13, 2024

By /s/ William W. Smith, Jr.

William W. Smith, Jr.

Chairman of the Board, President and Chief Executive Officer
(Principal Executive Officer)

November 13, 2024

By /s/ James M. Kempton

James M. Kempton

Vice President, Chief Financial Officer and Treasurer
(Principal Financial and Accounting Officer)