

MobileSmith, Inc.
Form 10-Q
May 14, 2018

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2018

OR

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

Commission File Number: 001-32634

MOBILESMITH, INC.
(Exact name of registrant as specified in its charter)

Delaware 95-4439334
(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

5400 Trinity Road, Suite 208 27607
Raleigh, North Carolina
(Address of principal executive offices)(Zip Code)

(855) 516-2413
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days: Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Yes No

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Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

As of May 14, 2018, there were 28,236,633 shares of the registrant's common stock, par value \$0.001 per share, outstanding.

MOBILESMITH, INC.

FORM 10-Q

For the Quarterly Period Ended March 31, 2018

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PART I – FINANCIAL INFORMATION
MOBILESMITH, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS

| | March 31, | December 31, |
|-------------------------------------------------------------|-------------|--------------|
| | 2018 | 2017 |
| | (unaudited) | |
| ASSETS | | |
| Current Assets | | |
| Cash and Cash Equivalents | \$1,242,268 | \$58,484 |
| Restricted Cash | 64,242 | 120,372 |
| Trade Accounts Receivable | 103,654 | 260,403 |
| Prepaid Expenses and Other Current Assets | 241,647 | 71,992 |
| Total Current Assets | 1,651,811 | 511,251 |
| Property and Equipment, Net | 63,603 | 71,603 |
| Capitalized Software, Net | 143,283 | 169,593 |
| Intangible Assets, Net | 15,717 | 20,093 |
| Other Assets | 69,688 | - |
| Total Other Assets | 292,291 | 261,289 |
| Total Assets | \$1,944,102 | \$772,540 |
| LIABILITIES AND STOCKHOLDERS' DEFICIT | | |
| Current Liabilities | | |
| Trade Accounts Payable | \$60,650 | \$125,982 |
| Accrued Expenses | 159,459 | 201,528 |
| Accrued Interest | 856,174 | 865,822 |
| Capital Lease Obligations, Current | 33,919 | 34,927 |
| Contract Liability, Current | 876,024 | 860,927 |
| Bank Loan | 5,000,000 | 5,000,000 |
| Subordinated Promissory Note, Related Party | 325,000 | - |
| Convertible Notes Payable, Related Parties, Net of Discount | 38,959,690 | 37,101,243 |
| Convertible Notes Payable, Net of Discount | 680,640 | 680,640 |
| Total Current Liabilities | 46,951,556 | 44,871,069 |
| Long-Term Liabilities | | |

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| | | |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------|---------------|
| Capital Lease Obligations | 20,195 | 28,907 |
| Deferred Rent | 21,348 | 26,286 |
| Contract Liability | 698,631 | 527,576 |
| Total Long-Term Liabilities | 740,174 | 582,769 |
| Total Liabilities | 47,691,730 | 45,453,838 |
| Commitments and Contingencies (Note 3) | | |
| Stockholders' Deficit | | |
| Preferred Stock, \$0.001 Par Value, 5,000,000 Shares Authorized, No Shares Issued and Outstanding at March 31, 2018 and December 31, 2017 | - | - |
| Common Stock, \$0.001 Par Value, 100,000,000 Shares Authorized At March 31, 2018 and December 31, 2017; 24,722,647 Shares Issued and Outstanding at March 31, 2018 and December 31, 2017 | 24,723 | 24,723 |
| Additional Paid-in Capital | 106,483,710 | 105,795,621 |
| Accumulated Deficit | (152,256,061) | (150,501,642) |
| Total Stockholders' Deficit | (45,747,628) | (44,681,298) |
| Total Liabilities and Stockholders' Deficit | \$1,944,102 | \$772,540 |

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

MOBILESMITH, INC.
 CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
 (unaudited)

| | 3 Months Ended | |
|---------------------------------|----------------|---------------|
| | March 31, | March 31, |
| | 2018 | 2017 |
| REVENUES: | | |
| Subscription and Support | \$496,823 | \$407,402 |
| Total Revenue | 496,823 | 407,402 |
| COST OF REVENUES: | | |
| Subscription and Support | 161,535 | 143,607 |
| Professional Services and Other | - | 13,556 |
| Total Cost of Revenue | 161,535 | 157,163 |
| GROSS PROFIT (LOSS) | 335,288 | 250,239 |
| OPERATING EXPENSES: | | |
| Sales and Marketing | 297,238 | 279,762 |
| Research and Development | 341,401 | 449,109 |
| General and Administrative | 523,044 | 477,066 |
| Total Operating Expenses | 1,161,683 | 1,205,937 |
| LOSS FROM OPERATIONS | (826,395) | (955,698) |
| OTHER INCOME (EXPENSE): | | |
| Other Income | 1,597 | 590 |
| Interest Expense, Net | (994,898) | (1,036,998) |
| Total Other Expense | (993,301) | (1,036,408) |
| NET LOSS | \$(1,819,696) | \$(1,992,106) |
| NET LOSS PER COMMON SHARE: | | |
| Basic and Fully Diluted | \$(0.07) | \$(0.10) |

WEIGHTED-AVERAGE NUMBER OF SHARES USED IN
COMPUTING NET LOSS PER COMMON SHARE:

| | | |
|-------------------------|------------|------------|
| Basic And Fully Diluted | 24,722,647 | 19,827,542 |
|-------------------------|------------|------------|

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

MOBILESMITH, INC.
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
 (unaudited)

| | Three Months Ended | |
|-----------------------------------------------------------------------------|--------------------|------------------|
| | March 31 | March 31, |
| | 2018 | 2017 |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net Loss | \$(1,819,696) | \$(1,992,106) |
| Adjustments to Reconcile Net Loss to Net Cash Used in Operating Activities: | | |
| Depreciation and Amortization | 40,664 | 40,971 |
| Amortization of Debt Discount | 133,271 | 158,127 |
| Share Based Compensation | 163,263 | 184,443 |
| Changes in Assets and Liabilities: | | |
| Accounts Receivable | 156,749 | (270,690) |
| Prepaid Expenses and Other Assets | (174,066) | 5,276 |
| Accounts Payable | (59,017) | 6,996 |
| Contract Liability | 186,152 | 782,759 |
| Accrued and Other Expenses | (62,968) | (26,897) |
| Net Cash Used in Operating Activities | (1,435,648) | (1,111,121) |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Payments to Acquire Property, Plant and Equipment | (1,978) | (7,729) |
| Net Cash Used in Investing Activities | (1,978) | (7,729) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Restricted Cash Used to Pay Interest Expense | 62,632 | 53,102 |
| Deposit of Cash to Restricted Account | (6,502) | - |
| Proceeds From Issuance of Short Term Loan from Related Party | 325,000 | - |
| Proceeds From Issuance of Long Term Debt | 2,250,000 | 1,000,000 |
| Repayments of Debt Borrowings | (9,720) | (8,956) |
| Net Cash Provided by Financing Activities | 2,621,410 | 1,044,146 |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | 1,183,784 | (74,704) |
| CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD | 58,484 | 548,146 |
| CASH AND CASH EQUIVALENTS, END OF PERIOD | \$1,242,268 | \$473,442 |
| Supplemental Disclosures of Cash Flow Information: | | |
| Cash Paid During the Period for Interest | \$866,654 | \$876,735 |
| Non-Cash Investing and Financing Activities: | | |

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The Company Recorded Debt Discount Associated with Beneficial Conversion Feature \$524,825 \$-

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

MOBILESMITH, INC.
 CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' DEFICIT
 FOR THE PERIOD ENDED MARCH 31, 2018
 (unaudited)

| | Common Stock | | Additional | | |
|--------------------------------------------------------------------------------------------------|--------------|-----------|---------------|-----------------|----------------|
| | | \$0.001 | Paid-In | Accumulated | |
| | Shares | Par Value | Capital | Deficit | Totals |
| BALANCES, DECEMBER 31, 2017 | 24,722,647 | \$24,723 | \$105,795,621 | \$(150,501,642) | \$(44,681,298) |
| Equity Based Compensation | - | - | 163,264 | - | 163,264 |
| Beneficial Conversion Feature Recorded as a Result of Issuance of Convertible Debt | - | - | 524,825 | - | 524,825 |
| Cumulative adjustment related to adoption of Topic 606 Revenue with Customers (See Note 1) | - | - | - | 65,277 | 65,277 |
| Net Loss | - | - | - | (1,819,696) | (1,819,696) |
| BALANCES, MARCH 31, 2018 | 24,722,647 | \$24,723 | \$106,483,710 | \$(152,256,061) | \$(45,747,628) |

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

MOBILESMITH, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the Quarterly Period Ended March 31, 2018

(unaudited)

1. DESCRIPTION OF BUSINESS AND BASIS OF PRESENTATION

MobileSmith, Inc. (referred to herein as the “Company,” “us,” “we,” or “our”) was incorporated as Smart Online, Inc. in the State of Delaware in 1993. The Company changed its name to MobileSmith, Inc. effective July 1, 2013. The Company develops software products and services and targets businesses that need to connect with their stakeholders (customers, employees, broader public) through a variety of mobile devices and do so within the fastest time to market possible, while by-passing the need to write a single line of code. The Company’s flagship product is the MobileSmith® Platform (the “Platform”). The Platform is an innovative app development platform that enables organizations to rapidly create, deploy, and manage custom, native smartphone and tablet apps deliverable across iOS and Android mobile platforms without writing a single line of code.

The Company’s principal products and services include:

Subscription to its Software as a Service ("SaaS") cloud based mobile app development platform to customers who design and build their own apps;

Managed services for custom mobile application design, development and implementation;

Mobile application marketing services; and

Mobile strategy implementation consulting.

The Company prepared the accompanying unaudited condensed consolidated financial statements pursuant to the rules and regulations of the Securities and Exchange Commission (the “SEC”). Pursuant to these rules and regulations, the Company has condensed or omitted certain information and footnote disclosures it normally includes in its audited annual consolidated financial statements prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”). In management’s opinion, the Company has made all adjustments (consisting only of normal, recurring adjustments, except as otherwise indicated) necessary to fairly present its financial position, results of operations, cash flows, and stockholders’ deficit as of March 31, 2018. The Company’s interim period operating results do not necessarily indicate the results that may be expected for any other interim period or for the full fiscal year. These condensed consolidated financial statements and accompanying notes should be read in conjunction with the audited annual consolidated financial statements and notes thereto included in the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2017 on file with the SEC (the “Annual Report”).

Except as otherwise noted, there have been no material changes to the Company’s significant accounting policies as compared to the significant accounting policies described in the Annual Report. The accompanying condensed consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. During the three months ended March 31, 2018 and 2017, the Company incurred net losses as well as negative cash flows from operations. These factors raise substantial doubt about the Company’s ability to continue as a going concern. The accompanying condensed consolidated financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or the amounts or classification of liabilities that might be necessary should the Company be unable to continue as a going concern.

Recently Issued Accounting Pronouncements and Their Impact on Significant Accounting Policies

The Company's significant accounting policies are detailed in "Note 2: Significant Accounting Policies" of the Company's Annual Report on Form 10-K for the year ended December 31, 2017.

Adoption of Financial Accounting Standards Board, Accounting Standards Codification, Topic 606, Revenue Recognition ("Topic 606") did not have material impact on the Company's condensed consolidated financial statements. The adoption of Topic 606 did result in changes to the Company's accounting policies and introduced new definitions and disclosure requirements that are discussed below and throughout these condensed consolidated financial statements.

Revenue Recognition: General Overview and Performance Obligations to Customers

The Company derives revenue primarily from contracts for subscription services charged to customers accessing the Platform, accessing content and support services available through the Platform and, to a much lesser degree, ancillary professional services provided in connection with subscription services. Most of the time such professional and support services are bundled with access to the Platform to enable the customer to obtain full benefit and return on investment from the use of the Platform.

The Company's contracts include following performance obligations:

Access to the Platform;

Access to the content available on the Platform (App Blueprint Catalog)

App Built and Managed Services

Custom work

The majority of the Company's contracts are for access to Platform and related services. Custom work for specific deliverables is documented in the statements of work. Customers may enter into subscription to the Platform and various statements of work concurrently or consecutively. Most of the Company's performance obligations are not considered to be distinct from the access to Platform and related services and are combined into a single performance obligation. New statements of work and modifications of contracts are reviewed each reporting period and significant judgment is applied as to nature and characteristics of the new or modified performance obligations on a contract by contract basis.

Revenue Recognition: Transaction Price of the Contract and Satisfaction of Performance Obligations

The transaction price of the contract is an aggregate amount of consideration payable by customer for delivery of contracted services. Transaction price is impacted by the terms of a contracted agreement with the customer. Such terms range from one to three years. Transaction price excludes any future renewal periods or any marketing or sales discounts. Transaction price may include a significant financing component in instances where Company offers discounts for accelerated payments on the long-term contracts. Significant financing component is recorded in other assets and is amortized as interest expense in the Company's income statement over the term of the contract.

The transaction price is predominantly allocated to the single performance obligation of access to the Platform and related services and to a lesser degree allocated between the access to the Platform and other distinct performance obligations based on the stand-alone selling price. The revenue from subscription to the Platform is then recognized over time over the term of the contract, using the output method of time elapsed. Other performance obligations are usually recognized at point in time upon delivery of specific documented output. Management believes that such chosen methods faithfully depict satisfaction of Company performance obligations and transfer of benefit to the

customers.

The full transaction price of the contract may be billed in its entirety or in agreed upon installments. Billed transaction price results in recording of a contract liability. Unbilled portion of transaction price represents contracted consideration receivable by the Company, that was not yet billed.

Incremental Costs of Obtaining a Contract

The Company's incremental costs of obtaining a contract include sales commissions and are recognized as other assets on the balance sheet for the contracts with a term exceeding 12 months. These costs are amortized through the term of the contract and are recorded as sales and marketing expense. As of March 31, 2018 the company's other assets include approximately \$63,000 of such costs.

Contract Liabilities

A new contract liability is created every time the Company records receivables due from its customers. Contract liability represents Company's obligation to transfer services for which the Company has already invoiced. Most of the contract liabilities will be recognized in revenue over a period of 12 to 36 months.

Customer Credit Risk

Most of Company's receivables (billings) are collected within 30-45 day period. Majority of Company's customers are healthcare organizations, which historically have had low credit risk.

Use of practical expedients in application of the Topic 606

The newly adopted recognition standard prescribes application of accounting standards to an individual contracts with customers, but allows for application of the guidance to a portfolio of contracts (or performance obligations) with similar characteristics if the effect of such application is immaterial. The Company applies practical expedients in following instances:

The Company does not adjust promised amount of consideration for the effects of a significant financing component if, at contract inception, the period between when the Company transfers its services to a customer and when the customer pays services will be one year or less.

The Company recognizes incremental costs of obtaining a contract when incurred if the amortization period of the asset that the Company otherwise would have recognized is one year or less.

Transition Disclosures in the Period of Adoption of Topic 606

The Company applied the transition guidance in Topic 606 to the contracts that were not substantially completed as of January 1, 2018.

The Company selected a modified retrospective approach at the time of adoption, at which time cumulative effect of initially adopting the standard is to be recognized in retained earnings as of the date of adoption and additional footnote disclosures will be included in the financial statements. The impact of adoption on the selected accounts is as follows:

The cumulative effects of the changes made to Company's Condensed Consolidated Balance Sheet at January 1, 2018 for the adoption of Topic 606 were as follows:

| Balance at | | Balance at |
|-------------------|-------------|-----------------|
| December 31, 2017 | Adjustments | January 1, 2018 |

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Assets:

| | | | |
|-------------------------------------------|----------|----------|-----------|
| Prepaid Expenses and Other Current Assets | \$71,992 | \$65,277 | \$137,269 |
|-------------------------------------------|----------|----------|-----------|

Equity:

| | | | |
|---------------------|-----------------|----------|-----------------|
| Accumulated Deficit | \$(150,501,642) | \$65,277 | \$(150,436,365) |
|---------------------|-----------------|----------|-----------------|

The following tables summarize the current period impacts of adopting Topic 606 on our Condensed Consolidated Financial Statements:

Condensed Consolidated Balance Sheet:

| | As Reported as of 03/31/2018 | Balances without Adoption of Topic 606 | Effect of Adoption |
|-------------------------------------------|---------------------------------|-------------------------------------------|--------------------|
| Assets: | | | |
| Prepaid Expenses and Other Current Assets | \$241,647 | \$204,528 | \$37,119* |
| Other Assets | 69,688 | - | 69,688* |
| Liabilities: | | | |
| Contract Liability | 1,574,655 | 1,527,791 | 46,864** |
| Equity: | | | |
| Accumulated Deficit | \$(152,256,061) | \$(152,321,338) | \$65,277 |

*Total impact on the Company's assets was \$106,807, of which \$63,642 resulted from capitalization of sales commissions and \$43,165 was related to capitalization of interest expense for significant financing component. Combined impact is presented on a classified basis to reflect current and non-current nature of the balances.

**Represents combined impact of adjustments to capitalized sales commissions and interest expense for significant financing component on the contract liability.

Condensed Consolidated Statements of Operations:

| | As Reported for the Period Ended 03/31/2018 | Balances without Adoption of Topic 606 | Effect of Adoption |
|--------------------------|---------------------------------------------------|-------------------------------------------|--------------------|
| REVENUES: | | | |
| Subscription and Support | \$496,823 | \$493,649 | \$3,174 |
| OPERATING EXPENSES: | | | |

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| | | | |
|-----------------------|-------------|-------------|-----------|
| Sales and Marketing | \$297,238 | \$293,291 | \$3,947 |
| OTHER INCOME | | | |
| (EXPENSE): | | | |
| Interest Expense, Net | \$(994,898) | \$(990,337) | \$(4,561) |

2. DEBT

The table below summarizes the Company's debt outstanding at March 31, 2018 and December 31, 2017:

| Debt Description | March 31, | | December 31, | |
|-----------------------------------------------------------------------------------------------|-------------|-------------|---------------|-------|
| | 2018 | 2017 | Maturity | Rate |
| Comerica Bank Loan and Security Agreement | \$5,000,000 | \$5,000,000 | June 2018 | 5.35% |
| Capital lease obligations - Noteholder lease | 38,877 | 45,294 | August 2019 | 8.00% |
| Capital lease obligations - office furniture and other equipment | 2,434 | 4,870 | August 2018 | 9.80% |
| Capital lease obligations - vehicle | 12,803 | 13,670 | July 2021 | 5.59% |
| Convertible notes - related parties, net of discount of \$839,542 and \$447,988, respectively | 38,959,690 | 37,101,243 | November 2018 | 8.00% |
| Convertible notes, net of discount of \$50,129 | 680,640 | 680,640 | November 2018 | 8.00% |
| Subordinated Promissory Note, Related Party | 325,000 | - | | |
| Total debt | 45,019,444 | 42,845,717 | | |
| Less: current portion of long term debt | | | | |
| Capital lease obligations | 33,919 | 34,927 | | |
| Convertible notes - related parties, net of discount of \$839,542 and \$447,988, respectively | 38,959,690 | 37,101,243 | | |
| Convertible notes, net of discount of \$50,129 | 680,640 | 680,640 | | |
| Comerica Bank Loan and Security Agreement | 5,000,000 | 5,000,000 | | |
| Subordinated Promissory Note, Related Party | 325,000 | | | |
| Total current portion of long term debt | 44,999,249 | 42,816,810 | | |
| Debt - long term | \$20,195 | \$28,907 | | |

Convertible Notes

During the three months ended March 31, 2018, the Company privately placed \$2,250,000 in principal amount of additional unsecured Convertible Subordinated Notes (the "2014 NPA Notes") to Union Bancaire Privée ("UBP") under its existing unsecured Convertible Subordinated Note Purchase Agreement dated December 10, 2014 (the "2014 NPA"). The 2014 NPA Notes are convertible by the holder into shares of the Company's common stock, par value \$0.001 per share (the "Common Stock") at a per share conversion price of \$1.43.

The table below summarizes convertible notes issued as of March 31, 2018 by type:

| Convertible Notes Type: | Balance |
|------------------------------------------|--------------|
| 2007 NPA notes, net of discount | \$23,336,343 |
| 2014 NPA notes, net of discount | 16,303,987 |
| Total convertible notes, net of discount | \$39,640,330 |

Comerica LSA

The Company has an outstanding Loan and Security Agreement with Comerica Bank dated June 9, 2014 in the amount of \$5,000,000, with original maturity of June 9, 2016. On May 24, 2016, the Company and Comerica Bank entered into First Amendment to the LSA, which extended the maturity of the LSA to June 9, 2018. The Company is actively working with Comerica Bank to extend the maturity of the LSA by additional two years. LSA is secured by an extended irrevocable letter of credit issued by UBS AG (Geneve, Switzerland) ("UBS AG") with a renewed term expiring on May 31, 2019, which term is renewable for one year periods, unless notice of non-renewal is given by UBS AG at least 45 days prior to the then current expiration date.

3. COMMITMENTS AND CONTINGENCIES

Aggregate future lease commitments

The Company leases computers, office equipment, office furniture and company vehicle under capital lease agreements that expire through July 2021. Total amount financed under these capital leases at March 31, 2018 was \$54,114. This obligation is included within the Company's total debt.

The table below summarizes Company's future obligations under its capital leases:

Year:

| | |
|-----------------------------------|----------|
| 2018 | \$27,476 |
| 2019 | 23,631 |
| 2020 | 4,219 |
| Thereafter | 2,461 |
| | 57,787 |
| Less amount representing interest | (3,673) |
| Capital lease obligations | \$54,114 |

The Company leases its office space in Raleigh, North Carolina pursuant to a lease with an initial term that expires in March 2019. The lease contains an option to renew for two additional three-year lease terms.

The table below summarizes the Company's future obligation under its office lease:

Year:

| | |
|-------|-----------|
| 2018 | \$129,509 |
| 2019 | 44,082 |
| Total | \$173,591 |

Legal Proceedings

From time to time, the Company may be subject to routine litigation, claims or disputes in the ordinary course of business. The Company defends itself vigorously in all such matters. In the opinion of management, no pending or known threatened claims, actions or proceedings against the Company are expected to have a material adverse effect on its financial position, results of operations or cash flows. However, the company cannot predict with certainty the outcome or effect of any such litigation or investigatory matters or any other pending litigations or claims. There can be no assurance as to the ultimate outcome of any such lawsuits and investigations. The Company will record a liability when it believes that it is both probable that a loss has been incurred and the amount can be reasonably estimated. The Company periodically evaluates developments in its legal matters that could affect the amount of liability that it has previously accrued, if any, and makes adjustments as appropriate. Significant judgment is required to determine both the likelihood of there being, and the estimated amount of, a loss related to such matters, and the Company's judgment may be incorrect. The outcome of any proceeding is not determinable in advance. Until the final resolution of any such matters that the Company may be required to accrue for, there may be an exposure to loss in excess of the amount accrued, and such amounts could be material.

4. EQUITY AND EQUITY BASED COMPENSATION

As of March 31, 2018, options to purchase 2,822,966 shares of Common Stock were granted under 2016 Equity Compensation Plan, in addition to 102,250 options granted under previous plans.

The following is a summary of the stock option activity for the three months ended March 31, 2018:

| | Number of Shares | Weighted Average Exercise Price | Weighted Average Remaining Contractual Term | Aggregate Intrinsic Value |
|----------------------------------------|---------------------|---------------------------------------|------------------------------------------------------|---------------------------------|
| Outstanding, December 31, 2017 | 2,658,247 | \$1.54 | | |
| Cancelled | (100,011) | 1.56 | | |
| Issued | 366,980 | 2.00 | | |
| Outstanding, March 31, 2018 | 2,925,216 | 1.60 | 3.70 | \$2,075,195 |
| Vested and exercisable, March 31, 2018 | 1,083,827 | \$1.48 | 3.71 | \$1,097,186 |

Aggregate intrinsic value represents the difference between the closing price of the Company's common stock at March 31, 2018 and the exercise price of outstanding, in-the-money stock options. The closing price of the common stock at March 31, 2018, as reported on the OTCQB Venture Marketplace, was \$2.35 per share.

At March 31, 2018, \$1,745,726 unvested expense has yet to be recorded related to outstanding stock options.

5. DISAGGREGATED PRESENTATION OF REVENUE AND OTHER RELEVANT INFORMATION

The tables below depict how the nature, amount, timing, and uncertainty of revenue and cash flows are affected by economic factors, such as type of customer and type of contract.

Customer size impact on billings and revenue:

| | 3 Months Ended March 31, 2018 | | 3 Months Ended March 31, 2017 | |
|----------------------------------------------|----------------------------------|--------------|----------------------------------|--------------|
| | Billings | GAAP Revenue | Billings | GAAP Revenue |
| Top 5 customers (measured by amounts billed) | \$351,900 | \$54,039 | \$817,148 | \$108,654 |
| All other customers | 299,580 | 442,784 | 373,012 | 298,748 |
| | \$651,480 | \$496,823 | \$1,190,160 | \$407,402 |

For the three months ended March 31, 2018, three customers accounted for 78% of the accounts receivable balance. For the three months ended March 31, 2017, two major customers accounted for 50% of total revenues and two customers accounted for 70% of the accounts receivable balance

New customer acquisition impact on billings and revenue:

| | 3 Months Ended March 31, 2018 | | 3 Months Ended March 31, 2017 | |
|-------------------------------------------------------------------------------|----------------------------------|--------------|----------------------------------|--------------|
| | Billings | GAAP Revenue | Billings | GAAP Revenue |
| Customers in existence as of the beginning of the period (including upgrades) | \$461,480 | \$492,934 | \$904,992 | \$385,805 |
| Customers acquired during the period | 190,000 | 3,889 | 285,168 | 21,597 |
| | \$651,480 | \$496,823 | \$1,190,160 | \$407,402 |

As of March 31, 2018 the aggregate amount of the transaction price allocated to unsatisfied (or partially satisfied) performance obligations was \$2,709,713, of which \$1,574,656 had been billed to the customers and recorded as contract liability and \$1,135,057 remained unbilled as of March 31, 2018. The following table describes the timing of when the Company expects to recognize the revenue from the unsatisfied performance obligations.

| Billed (Contract Liability as of March 31, 2018) | Unbilled | Total |
|--------------------------------------------------|----------|-------|
|--------------------------------------------------|----------|-------|

| | | | |
|------|-------------|-------------|-------------|
| 2018 | \$876,024 | \$286,179 | \$1,162,203 |
| 2019 | 582,615 | 404,638 | 987,253 |
| 2020 | 116,017 | 423,747 | 539,764 |
| 2021 | - | 20,493 | 20,493 |
| | \$1,574,656 | \$1,135,057 | \$2,709,713 |

At January 1, 2018 total contract liability balance was \$1,338,465 (net of the Topic 606 adoption adjustment), of which \$301,592 was recognized in revenue during the period ended March 31, 2018.

6. SUBSEQUENT EVENTS

On April 27, 2018, MobileSmith Inc. (the “Company”) issued a total of 2,272,727 shares of its common stock par value \$0.001 per share (the “Common Stock”) to Union Bancaire Privee, UBP SA (“UBP”) upon UBP’s conversion of \$3,250,000 in principal amount of the Company’s promissory note (the “2007 Note”) issued under the Convertible Secured Subordinated Note Purchase Agreement entered into on November 14, 2007 between the Company and UBP, as amended (the “2007 Note Purchase Agreement”).

On April 20, 2018, MobileSmith Inc. (the “Company”) issued a total of 1,223,776 shares of its common stock par value \$0.001 per share (the “Common Stock”) upon conversion by Grasford Investments Ltd., (“Grasford”) of \$1,750,000 in principal amount of the Company’s promissory note (the “2007 Note”) issued under the Convertible Secured Subordinated Note Purchase Agreement entered into on November 14, 2007 between the Company and Grasford, as amended (the “2007 Note Purchase Agreement”).

On May 11, 2018, the Company borrowed \$200,000 through a related party short term loan.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Information set forth in this Quarterly Report on Form 10-Q contains various forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, Section 21E of the Securities Exchange Act of 1934 (the "Exchange Act") and other laws. Forward-looking statements consist of, among other things, trend analyses, statements regarding future events, future financial performance, our plan to build our business and the related expenses, our anticipated growth, trends in our business, our ability to continue as a going concern, and the sufficiency of our capital resources including funds that we may be able to raise under our convertible note facility, our ability to raise financing from other sources and/or ability to defer expenditures, the impact of the liens on our assets securing amounts owed to third parties, expectation regarding competitors as more and larger companies attempt to market products/services competitive to our company, market acceptance of our new product offerings, including updates to our Platform, rate of new user subscriptions, market penetration of our products and expectations regarding our revenues and expense, all of which are based on current expectations, estimates, and forecasts, and the beliefs and assumptions of our management. Words such as "expect," "anticipate," "project," "intend," "plan," "estimate," variations of such words, and similar expressions also are intended to identify such forward-looking statements. These forward-looking statements are subject to risks, uncertainties, and assumptions that are difficult to predict. Therefore, actual results may differ materially and adversely from those expressed in any forward-looking statements. Readers are directed to risks and uncertainties identified under Part I, Item 1A, "Risk Factors," in the Annual Report on Form 10-K for the year ended December 31, 2017 and our subsequent periodic reports filed with the SEC for factors that may cause actual results to be different than those expressed in these forward-looking statements. Except as required by law, we undertake no obligation to revise or update publicly any forward-looking statements for any reason.

The following discussion is designed to provide a better understanding of our unaudited condensed consolidated financial statements, including a brief discussion of our business and products, key factors that impacted our performance, and a summary of our operating results. The following discussion should be read in conjunction with the unaudited condensed consolidated financial statements and the notes thereto included in Part I, Item 1 of this Quarterly Report on Form 10-Q, and the audited annual consolidated financial statements and notes thereto and Management's Discussion and Analysis of Financial Condition and Results of Operations contained in the Annual Report. Historical results and percentage relationships among any amounts in the condensed consolidated financial statements are not necessarily indicative of trends in operating results for any future periods.

Overview

We develop and market healthcare industry solutions designed to improve delivery of healthcare by means of mobile technology. Our software-as-a-service ("SaaS") platform and related services provide a catalog of vetted mobile app tools that can be rapidly customized and implemented by healthcare organizations with goals of addressing many key pain points of the industry, including preventable readmissions, adherence to treatment plans, management of chronic conditions. Our flagship product is the MobileSmith® Platform (the "Platform").

The Platform is an innovative hosted set of tools that enables organizations to rapidly create, deploy, and manage custom, native smartphone and tablet apps specific to healthcare industry deliverable across iOS and Android mobile platforms without writing a single line of code. Platform related services often include data integration, training and integration of third party services. We also provide consulting services, which include assistance with design and implementation of mobile strategy, implementation of mobile marketing strategy and development of mobile apps. Revenue from such services is included in the Professional Services and Other Revenue line of our Statement of Operations. Delivery of Professional Services requires allocation of a portion of our research and development efforts into Cost of Revenue.

The Platform has applications outside of healthcare and has been successfully deployed in retail and real estate operations.

In our business model the customers acquire access to the Platform through user subscription agreements and are able to obtain control of mobile app production. We often refer to our business model as platform-as-a-service ("PaaS"), because we not only offer cloud software to create mobile apps, we offer infrastructure to host the newly created mobile apps, back-office tools to manage those apps, cloud tools to connect customers data or ability to incorporate existing third party software code into customer apps. Our Platform is a truly comprehensive offering and thus more accurately described by the PaaS model. In the industry and this report terms SaaS and PaaS may be used interchangeably as common reference to cloud computing model.

Our business model allows for creation and management of any desired number of apps by our customers for a monthly subscription fee. The on-demand PaaS model developed using multi-tenant architecture enables end users to visit a website and use the PaaS applications, all via a web browser, with no installation, no special information technology knowledge and no maintenance. The PaaS application is transformed into a service that can be used anytime and anywhere by the end user. Multi-tenant PaaS applications also permit us to add needed functionality to our applications in one location for the benefit of all end users. This capability allows us to provide upgrades universally.

Target Market and Sales Channels

During 2017 we completed a strategic shift and focused our business activities and research and development primarily on healthcare industry in the United States. Although our Platform was designed with broad use in mind, our customer base started to increasingly gravitate towards healthcare clients and hospitals and once we developed industry expertise, validated use cases that demonstrate return on investment from use of mobile apps in healthcare, we solidified our focus on the healthcare industry.

We identified several trends in healthcare that are affecting use of mobile technology in healthcare market:

Increased pressures on healthcare industry to provide consumer focused services, as evidenced by entry of non-traditional healthcare players, like retail pharmacies into offering primary healthcare nation wide;

Tech savvy Generation X and Millennial consumers are becoming primary healthcare consumers and are demanding ease of use and transparency in healthcare and expect mobile access to healthcare services, information and interaction with the healthcare provider via mobile device;

Increasing pressure from both government regulation and the traditional private payers to reduce costs by compensating healthcare providers based on value and outcome delivered.

We believe that the do-it-yourself model for creation and management of apps will become a cost effective solution for healthcare clients who have an ever increasing need to interact with their customers and employees through mobile devices. Single apps may reach their limits of usability very quickly, if made complex. The Platform provides the subscriber with the capacity to create multiple, customized non-template apps with designated functionalities and specific designs without incurring additional costs.

RESULTS OF OPERATIONS

Comparison of the Three Months Ended March 31, 2018 (the “2018 Period”) to the Three Months Ended March 31, 2017 (the “2017 Period”).

| | Three months ended March 31, | | Increase (Decrease) | |
|----------------------------|------------------------------|-------------|---------------------|-------|
| | 2018 | 2017 | \$ | % |
| Revenue | 496,823 | 407,402 | 89,421 | 22% |
| Cost of Revenue | 161,535 | 157,163 | 4,372 | 3% |
| Gross Profit | 335,288 | 250,239 | 85,049 | 34% |
| Sales and Marketing | 297,238 | 279,762 | 17,476 | 6% |
| Research and Development | 341,401 | 449,109 | (107,708) | (24%) |
| General and Administrative | 523,044 | 477,066 | 45,978 | 10% |
| Interest Expense | (994,898) | (1,036,998) | 42,100 | (4%) |

Revenue increased by \$89,421 or 22%. The increase in revenue is primarily attributable to new subscriptions and existing client upgrades.

Cost of Revenue increased by \$4,372 or 3%. There were no significant changes in composition or activities of our Customer Success team.

Gross Profit increased by \$85,049 or 34%. Such increase is attributable to the increase in revenue as documented above.

Sales and Marketing expense increased by \$17,476 or 6%. An increase of \$22,000 is attributable to increase in compensation due to expansion of our sales team. An increase of \$21,000 is attributable to more frequent client and prospect related travel. The increases were offset by a decrease in marketing campaign expense by approximately \$32,000.

Research and Development expense decreased by \$107,708 or 24%. Salaries expense decreased by \$97,000 as the Company left certain vacant positions unfilled for the 2018 Period compared to the 2017 Period. The remaining decrease of \$10,000 is attributable to decrease in employee stock based compensation.

General and Administrative expense increased by \$45,978 or 10% during the 2018 period. An increase of \$36,000 is attributable to increase in board member compensation and executive travel expense. An increase of \$9,000 is attributable to an increase in insurance and professional services expenses, offset by a decrease in other minor expense categories.

Interest Expense decreased by \$42,100 or (4%). The cash part of interest expense decreased by approximately \$30,000 and debt discount amortization decreased by \$25,000 due to the decrease in the face value of our convertible debt after partial conversion of notes into shares of common stock. Such decrease is offset by an increase of \$10,000

interest expense related to Comerica LSA as the variable interest rate on the LSA has gradually increased over the past 12 months.

Liquidity and Capital Resources

We have not yet achieved positive cash flows from operations, and our main source of funds for our operations continues to be the sale of our notes under our convertible note facilities. We continue to rely on this source until we are able to generate sufficient cash from revenues to fund our operations or obtain alternate sources of financing. We believe that anticipated cash flows from operations, and additional funding under the convertible note facilities, of which no assurance can be provided, together with cash on hand, will provide sufficient funds to finance our operations for the next 12 months. Changes in our operating plans, lower than anticipated sales, increased expenses, or other events may cause us to seek additional equity or debt financing in future periods. There can be no guarantee that financing will continue to be available to us under the convertible note facilities or otherwise on acceptable terms or at all. Additional equity and convertible debt financing could be dilutive to the holders of shares of our common stock, and additional debt financing, if available, could impose greater cash payment obligations and more covenants and operating restrictions.

Nonetheless, there are factors that can impact our ability to continue to fund our operating activities for the next twelve months. These include:

Our ability to expand revenue volume;

Our ability to maintain product pricing as expected, particularly in light of increased competition and its unknown effects on market dynamics;

Our continued need to reduce our cost structure while simultaneously expanding the breadth of our business, enhancing our technical capabilities, and pursuing new business opportunities.

In addition, we have an outstanding Loan and Security Agreement (the "LSA") with Comerica Bank in the amount of \$5 million, which matures in June of 2018 and is secured by an extended irrevocable letter of credit issued by UBS AG (Geneve, Switzerland) ("UBS AG") with a renewed term expiring on May 31, 2018, which term is renewable for one year periods, unless notice of non-renewal is given by UBS AG at least 45 days prior to the then current expiration date. If UBS were to elect to not renew the irrevocable letter of credit issued by it beyond May 31, 2018, the currently scheduled expiration date, then such non-renewal will result in an event of default under the LSA, at which time all amounts outstanding under the LSA of approximately \$5 million will become due and payable. Currently, the letter of credit is automatically extended for one year periods, unless notice of non-renewal is given by UBS AG at least 45 days prior to the then current expiration date. As of the date of this report on Form 10Q, no such notice has been provided to us nor have we been provided with any indication that we are to receive notice of non-renewal of the letter of credit.

Additionally, all notes issued under the 2007 and 2014 NPAs mature on November 14, 2018 and Comerica LSA matures on June 9, 2018.

All notes issued under the 2007 and 2014 NPAs mature on November 14, 2018. In an initial discussion that took place in February of 2018 and subsequent discussions, the Bondholders indicated their willingness and ability to extend the maturity of the 2007 and 2014 NPAs by two years. However, no assurance can be provided that we will be successful in obtaining any such extension on terms commercially acceptable to us or at all.

The LSA is scheduled to mature on June 9, 2018 and the Company is currently in discussions with Comerica Bank to extend the maturity of LSA by similar terms for two additional years. The management of the company believes that it

will be able to extend maturity dates or refinance all of its debt maturing in 2018 on similar terms. No assurance can be provided that we will be successful in obtaining an extension on commercially reasonable terms or at all.

Uses of Cash

During the three months ended March 31, 2018, we used in operating activities approximately \$2.1 million, which was offset by \$658,000 in cash collected from our customers, netting approximately \$1.4 million of net cash used in operating activities. Approximately \$867,000 of this amount was used to pay interest payments on the convertible notes and bank debt; approximately \$800,000 for payroll, benefits and related costs; approximately \$116,000 was used for non-payroll related sales and marketing efforts, such as tradeshow and marketing campaigns and approximately \$310,000 was used for other non-payroll development and general and administrative expenses, which included among other things: infrastructure costs, rent, insurance, legal, professional, compliance, and other expenditures.

During the three months ended March 31, 2017, we used in operating activities approximately \$2.0 million, which was offset by \$924,000 in cash collected from our customers, netting approximately \$1.1 million of net cash used in operating activities. Approximately \$876,000 of this amount was used to pay interest payments on the convertible notes and bank debt; approximately \$815,000 for payroll, benefits and related costs; approximately \$115,000 was used for non-payroll related sales and marketing efforts, such as tradeshow and marketing campaigns and approximately \$229,000 was used for other non-payroll development and general and administrative expenses, which included among other things: infrastructure costs, rent, insurance, legal, professional, compliance, and other expenditures.

During the three months ended March 31, 2018, the Company privately placed \$2,250,000 in principal amount of additional 2014 NPA Notes to UBP under its existing 2014 NPA.

Capital Expenditures and Investing Activities

Our capital expenditures are limited to the purchase of new office equipment and new mobile devices that are used for testing. Cash used for investing activities was not significant and we do not plan any significant capital expenditures in the near future.

Going Concern

Our independent registered public accounting firm has issued an emphasis of matter paragraph in their report included in the Annual Report on Form 10-K for the year ended December 31, 2017 in which they express substantial doubt as to our ability to continue as a going concern. The condensed consolidated financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or the amounts or classification of liabilities that might be necessary should we be unable to continue as a going concern. Our continuation as a going concern depends on our ability to generate sufficient cash flows to meet our obligations on a timely basis, to obtain additional financing that is currently required, and ultimately to attain profitable operations and positive cash flows. There can be no assurance that our efforts to raise capital or increase revenue will be successful. If our efforts are unsuccessful, we may have to cease operations and liquidate our business.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not applicable.

ITEM 4. CONTROLS AND PROCEDURES

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures for the three months ended March 31, 2018. The term “disclosure controls and procedures,” as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company’s management, including its principal executive and principal financial officers, as appropriate to allow for timely decisions regarding required disclosure. 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, as ours are designed to do, and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on such evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of March 31, 2018, our disclosure controls and procedures were effective at a reasonable assurance level.

Changes in Internal Control over Financial Reporting

During the quarter ended March 31, 2018, there were no changes made in our internal controls over financial reporting (as such term is defined in Rule 13a-15(f) of the Exchange Act) that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

PART II – OTHER INFORMATION

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

The following paragraph sets forth certain information with respect to all securities sold by us during the three months ended March 31, 2018 without registration under the Securities Act:

Between January 1, 2018 and March 31, 2018, we issued to one accredited investor \$2,250,000 in principal amount of our convertible notes under the 2014 Note Purchase Agreement. The note is convertible into shares of our Common Stock at a per share conversion rate of \$1.43. All notes issued under this facility are scheduled to mature on November 14, 2018.

All of the securities issued in the transactions described above were issued without registration under the Securities Act in reliance upon the exemptions provided in Section 4(2) of the Securities Act. The recipient of securities in such transaction acquired the securities for investment only and not with a view to or for sale in connection with any distribution thereof. Appropriate legends were affixed to the share certificates issued in all of the above transactions. The recipient represented that it was an “accredited investor” within the meaning of Rule 501(a) of Regulation D under the Securities Act, or had such knowledge and experience in financial and business matters as to be able to evaluate the merits and risks of an investment in its common stock. The recipient had adequate access, through their relationships with the Company and its officers and directors, to information about the Company. None of the transactions described above involved general solicitation or advertising.

ITEM 6. EXHIBITS

| Exhibit No. | Description |
|----------------|-------------|
|----------------|-------------|

- | | |
|------|---------------------------------------------------------------------------------------------------------------------|
| 31.1 | Certification of Principal Executive Officer Pursuant to Rule 13a-14(a) (Filed herewith) |
| 31.2 | Certification of Principal Financial and Accounting Officer Pursuant to Rule 13a-14(a) (Filed herewith) |
| 32.1 | Certification of Principal Executive Officer Pursuant to 18 U.S.C. Section 1350 (Furnished herewith) |
| 32.2 | Certification of Principal Financial and Accounting Officer Pursuant to 18 U.S.C. Section 1350 (Furnished herewith) |

| | |
|-------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 101.1 | The following materials from the Company’s Quarterly Report on Form 10-Q for the quarter ended March 31, 2018, formatted in XBRL (eXtensible Business Reporting Language): (i) the Condensed Consolidated Balance Sheets, (ii) the Condensed Consolidated Statements of Operations, (iii) the Condensed Consolidated Statements of Cash Flows, (iv) the Condensed Consolidated Statement of Stockholders’ Deficit and (v) related notes to these condensed consolidated financial statements, tagged as blocks of text and in detail (Filed herewith). |
|-------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|

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.

MOBILESMITH, INC.

May 14, 2018 By: /s/ Bob Dieterle
Bob Dieterle
Chief Executive Officer (Principal Executive Officer)

May 14, 2018 By: /s/ Gleb Mikhailov
Gleb Mikhailov
Chief Financial Officer (Principal Financial and Accounting Officer)

