MobileSmith, Inc.
Form 10-Q
August 07, 2015

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2015

OR

o 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 Raleigh, North Carolina	27607
(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 þ No o

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 þ No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer	o	Accelerated filer	o
Non-accelerated filer (Do not check if a smaller reporting company)	o	Smaller reporting company	þ

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

As of August 6, 2015, there were 19,827,542 shares of the registrant’s common stock, par value $0.001 per share, outstanding.

MOBILESMITH, INC.

FORM 10-Q
For the Quarterly Period Ended June 30, 2015

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

ASSETS

	June 30, 2015 (unaudited)	December, 31 2014
Current Assets		
Cash and Cash Equivalents	$800,170	$320,286
Restricted Cash	125,000	125,000
Trade Accounts Receivable, Net of Allowance for Doubtful Accounts of $11,500 and $22,000, Respectively	293,479	193,907
Prepaid Expenses and Other Current Assets	76,928	64,973
Total Current Assets	1,295,577	704,166
Property & Equipment, Net	108,770	116,567
Capitalized Software, Net	452,322	507,217
Intangible Assets, Net	63,860	72,604
Other Assets	13,788	21,312
Total Other Assets	638,740	717,700
Total Assets	$1,934,317	$1,421,866

LIABILITIES AND STOCKHOLDERS' DEFICIT

Current Liabilities		
Trade Accounts Payable	$42,913	$94,862
Accrued Expenses	64,511	106,668
Accrued Interest	397,548	501,957
Capital Lease Obligations	28,225	28,378
Deferred Revenue	629,771	579,264
Bank Loan	5,000,000	-
Total Current Liabilities	6,162,968	1,311,129
Long-Term Liabilities		
Bank Loan	-	5,000,000
Convertible Notes Payable, Related Parties, Net of Discount	30,352,194	25,985,330
Convertible Notes Payable, Net of Discount	680,640	680,640
Capital Lease Obligations	101,234	114,637
Deferred Rent	57,841	61,010
Total Long-Term Liabilities	31,191,909	31,841,617
Total Liabilities	37,354,877	33,152,746
Commitments and Contingencies (Note 3)		
Stockholders' Deficit	-	-
Preferred Stock, $0.001 par value, 5,000,000 shares authorized, no shares issued and outstanding at June 30, 2015 and December 31, 2014	-	-
Common Stock, $0.001 par value, 45,000,000 shares authorized, 19,827,542 shares issued and outstanding at June 30, 2015 and December 31, 2014	19,828	19,828
Additional Paid-in Capital	97,495,991	97,453,374

Accumulated Deficit	(132,936,379)	(129,204,082)
Total Stockholders' Deficit	(35,420,560)	(31,730,880)
Total Liabilities and Stockholders' Deficit	$1,934,317	$1,421,866

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

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

	Three Months Ended June 30, 2015	Three Months Ended June 30, 2014	Six Months Ended June 30, 2015	Six Months Ended June 30, 2014
REVENUES:				
Subscription and Support	$377,545	$194,783	$773,733	$382,729
Professional Services and Other	30,000	-	60,000	-
Total Revenue	407,545	194,783	833,733	382,729
COST OF REVENUES:				
Subscription and Support	74,229	124,682	133,698	260,269
Professional Services and Other	14,272	-	23,545	-
Total Cost of Revenue	88,501	124,682	157,243	260,269
GROSS PROFIT (LOSS)	319,044	70,101	676,490	122,459
OPERATING EXPENSES:				
Sales and Marketing	267,047	235,627	559,246	455,784
Research and Development	333,685	261,737	673,825	530,614
General and Administrative	283,887	347,402	598,453	682,569
Impairment of Long Lived Assets, Net	-	16,296	-	16,296
Total Operating Expenses	884,619	861,062	1,831,524	1,685,263
LOSS FROM OPERATIONS	(565,575)	(790,961)	(1,155,034)	(1,562,804)
OTHER INCOME (EXPENSE):				
Other Income	1,111	633	1,490	1,889
Interest Expense, Net	(1,311,617)	(1,095,243)	(2,578,753)	(1,921,685)
Gain on reversal of a liability	-	169,861	-	169,861
Gain (Loss) On Debt Extinguishment	-	50,129	-	50,129
Total Other Expense	(1,310,506)	(874,620)	(2,577,263)	(1,699,806)
NET LOSS	$(1,876,081)	$(1,665,581)	$(3,732,297)	$(3,262,610)
NET LOSS PER COMMON SHARE:				
Basic and Fully Diluted from Continuing Operations	$(0.09)	$(0.08)	$(0.19)	$(0.16)
WEIGHTED-AVERAGE NUMBER OF SHARES USED IN COMPUTING NET LOSS PER COMMON SHARE:				
Basic And Fully Diluted	19,827,542	19,827,542	19,827,542	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)

	Six Months Ended	
	June 30, 2015	June 30, 2014
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Loss	$(3,732,297)	$(3,262,610)
Adjustments to Reconcile Net Loss to Net Cash Used in Operating Activities:		
Depreciation and Amortization	81,007	83,383
Bad Debt Expense	(6,000)	-
Amortization of Debt Discount	1,166,864	722,605
Share Based Compensation	42,617	53,056
Impairment of long lived assets	-	16,296
Gain on debt extinguishment	-	(50,129)
Changes in Assets and Liabilities:		
Accounts Receivable	(93,822)	1,601
Prepaid Expenses and Other Assets	(4,069)	(9,535)
Accounts Payable	(51,949)	(6,332)
Deferred Revenue	50,507	47,506
Accrued and Other Expenses	(149,735)	(131,513)
Net Cash Used in Operating Activities	(2,696,877)	(2,535,672)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Payments to Acquire Property, Plant and Equipment	(9,683)	(7,983)
Net Cash Used in Investing Activities	(9,683)	(7,983)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Restricted Cash Used to Pay Interest Expense	97,385	144,219
Deposit of Cash to Restricted Account	(97,385)	(125,000)
Repayment of Bank Loan	-	(5,000,000)
Proceeds from Bank Loan	-	5,000,000
Proceeds from Issuance of Long Term Debt	3,200,000	3,440,000
Repayments of Debt Borrowings and Leases	(13,556)	(12,767)
Net Cash Provided by Financing Activities	3,186,444	3,446,452
NET INCREASE IN CASH AND CASH EQUIVALENTS	479,884	902,797
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	320,286	223,514
CASH AND CASH EQUIVALENTS, END OF PERIOD	$800,170	$1,126,311
Supplemental Disclosures of Cash Flow Information:		
Cash Paid During the Period for Interest	$787,853	$577,271
Non-Cash Investing and Financing Activities		
The Company Recorded Debt Discount Associated with Beneficial Conversion Feature	$-	$1,625,357

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 JUNE 30, 2015
(unaudited)

	Common Stock Shares	$0.001 Par Value	Additional Paid-In Capital	Accumulated Deficit	Totals
BALANCES, DECEMBER 31, 2014	19,827,542	$19,828	$97,453,374	$(129,204,082)	$(31,730,880)
Equity-Based Compensation	-	-	42,617	-	42,617
Net Loss	-	-	-	(3,732,297)	(3,732,297)
BALANCES, JUNE 30, 2015	19,827,542	$19,828	$97,495,991	$(132,936,379)	$(35,420,560)

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

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MOBILESMITH, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
For the Quarterly Period Ended June 30, 2015
(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 and markets software products and services tailored to users of mobile devices. 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.

These condensed consolidated financial statements include accounts of the Company and its wholly-owned subsidiary, which was created to explore the concept of a consumer targeted mobile app development platform. From time to time, the Company may create additional wholly-owned subsidiaries in order to test various new services as a part of its research and development process. The subsidiary has not had material activity in 2015.

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;
- Dedicated internal and secure mobile development platform for the U.S. Department of Defense and related contractors;
- Custom mobile application design and development services;
- 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 June 30, 2015. 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, 2014 on file with the SEC (the "Annual Report").

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 six months ended June 30, 2015 and 2014, the Company incurred net losses as well as negative cash flows from operations. These factors indicate that the Company may be unable 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.

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Recently Issued Accounting Pronouncements

The Company evaluates new significant accounting pronouncements at each reporting period. For the period ended June 30, 2015, the Company did not adopt any new pronouncement that had or is expected to have a material effect on the Company's presentation of its condensed consolidated financial statements.

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-9 Revenue from Contracts with Customers (Topic 606). This guidance 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 those goods or services. This guidance is effective for annual reporting periods beginning after December 15, 2017, and early adoption is not permitted. The Company will adopt this standard in fiscal year 2018 and is currently assessing its impact.

In August of 2014, the FASB issued ASU 2014-15 Presentation of Financial Statements – Going Concern (Subtopic 205-40). This ASU defines management's responsibility to evaluate whether there is substantial doubt about an organization's ability to continue as a going concern and provides guidance on required financial statement footnote disclosures. The ASU is effective for annual periods ending after December 15, 2016. The Company will adopt the ASU in fiscal year 2016 and is currently assessing its impact.

2. DEBT

The table below summarizes the Company's debt at June 30, 2015 and December 31, 2014:

Debt Description		June 30, 2015		December 31, 2014	Maturity	Rate	
Comerica Bank LSA	$	5,000,000	$	5,000,000	Jun-16	3.85	%
Capital lease obligations - Noteholder lease		103,222		113,093	Aug-19	8.00	%
Capital lease obligations - office furniture		26,237		29,922	Sep-16	9.80	%
Convertible notes - related parties, net of discount of $3,172,037 and $4,338,901, respectively		30,352,194		25,985,330	Nov-16	8.00	%
Convertible notes, net of discount of $50,129		680,640		680,640	Nov-16	8.00	%
Total debt		36,162,293		31,808,985			
Less: current portion of long term debt							
Capital lease obligations		28,225		28,378			
Comerica Bank LSA		5,000,000		-			
Total current portion of long term debt		5,028,225		28,378			
Debt - long term	$	31,134,068	$	31,780,607			

Convertible Notes

During the six months ended June 30, 2015, the Company sold $3,200,000 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") at conversion prices equal to $1.43 on the date of sale.

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The table below summarizes convertible notes issued as of June 30, 2015 by type:

Convertible Notes Type:	Balance
2007 NPA notes, net of discount	$27,332,834
2014 NPA notes	3,700,000
Total convertible notes, net of discount	$31,032,834

3. COMMITMENTS AND CONTINGENCIES

Aggregate future lease commitments

The Company leases computers, office equipment and office furniture under capital lease agreements that expire through August 2019. Total amount financed under these capital leases at June 30, 2015 was $129,459. This obligation is included within the Company's total debt.

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

Year:	
2015	$19,629
2016	39,259
2017	39,259
2018	34,189
2019	19,412
	151,748
Less amount representing interest	(22,289)
Capital lease obligations	$129,459

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 three-year terms. In addition, the Company leases a vehicle pursuant to a lease that expires in July 2016.

The table below summarizes the Company's future obligations under its office and vehicle operating leases:

Year:	
2015	$81,624
2016	165,678
2017	167,786
2018	172,418
2019	44,082
Total	$631,588

Legal Proceedings

The Company may be subject to legal proceedings and litigation arising in the ordinary course of business. 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 COMPENSATION

The following is a summary of the stock option activity for the six months ended June 30, 2015:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding, December 31, 2014	403,661	$1.45		
Cancelled	(42,312)	1.53		
Issued	-	-		
Outstanding, June 30, 2015	361,349	$1.44	4.12	$53,707
Vested and exercisable, June 30, 2015	242,521	$1.36	4.55	$47,361

Aggregate intrinsic value represents the difference between the closing price of the Company's common stock at June 30, 2015 and the exercise price of outstanding, in-the-money stock options. The closing price of the common stock at June 30, 2015, as reported on the Over-the-Counter Bulletin Board, was $1.50 per share.

At June 30, 2015, $103,519 unvested expense has yet to be recorded related to outstanding stock options.

5. MAJOR CUSTOMERS AND CONCENTRATION

For the six months ended June 30, 2015, two major customers accounted for 33% of total revenues and five customers accounted for 69% of the accounts receivable balance. For the six months ended June 30, 2014, two major customers accounted for 28% of total revenues and five customers accounted for 75% of the accounts receivable balance.

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, 2014 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 a software-as-a-service ("SaaS") platform that allows non-programmers to design and build native mobile applications for smartphones and tablets. Our flagship product is the MobileSmith™ Platform (the "Platform"). Platform related services often include data integration and training. We also provide consulting services, which include assistance with design and implementation of mobile strategy, implementation of mobile marketing strategy and the 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. Professional Services are not expected to be significant to our operations.

We use a SaaS business model – the customers acquire access to the Platform through user subscription agreements and are able to obtain control of mobile app production. Our business model allows for creation and management of any desired number of apps by our customers for a monthly license fee. The on-demand SaaS model developed using multi-tenant architecture enables end users to visit a website and use the SaaS applications, all via a web browser, with no installation, no special information technology knowledge and no maintenance. The SaaS application is transformed into a service that can be used anytime and anywhere by the end user. Multi-tenant SaaS 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.

During 2014, for the first time we installed our Platform in a Platform as a Service (“PaaS”) configuration for one of our government clients. Our Platform was safely placed behind the firewalls of a government department which would allow the organization to create and manage multiple mobile apps with targeted functionality for targeted audiences without going outside of the secure setting.

Target Market and Sales Channels

We believe that the do-it-yourself model for creation and management of apps will become a cost effective solution for enterprise 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 offers an ability to create multiple, customized non-template apps with designated functionalities and specific designs without incurring additional costs.

Our market penetration strategy focuses on three distinct sectors:

Healthcare clients:

Healthcare organizations, such as hospitals and healthcare networks, are similar to governmental agencies in their departmental segmentation and territorial reach. Additionally, healthcare organizations are subject to increased regulation as a result of the Affordable Care Act and may be subject to penalties for delivering inefficient care under new Medicare regulations. Hospitals increasingly turn to portfolios of apps to increase efficiency and remain competitive. Outpatient care apps, wellness apps, physician referral apps, appointment apps, discharge apps, facility way-finding apps are just a few example areas where healthcare organizations are increasingly using app portfolios. We believe that the Platform has a significant competitive advantage in the healthcare space due to its ability to deliver a variety of targeted mobile solutions cost effectively.

We expect to focus future Platform development on the demands of our healthcare clients: advanced data integration via REST architecture (a data protocol optimized for communication between mobile devices and databases); authentication; and data security. Improvements that can be made to the Platform that target the needs of our healthcare clients will be used to deliver value in other sectors.

Enterprise clients:

Second sector includes large and multi-national enterprise clients, where large-scale customization based on functionality or territory is of the highest value, and other contributors such as time to market, technology reach, and ease of use play important roles. These target clients may include large food chains, media and PR companies, software solutions providers, hardware manufacturers, mortgage brokers, and real estate franchises.

Our enterprise focus results in continuous integration of new technology into the Platform. In 2014, we partnered with Qualcomm Retail Solutions to integrate their popular Gimbal™ context awareness technology into the Platform. Gimbal™ uses low-cost proximity micro-location beacon technology to exchange information between a mobile device and a beacon for areas of less than 50 meters in radius. This new technology has far reaching applications in retail, healthcare and other industries, where real-time interaction with a mobile user based on his or her location is of highest importance.

Government:

We believe that the Platform has a unique capability to service various structures within federal, state and local governments, as government structure is highly segmented by function and territory. In addition, the Platform can be safely placed behind the firewalls of individual departments, where data security is a primary concern. Replicating the Platform and placing it behind a secure firewall would allow an organization to create and manage multiple mobile apps with targeted functionality for targeted audiences without going outside of the secure firewall.

RESULTS OF OPERATIONS

Comparison of the Three Months Ended June 30, 2015 (the "2015 Period") to the Three Months Ended June 30, 2014 (the "2014 Period").

	Three Months Ended June 30,		Increase (Decrease)	
	2015 ($)	2014 ($)	$	%
Revenue	407,545	194,783	212,762	109 %
Cost of Revenue	88,501	124,682	(36,181)	(29 %)
Gross Profit	319,044	70,101	248,943	355 %
Sales and Marketing	267,047	235,627	31,420	13 %
Research and Development	333,685	261,737	71,948	27 %
General and Administrative	283,887	347,402	(63,515)	(18 %)
Interest Expense	1,311,617	1,095,243	216,374	20 %

Revenue increased by $212,762, or 109% during the 2015 period. As the Platform matures, we continue to add new features and extend our market penetration, expand our customer base and retain larger customers with broader ranges of needs in the mobile space who enter into more significant contracts for subscription revenue. Included in the total revenue in the 2015 Period was $30,000 of professional services revenue generated from one of our subscription clients. Such revenue was zero in the 2014 Period. The professional services consisted of implementation of advanced Platform features, advanced data integration and mobile consulting. We currently receive approximately $10,000 per month in professional services revenue, but we don't expect professional services revenue to be a significant share of our total revenue in the future, as our workforce capacity to provide such services is rather limited.

Cost of Revenue decreased by $36,181 or 29% during the 2015 period. General decrease in cost of revenue is attributable to the reorganization of our client service team, which resulted in a decrease in our payroll and benefits expense associated with revenue generating activities. During 2014, we invested significant effort into the streamlining of our client on-boarding and client training processes by producing a suite of training materials and manuals. Due to improvements in usability and the user interface of our Platform, we were able to move several members of our client service team to research and development and formed a smaller Customer Success team, which continues to be classified in cost of revenue.   Our Customer Success team has expanded during the 2015 period, as our revenue continues to increase. The expansion will result in increase in cost of revenue in the second half of 2015. In addition, the cost of revenue included approximately $14,271 in the 2015 Period and zero in the 2014 Period of costs associated with professional services revenue. $10,000 of decrease is attributable to decrease in platform hosting costs.

Gross Profit increased by $248,943 or 355% during the 2015 period. In a SaaS model, the cost to deliver revenue increases at a reduced rate than revenue itself. As we retain existing customers and acquire new customers, our gross profit is expected to increase.

Sales and Marketing expense increased by $31,420, or 13% during the 2015 period. This increase is attributable to an approximate $16,000 increase in compensation, including increase in commissions driven by increase in revenue. The remainder of the increase is related to the higher rate of spending on marketing campaigns, tradeshows, sales team travel and timing of these activities.

Research and Development expense increased by $71,948 or 27% during the 2015 period. The increase of approximately $26,000 is attributable to general increases in payroll and related costs of our developer team and an increase of approximately $52,000 is attributable to an internal reorganization within the workforce that allowed us to increase our Product team with focus on development of new Platform features and functionalities. Increase in payroll costs was offset by $6,000 decrease in other research and development costs.

General and Administrative expense decreased by $63,515 or 18% during the 2015 period, mostly due to $30,000 decrease in legal and professional services, $18,000 decrease in bank transaction fees and $6,000 decrease in insurance costs.

Interest Expense increased by $216,374 or 20% during the 2015 period. An increase of $107,000 is attributable to the cash portion of interest expense driven by general increase in face value of debt and increase of $110,000 is related to a non-cash portion of debt discount amortization.

Comparison of the Six Months Ended June 30, 2015 (the “2015 Period”) to the Six Months Ended June 30, 2014 (the “2014 Period”).

	Six Months Ended June 30,		Increase (Decrease)	
	2015 ($)	2014 ($)	$	%
Revenue	833,733	382,729	451,004	118 %
Cost of Revenue	157,243	260,269	(103,026)	(40 %)
Gross Profit	676,490	122,459	554,031	452 %
Sales and Marketing	559,246	455,784	103,462	23 %
Research and Development	673,825	530,614	143,211	27 %
General and Administrative	598,453	682,569	(84,116)	(12 %)
Interest Expense	2,578,753	1,921,685	657,068	34 %

Revenue increased by $451,004, or 118%, during the 2015 Period. As the Platform matures, we continue to add new features and extend our market penetration, expand our customer base and retain larger customers with broader ranges of needs in the mobile space who enter into more significant contracts for subscription revenue. Included in the total revenue for the six months ended June 30, 2015 was $60,000 of professional services revenue generated from one of our subscription clients. Such revenue was zero in the corresponding 2014 period. The professional services consisted of implementation of advanced Platform features, advanced data integration and mobile consulting. We currently receive approximately $10,000 per month in professional services revenue, but we don’t expect professional services revenue to be a significant share of our total revenue in the future, as our workforce capacity to provide such services is rather limited.

Cost of Revenue decreased by $103,026, or 40%, during the 2015 Period. General decrease in cost of revenue is attributable to the reorganization of our client service team, which resulted in a decrease in our payroll and benefits expense associated with revenue generating activities. During the 2014 Period, we invested significant effort into the streamlining of our client on-boarding and client training processes by producing a suite of training materials and manuals. Due to improvements in usability and the user interface of our Platform, we were able to move several members of our client service team to research and development and formed a smaller Customer Success team, which continues to be classified in cost of revenue. Our Customer Success team has expanded during the 2015 Period, as our revenue continues to increase. The expansion will result in increase in cost of revenue in the second half of 2015. In addition, the cost of revenue included approximately $23,545 in the 2015 Period and zero in the 2014 Period of costs associated with professional services revenue. $22,000 of the decrease is attributable to a decrease in platform hosting costs.

Depreciation of Platform costs capitalized is included in the cost of revenue and was approximately $66,000 and $68,000 in 2015 and 2014, respectively.

Gross Profit increased by $554,031 or 452%, during the 2015 Period. In a SaaS model, the cost to deliver revenue increases at a much smaller rate than revenue itself. As we retain existing customers and acquire new customers, our gross profit is expected to increase.

Sales and Marketing expense increased by $103,462, or 23%, during the 2015 Period. This increase is attributable to an approximate $50,000 increase in compensation, including increase in commissions driven by increase in revenue. The remainder of the increase is related to the higher rate of spending on marketing campaigns, tradeshows, sales team travel and timing of these activities.

Research and Development expense increased by $143,211, or 27%, during the 2015 Period. The increase of approximately $38,000 is attributable to general increases in payroll and related costs of our developer team and an increase of approximately $101,000 is attributable to an internal reorganization within the workforce that allowed us to increase our Product team with focus on development of new Platform features and functionalities.

General and Administrative expense decreased by $84,116 or 12%, during the 2015 Period, mostly due to $42,000 decrease in legal and professional costs and $26,000 decrease in bank transaction fees.

Interest Expense increased by $657,068, or 34%, during the 2015 Period. Approximately $213,000 of the increase was attributable to the increase in face value of our debt and the remaining $444,000 of the increase was mainly due to the increase in debt discount amortization and to a lesser extent due to amortization of capitalized financing costs from the Comerica LSA transaction.

Liquidity and Capital Resources

We have not yet achieved positive cash flows from operations, and our main source of funds for our operations is the sale of our notes under the convertible note facility that we established in 2014. We need to 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 issuances of convertible notes under the note facility, of which no assurance can be provided, together with cash on hand, will provide sufficient funds to finance our operations at least 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 be available to us under the note facility 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 operations 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 pursing new business opportunities.

In addition, if UBS AG (Geneva, Switzerland) were to elect to not renew the irrevocable letter of credit issued by it beyond May 31, 2016, the currently scheduled expiration date, then such non-renewal will result in an event of default under our outstanding Loan and Security Agreement (“LSA”) with Comerica Bank in the amount of $5,000,000, at which time all amounts outstanding under the LSA 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. The provision of any such notice by UBS will constitute an event of default under the LSA, at which time all amounts outstanding under the LSA will become due and payable. As of the date of this report on Form 10-Q, 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.

Financing Activities and Sources of Cash

Net cash provided by financing activities during the six months ended June 30, 2015 was $3,186,444. We received proceeds of $3,200,000 from the issuance of convertible notes under the convertible note facility established in 2014. See Note 2 in our Condensed Consolidated Financial Statements accompanying this report on Form 10-Q.

Since November 14, 2007 and through the present time, we have financed our working capital deficiency primarily through the issuance of our promissory notes under two convertible note facilities. The first, established in November 2007, is evidenced by the Convertible Secured Subordinated Note Purchase Agreement, dated November 14, 2007, as amended (as so amended, the “2007 NPA”) and the second, established in December 2014, is evidenced by the unsecured Convertible Subordinated Note Purchase Agreement (the “2014 NPA”; together with the 2007 NPA, the “Convertible Note Facilities”)) with Union Bancaire Privée, UBP SA ("UBP").

The table below summarizes convertible notes issued as of June 30, 2015 by NPA type:

Convertible Notes Type:	Balance
2007 NPA notes, net of discount	$27,332,834
2014 NPA notes	3,700,000
Total convertible notes, net of discount	$31,032,834

The 2014 NPA Notes have the following terms:

- a maturity date of the earlier of (i) November 14, 2016, (ii) a Change of Control (as defined in the 2014 NPA), or (iii) when, upon or after the occurrence of an Event of Default (as defined in the 2014 NPA), such amounts are declared due and payable by a noteholder or made automatically due and payable in accordance with the terms of the Note;

- an interest rate of 8% per year, with accrued interest payable in cash in quarterly installments commencing on the third month anniversary of the date of issuance of the Note with the final installment payable on the maturity date of the Note;

- a conversion price per share that is fixed at $1.43;

- optional conversion upon noteholder request; provided that, if at the time of any such request, the Company does not have a sufficient number of shares of common stock authorized to allow for such conversion, the noteholder may only convert that portion of their Notes outstanding for which the Company has a sufficient number of authorized shares of common stock. To the extent multiple noteholders under the 2014 NPA, the 2007 NPA, or both, request conversion of its Notes on the same date, any limitations on conversion shall be applied on a pro rata basis. In such case, the noteholder may request that the Company call a special meeting of its stockholders specifically for the purpose of increasing the number of shares of common stock authorized to cover conversions of the remaining portion of the Notes outstanding as well as the maximum issuances contemplated pursuant to the Company's 2004 Equity Compensation Plan, within 90 calendar days after the Company's receipt of such request; and

- may not be prepaid without the consent of holders of at least two-thirds of the aggregate outstanding principal amount of Notes issued under the 2014 NPA.

IDB Credit Facility and Comerica LSA

The Company had an outstanding promissory note with Israel Discount Bank ("IDB") dated December 6, 2010 that had a maturity date of May 31, 2014 (the "IDB Credit Facility"). Borrowings under the IDB Credit Facility were guaranteed by Atlas Capital SA ("Atlas") and subsequent to the merger between Atlas and Mirelis InvesTrust SA ("Mirelis"), by Mirelis. The IDB Credit Facility was further secured by an extended irrevocable standby letter of credit ("IDB SBLC") issued by UBS Private Bank with an expiration date of November 30, 2015.

On June 9, 2014, the Company refinanced the IDB Credit Facility with a new financial institution by entering into the LSA with Comerica. The Company borrowed the entire amount available under the LSA ($5,000,000) and used those proceeds to repay the IDB Credit Facility in full.

The LSA, which matures in June of 2016, is secured by an extended irrevocable letter of credit issued by UBS AG (Geneva, Switzerland) with an initial term that expired on May 31, 2015, 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. As no notice has been given, the period has been renewed to May 31, 2016. The provision of any such notice by UBS will constitute an event of default under the LSA, at which time all amounts outstanding under the LSA will become due and payable. As of the date of this report on Form 10-Q, 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.

Uses of Cash

During the six months ended June 30, 2015, we used in operating activities approximately $3.5 million, which was offset by $800,000 in cash collected from our customers; of which approximately $1,555,000 was used to pay interest payments on the Notes and bank debt; approximately $1,300,000 was used for payroll, benefits and related costs; approximately $223,000 was used on non-payroll related sales and marketing efforts, such as tradeshows and marketing campaigns and approximately $418,000 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.

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, 2014 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 June 30, 2015. 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 June 30, 2015, our disclosure controls and procedures were effective at a reasonable assurance level.

Changes in Internal Control over Financial Reporting

During the three months ended June 30, 2015, there were no changes made in our internal control 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 control 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 June 30, 2015 without registration under the Securities Act:

Between April 1, 2015 and June 30, 2015, we issued $1.5 million in principal amount of 2014 NPA notes to one accredited investor.

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 investors” 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. All recipients 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 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 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 June 30, 2015, 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.

August 7, 2015	By:	/s/ Amir Elbaz Amir Elbaz Chief Executive Officer
August 7, 2015	By:	/s/Gleb Mikhailov Gleb Mikhailov Chief Financial Officer