

MobileSmith, Inc.  
Form 10-K  
March 29, 2019

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

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2018

or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

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)

Securities registered pursuant to Section 12(b) of the Act: None

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

Common Stock, \$0.001 par value  
(Title of Class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.  
Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act.  
Yes  No

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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  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 Act). Yes  No

The aggregate market value of common stock held by non-affiliates of the registrant as of June 30, 2018 was approximately \$21.6 million (based on the closing sale price of \$2.50 per share on such date).

The number of shares of the registrant's common stock, \$0.001 par value per share, outstanding as of March 27, 2019 was 28,271,598.



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## PART I

### Special Note Regarding Forward-Looking Statements

Information set forth in this Annual Report on Form 10-K contains various forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 (the "Securities Act"), 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 products, 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 expenses, 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," and elsewhere in this report 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.

## ITEM 1. BUSINESS

### General

MobileSmith, Inc. (referred to herein as, "MobileSmith," the "Company," "us," "we," or "our") was incorporated in Delaware August 1993 and became a public company through a self-registration in February 2005. The Company's common stock trades on the OTC Market (OTC.QB) under the symbol "MOST".

### Principal Products and Services

MobileSmith provides operational improvement, member-facing mobile application services to the healthcare industry. Our suite of e-health mobile solutions and related services provide a catalog of vetted mobile app tools that can be rapidly customized to fit the needs of a specific healthcare organization with goals of addressing many key pain points of the industry. Apps built from our base app architecture ("Blueprints") focus on the following:

Patient's Access: improvements in hospital's HCAHPS scores (the Hospital Consumer Assessment of Healthcare Providers and Systems score) through increased customer satisfaction from improvements in patient engagement;

Patient Perioperative Care: reductions of same-day cancellations and preventable re-admissions with tailored Perioperative Apps resulting in direct savings to the hospitals; and

In Network Patient Retention: making it easy for patients to connect with care options through ER/Urgent care and Physician Referral Apps resulting in savings to the hospitals.

Our services offering includes:

access to a catalog of ready to deploy mobile app solutions (App Blueprint Catalog);

related deployment, support and integration services (App Build and Managed Services and custom development, where applicable) and

hosting of the deployed mobile apps.

Our flagship MobileSmith® Platform (the "Platform") has transformed from customer facing into an internal platform that supports the deployment of mobile apps created from Blueprints. We also integrate various third-party code and services into the mobile apps produced from our Blueprints, host the deployed apps, and design new Blueprints that can be rapidly deployed by the Healthcare industry.





## Target Market and Sales Channels

During 2017 we completed a strategic shift and focused our business and research and development activities primarily on the Healthcare industry in the United States. In 2018 we refined our healthcare focus by identifying two target markets: (i) healthcare providers (hospitals, hospital systems and the United States Veterans Health Administration) and (ii) healthcare payer market (insurance companies and insurance brokers).

Both markets are targeted with a diversified sales workforce that includes direct sales and resellers ("channel partners").

## Principal Customers

In 2017 we had a major healthcare customer in the federal government space that accounted for 46% of our 2017 revenue. The contract with the major government customer ended as of December 31, 2017. Our 2018 revenue was less concentrated with no single customer comprising more than 10% of recognized revenue. However, as we expand our relationships with channel partners in 2019, our revenue concentration may increase again as one single channel partner may result in more revenue than sales to individual hospitals in the aggregate.

## Research and Development

In 2017 we continued to enhance the Platform with various functionalities sought by current and target customers. We continuously monitor such demand, rapidly develop the functionalities and make them available to all our customers, current and future.

During 2017 and 2018 we focused our technological and design efforts on our Blueprints features, that continue leading our offering to healthcare providers (Blueprint is a fully customizable pre-built app targeting specific healthcare related business function or health condition)

During 2019 our product development will focus on consolidating our own technology with technology of our multiple service partners (including EMR integrators, wayfinding partners, telemedicine partners) and making these consolidated technologies available through software development kits ("SDKs") and application programming interfaces ("APIs") for mass rapid consumption by the Healthcare Industry.



## Competition

We have been successful in penetrating the healthcare provider technology market and developed extensive expertise in the industry. With many of our customers we enjoy five-plus year relationships. However, the healthcare provider technology industry is highly competitive. Our competitors include a number of successful, independent companies, such as Vivify Health, mPulse, and AMC Health. Many of these companies have significantly greater financial, personnel, and other resources than we do. Moreover, more companies enter the industry and market every year. As a result of this, we expect the competition we face to grow stronger in the next five years.

## Intellectual Property

During 2014, we stopped pursuing the majority of our patent applications as we determined that the cost of pursuing them is greater than the potential protection provided by them. Since then we have been granted one patent associated with our Platform.

We also have several trademarks registered with the U.S. Patent and Trademark Office. These trademarks cover certain names that identify specifics of the Platform user interface.

## Employees

As of December 31, 2018, we had 26 full time employees and no part-time employees. None of our employees are subject to collective bargaining agreements.

## Available Information

Our corporate information is accessible through our main web portal at [www.MobileSmith.com](http://www.MobileSmith.com). We are not including the information contained on our website as a part of, or incorporating it by reference into, this Annual Report on Form 10-K. Although we endeavor to keep our website current and accurate, there can be no guarantees that the information on our website is up to date or correct. We make available, free of charge, access to all reports filed with the U.S. Securities and Exchange Commission (the "SEC"), including our Annual Reports on Form 10-K, our Quarterly Reports on Form 10-Q, our Current Reports on Form 8-K, and amendments to these reports, filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act, as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC. The Company's reports filed with, or furnished to, the SEC are also available on the SEC's website [www.sec.gov](http://www.sec.gov).

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## ITEM 1A. RISK FACTORS

You should carefully consider the risks described below and elsewhere in this Annual Report on Form 10-K before making an investment decision. Our business, financial condition or results of operations could be materially adversely affected by any of these risks. Our common stock is considered speculative and the trading price of our common stock could decline due to any of these risks, and you may lose all or part of your investment. The following risk factors are not the only risk factors facing the Company. Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also affect our business.

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A default by us in respect of the amounts outstanding on the notes outstanding under the note facilities and the commercial bank loans when due in 2020 would enable these creditors to foreclose on our assets.

The Notes currently outstanding under the Convertible Note Facilities, which together with interest accrued as of the date of this report on Form 10-K aggregate approximately \$39.4 million, come due in November 2020. In addition, we have an outstanding Loan and Security Agreement (the "LSA") with Comerica Bank in the amount of \$5,000,000, which matures in June of 2020 and is secured by an extended irrevocable letter of credit issued by UBS AG (Geneva, 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. 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 filing date of this report on Form 10-K, 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.

Unless we can defer payment on the notes or such notes are in fact converted into our common stock, of which no assurance can be provided, we will need to find other sources of funding to pay the amounts that are scheduled to come due in November 2020. We also have no commitment from any other funding source should UBS elect to not renew the letter of credit.

Furthermore, the amounts under the LSA as well as approximately \$20.5 million under the Notes, are secured by a lien on our assets. A default by us under these Notes or the LSA would enable these creditors to foreclose on our assets. Additionally, the non-renewal of the letter of credit securing the UBS note, which is currently scheduled to expire on May 31, 2019, would also trigger an event of default under the LSA as well as the outstanding notes. Any foreclosure could force us to substantially curtail or cease our operations.

Historically, we have operated at a loss, and we continue to do so.

We have had recurring losses from operations and continue to have negative cash flows. If we do not become cash flow positive through additional financing or growth, we may have to cease operations and liquidate our business.

We are dependent on existing and other investors for the financing of our operations and their inability or unwillingness to fund our operations can have a material adverse effect on our operations.

We have not yet achieved positive cash flows from operations, and our main source of operating funds is the sale of notes under two convertible note facilities that we implemented. See Item 7, "Management's Discussion and Analysis "Liquidity and Capital Resources". Since November 2007 and through the date of this report, we have raised approximately \$53.6 million through these note facilities and we have the ability to raise up to an additional \$19.7 million under such facilities from existing note holders and others upon request and with the consent of the noteholders. However, no assurance can be provided that we will in fact be able to raise needed amounts through the facilities or through any other sources on commercially reasonable terms. If financing through the note facilities becomes unavailable, we will need to seek other sources of funding. The inability to raise additional funds when needed on terms acceptable to us, whether through the note facilities or otherwise, may have a material adverse effect on our operations.

Our independent registered public accounting firm indicates that it has substantial doubt that we can continue as a going concern. Our independent registered public accounting firm's opinion may negatively affect our ability to raise additional funds, among other things. If we fail to raise sufficient capital, we will not be able to implement our business plan, we may have to liquidate our business, and you may lose your investment.

Cherry Bekaert LLP, our independent registered public accounting firm, has expressed substantial doubt in its report included within this Annual Report on Form 10-K about our ability to continue as a going concern given our recurring losses from operations and deficiencies in working capital and equity, which are described in the first risk factor above. This report could materially limit our ability to raise additional funds by issuing new debt or equity securities or otherwise. If we fail to raise sufficient capital, we will not be able to implement our business plan and, we may have to liquidate our business, which may result in the loss of your entire investment. You should consider our independent registered public accounting firm's report when determining if an investment in us is suitable.



The delivery of software via the SaaS business model is more vulnerable to cyber-crime than the sale of pre-packaged software.

Our service involves the storage and transmission of customers' proprietary information. If our security measures are breached as a result of third-party action, employee error, malfeasance or otherwise and, as a result, unauthorized access is obtained to our customers' data or our data, our reputation could be damaged, our business may suffer, and we could incur significant liability. In addition, third parties may attempt to fraudulently induce employees or customers to disclose sensitive information such as user names, passwords, or other information in order to gain access to our customers' data or our data, which could result in significant legal and financial exposure and a loss of confidence in the security of our service that would harm our future business prospects. Because the techniques used to obtain unauthorized access, or to sabotage systems, change frequently and generally are not recognized until launched against a target, we may be unable to anticipate these techniques or to implement adequate preventative measures. If an actual or perceived breach of our security occurs, the market perception of the effectiveness of our security measures could be harmed and we could lose sales and customers.

Our business is currently dependent on the success of a single product, the Platform, and related services.

Our business model is dependent on the commercial success of the Platform. Our future financial performance and revenue growth will depend on acceptance by the market of our vision that mobile app development by a non-developer will become a mainstream solution for businesses of all sizes. Our growth is dependent on the introduction of new features to the Platform and innovation in the area of mobile app development solutions for a wide range of customers.

Government regulation may subject us to liability or require us to change the way we do business.

The laws and regulations that govern our business change rapidly. Evolving areas of law that are relevant to our business include privacy and security laws, proposed encryption laws, content regulation, information security accountability regulation, sales and use tax laws and regulations and attempts to regulate activities on the Internet. In addition to being directly subject to certain requirements of the HIPAA privacy and security regulations, we are required through contracts with our customers known as "business associate agreements" to protect the privacy and security of certain personal and health related information. We are required to comply with revised requirements under the HIPAA privacy and security regulations. The rapidly evolving and uncertain regulatory environment could require us to change how we do business or incur additional costs. Further, we cannot predict how changes to these laws and regulations might affect our business. Failure to comply with applicable laws and regulations could subject us to civil and criminal penalties, subject us to contractual penalties, including termination of our customer agreements, damage our reputation and have a detrimental impact on our business.

Our propriety rights may prove difficult to enforce.

Our Platform technology is not patent protected and is not exclusive to us, as there are various platforms in the market that allow for creation of mobile apps, ranging from "do it yourself" platforms for creation of template apps to platform tools designed for use by developers. Although we consider our Platform unique, in that it allows for creation of sophisticated mobile apps by non-developers, there is no guarantee that another company will not build a similar platform.

Furthermore, many key aspects of networking technology are governed by industry wide standards, which are usable by all market entrants. Although we are not dependent on any individual patents or group of patents for particular segments of the business for which we compete, if we are unable to protect our proprietary rights to the totality of the features (including aspects of products protected other than by patent rights) in a market, we may find ourselves at a



competitive disadvantage to others who need not incur the substantial expense, time, and effort required to create innovative products that have enabled us to be successful.

We may be found to infringe on intellectual property rights of others.

Third parties, including customers, may in the future assert claims or initiate litigation related to exclusive patent, copyright, trademark, and other intellectual property rights to technologies and related standards that are relevant to us. Because of the existence of a large number of patents in the mobile apps field, the secrecy of some pending patents, and the rapid rate of issuance of new patents, it is not economically practical or even possible to determine in advance whether a product or any of its components infringes or will infringe on the patent rights of others. The asserted claims and/or initiated litigation can include claims against us or our manufacturers, suppliers, or customers, alleging infringement of their proprietary rights with respect to our existing or future products or components of those products. Regardless of the merit of these claims, they can be time-consuming, result in costly litigation and diversion of technical and management personnel, or require us to develop a non-infringing technology or enter into license agreements. Where claims are made by customers, resistance even to unmeritorious claims could damage customer relationships. There can be no assurance that licenses will be available on acceptable terms and conditions, if at all, or that our indemnification by our suppliers will be adequate to cover our costs if a claim were brought directly against us or our customers. Furthermore, because of the potential for high court awards that are not necessarily predictable, it is not unusual to find even arguably unmeritorious claims settled for significant amounts. If any infringement or other intellectual property claim made against us by any third party is successful, if we are required to indemnify a customer with respect to a claim against the customer, or if we fail to develop non-infringing technology or license the proprietary rights on commercially reasonable terms and conditions, our business, operating results, and financial condition could be materially and adversely affected.

Our exposure to risks associated with the use of intellectual property may be increased as a result of acquisitions, as we have a lower level of visibility into the development process with respect to such technology or the care taken to safeguard against infringement risks.



Officers, directors, principal stockholders and other related parties control us. This might lead them to make decisions that do not align with interests of minority stockholders.

Our principal stockholders beneficially own or control a large percentage of our outstanding common stock. Certain of these principal stockholders hold Notes, which may be exercised or converted into additional shares of our common stock under certain conditions. The Noteholders have designated a representative to act as their agent. We have agreed that the representative shall be granted access to our facilities and personnel during normal business hours, shall have the right to attend all meetings of the Board of Directors and its committees, and shall receive all materials provided to the Board of Directors or any committee. In addition, so long as the Notes are outstanding, we have agreed that we will not take certain material corporate actions without approval of the representative.

Our principal stockholders, acting together, would have the ability to control substantially all matters submitted to our stockholders for approval (including the election and removal of directors and any merger, consolidation, or sale of all or substantially all of our assets) and to control our management and affairs. Accordingly, this concentration of ownership may have the effect of delaying, deferring, or preventing a change in control of us; impeding a merger, consolidation, takeover, or other business combination involving us; or discouraging a potential acquirer from making a tender offer or otherwise attempting to obtain control of us, which in turn could materially and adversely affect the market price of our common stock.

Mr. Avy Lugassy controls Grasford Investments Ltd. (“Grasford”). As of December 31, 2018, Grasford holds 10,054,045 , or 35.6%, of the Company’s issued and outstanding common stock and approximately \$12.1 million in aggregate principal amount of our promissory notes, which are currently convertible at the election of the holder into additional 8,444,952 shares of common stock. Being a significant owner of our company, Mr. Lugassy may exercise significant influence on our operations through his ability to vote his shares.

In addition, as of the date of this report, Union Bancaire Privée (“UBP”) holds 7,167,832, or 25.4% of the Company’s issued and outstanding common stock and approximately \$25.9 million in aggregate principal amount of the Notes. Because UBP may convert its Notes upon request, if UBP so converts, it would acquire a significant percentage of our shares of common stock and, like Grasford, would be able to exercise significant influence on the Company’s operations as a result.

Future utilization of net operating loss carryforwards may be limited.

In accordance with Section 382 of the Internal Revenue Code of 1986, as amended, a change in equity ownership of greater than 50% of the Company within a three-year period can result in an annual limitation on the Company’s ability to utilize its net operating loss carryforwards that were created during tax periods prior to the change in ownership. A change in ownership may result from the issuance of shares of the Company’s common stock pursuant to conversion of the Notes or any other event that would result in the issuance of common or preferred shares of the Company, among other events.

Any future issuance of our shares of common stock could have a dilutive effect on the value of our existing shares of common stock.

The conversion price on our outstanding convertible promissory notes is fixed at \$1.43 per share and on March 27, the closing price of our stock was \$1.86 per share. As of the date of this report, we have \$39,370,000 of face value Notes outstanding convertible into 27,531,469 shares of common stock, which would almost double our current number of shares of common stock outstanding. As we continue to issue more of the Notes, the number of conversion shares will increase.





The ability of our Board of Directors to issue additional stock may prevent or make more difficult certain transactions, including a sale or merger of the Company.

Our Board of Directors is authorized to issue up to 5,000,000 shares of preferred stock with powers, rights and preferences designated by it. Shares of voting or convertible preferred stock could be issued, or rights to purchase such shares could be issued, to create voting impediments or to frustrate persons seeking to effect a takeover or otherwise gain control of the Company. The ability of the Board of Directors to issue such additional shares of preferred stock, with rights and preferences it deems advisable, could discourage an attempt by a party to acquire control of the Company by tender offer or other means. Such issuances could therefore deprive stockholders of benefits that could result from such an attempt, such as the realization of a premium over the market price for their shares in a tender offer or the temporary increase in market price that such an attempt could cause. Moreover, the issuance of such additional shares of preferred stock to persons friendly to the Board of Directors could make it more difficult to remove incumbent officers and directors from office even if such change were to be favorable to stockholders generally.

There currently is very limited public market for our common stock and there can be no assurance that a more active public market will ever develop. Failure to develop or maintain a trading market could negatively affect the value of our common stock and make it difficult or impossible for you to sell your shares.

There is currently a very limited public market for shares of our common stock and a more active one may never develop. Our Common Stock is quoted on the OTC Markets, QB Tier. The OTC Markets is a thinly traded market and lacks the liquidity of certain other public markets with which some investors may have more experience. Our shares of common stock are traded infrequently and even an insignificant investment in our shares of common stock may be illiquid.

We may not ever be able to satisfy the listing requirements for our common stock to be listed on a national securities exchange, which is often a more widely-traded and liquid market. Some, but not all, of the factors which may delay or prevent the listing of our common stock on a more widely-traded and liquid market include the following: our stockholders' equity may be insufficient; the market value of our outstanding securities may be too low; our net income from operations may be too low; our common stock may not be sufficiently widely held; we may not be able to secure market makers for our common stock; and we may fail to meet the rules and requirements mandated by the several exchanges and markets to have our common stock listed. Should we fail to satisfy the initial listing standards of the national exchanges, or our common stock is otherwise rejected for listing, and remains listed on the OTC Markets or is suspended from the OTC Markets, the trading price of our common stock could suffer and the trading market for our common stock may be less liquid and our common stock price may be subject to increased volatility, making it difficult or impossible to sell shares of our common stock.

Penny Stock Regulations are applicable to investment in shares of our common stock.

Broker-dealer practices in connection with transactions in "penny stocks" are regulated by certain penny stock rules adopted by the SEC. Penny stocks generally are equity securities with a price of less than \$5.00 (other than securities registered on certain national securities exchanges, provided that current prices and volume information with respect to transactions in such securities are provided by the exchange or system). Penny stock rules require a broker-dealer, prior to a transaction in a penny stock not otherwise exempt from the rules, to deliver a standardized risk disclosure document that provides information about penny stocks and the risks in the penny stock market. The broker-dealer also must provide the customer with current bid and offer quotations for the penny stock, the compensation of the broker-dealer and its salesperson in the transaction, and monthly account statements showing the market value of each penny stock held in the customer's account. In addition, penny stock rules generally require that prior to a transaction in a penny stock, the broker-dealer make a special written determination that the penny stock is a suitable investment

for the purchaser and receive the purchaser's written agreement to the transaction. These disclosure requirements may have the effect of reducing the level of trading activity in the secondary market for a stock that becomes subject to penny stock rules. Many brokers will not deal with penny stocks, restricting the market for our shares of common stock.

We do not intend to pay any cash dividends on our shares of common stock; thus our stockholders will not be able to receive a return on their shares unless they sell them.

We intend to retain any future earnings to finance the development and expansion of our business. We do not anticipate paying any cash dividends on our common stock in the foreseeable future. Unless we pay dividends, our stockholders will not be able to receive a return on their shares unless they sell them.





ITEM 1B. UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 2. PROPERTIES

We do not own any real property. The Company's corporate office in Raleigh North Carolina consists of approximately 7,000 square feet. The lease term for the premises commenced in July 2013 with an initial term that expires in March 2019. The Company has extended the lease through April 2024. As a result of the amendment the Company has received an incentive from the landlord valued at approximately \$100,000. The Company intends to take advantage of the incentive through April 30, 2019.

Accounting principles generally accepted in the United States of America require that the total rent expense to be incurred over the term of the lease be recognized on a straight-line basis. Deferred rent represents the cumulative excess of the straight-line expense over the payments made. The average annual rent expense over the term of the lease is approximately \$189,000.

ITEM 3. LEGAL PROCEEDINGS

From time to time, we may become involved in various lawsuits and legal proceedings which arise in the ordinary course of business. We are currently not aware of any such legal proceedings or claims that we believe will have, individually or in the aggregate, a material adverse effect on our business, financial condition or operating result.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.



PART II

ITEM 5. MARKET FOR REGISTRANT’S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our common stock is currently quoted on the OTC Market (OTC.QB) under the symbol “MOST.” Although trading in our common stock has occurred on a relatively consistent basis, the volume of shares traded has been sporadic and very low. There can be no assurance that an established trading market will develop, that the current market will be maintained or that a liquid market for our Common Stock will be available in the future. Investors should not rely on historical stock price performance as an indication of future price performance.

The following table shows the quarterly high and low bid prices for our Common Stock over the last two completed fiscal years as quoted on the OTC Market (OTC.QB). The prices represent quotations by dealers without adjustments for retail mark-ups, mark-downs or commission and may not represent actual transactions.

Year Ended December 31, 2017: High Low

First Quarter	\$1.40	\$1.25
Second Quarter	\$1.44	\$0.45
Third Quarter	\$1.75	\$0.25
Fourth Quarter	\$1.99	\$1.00

Year Ended December 31, 2018:

First Quarter	\$4.01	\$1.00
Second Quarter	\$2.50	\$1.50
Third Quarter	\$2.50	\$1.30
Fourth Quarter	\$2.50	\$0.75

As of March 27, 2018 there were 161 holders of record of shares of our common stock.

Dividend Policy

We have never declared or paid any cash dividends on shares of our common stock and do not intend to declare or pay dividends for the foreseeable future. As long as the Notes are outstanding, we must receive approval from the bond representative designated by the Noteholders in order to pay any dividend on shares of our common stock.

Issuer Repurchases of Equity Securities

We do not have a stock repurchase program for our common stock and have not otherwise purchased any shares of our common stock.

ITEM 6. SELECTED FINANCIAL DATA

Not applicable.





## ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This discussion summarizes significant factors affecting the operating results, financial condition and liquidity of MobileSmith for the two-year period ended December 31, 2018. This discussion should be read in conjunction with the financial statements and notes thereto included in Part II, Item 8 "Financial Statements and Supplementary Data" of this Annual Report on Form 10-K and the more detailed discussion and analysis of our financial condition and results of operations in conjunction with the risks described in Part I, Item 1A, "Risk Factors" of this Annual Report on Form 10-K.

### Overview of Financing Activities and Sources of Cash

From November 14, 2007 and through the date of this report on Form 10-K, we have financed our working capital deficiency primarily through the issuance of 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"). All references in this filing to "2007 NPA Notes" will mean notes issued under the 2007 NPA and all references to "2014 NPA Notes" will mean notes issued under the 2014 NPA. All references to the Notes will mean any convertible note or notes issued either under 2007 or 2014 NPAs.

From November 14, 2007 and through December 10, 2014, we have financed our working capital deficiency primarily with the issuance of Notes under the 2007 NPA. On December 11, 2014 the Company entered into the 2014 NPA and issued its first 2014 NPA Note to UBP. We intend to primarily use our 2014 NPA for future issuances of convertible notes.



In June of 2018 we extended maturity of both the 2007 and 2014 NPA Notes from November of 2018 to November of 2020, which lengthened the period of time over which the debt discount is amortized.

During 2018, we borrowed a total of \$4,715,000 under the 2014 NPA and converted \$5,075,000 in principal amount of 2007 NPA Notes into 3,548,951 shares of common stock. The aggregate balance of the Notes as of December 31, 2018 was \$36,350,825, net of \$1,569,175 discount.

Amounts outstanding under the 2007 NPA are secured by a lien on all of our assets.

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

Convertible Notes Type:	Balance
2007 NPA notes, net of discount	\$20,374,668
2014 NPA notes, net of discount	15,976,157
Total convertible notes	\$36,350,825

#### Comerica LSA

We have an outstanding Loan and Security Agreement (the "LSA") with Comerica Bank pursuant to which \$5,000,000 is outstanding with an original maturity date of June 9, 2016. On June 8, 2018, the Company and Comerica Bank entered into Second Amendment to the LSA, which extended the maturity of the LSA to June 9, 2020.

The LSA is secured by an extended irrevocable letter of credit issued by UBS AG (Geneva, Switzerland) with a renewed term expiring on May 31, 2019, which term is automatically 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. 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-K, 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.





## COMPARISON OF THE YEAR ENDED DECEMBER 31, 2018 AND THE YEAR ENDED DECEMBER 31, 2017

## 2018 Highlights

In May of 2018 the Company granted significant number of stock options to its employees. As a result, our stock based compensation increased by approximately \$900,000 in 2018 when compared to 2017. Stock based compensation impacted every operating expense category.

## Comparison of Operating Results

## Results of Operations

Category	Year ended December 31, 2018	Year ended December 31, 2017	Increase (Decrease)	
			\$	%
Revenue	2,323,121	3,452,888	(1,129,767)	(33)%
Cost of Revenue	803,712	609,829	193,883	32%
Gross Profit	1,519,409	2,843,059	(1,323,650)	(47)%
Sales and Marketing	1,647,602	1,175,920	471,682	40%
Research and Development	1,693,970	1,674,221	19,749	1%
General and Administrative	2,378,381	1,610,543	767,838	48%
Interest Expense	4,138,030	4,463,059	(325,029)	(7)%

Revenue decreased by \$1,129,767, or 33%. The decrease in revenues is primarily attributable to the recognition and recording in 2017 of previously deferred revenues in 2016 for a single customer. That single customer accounted for \$1,598,035 of 2017 revenue. The relationship with that customer terminated in 2017.

Cost of Revenue increased by \$193,883, or 32%. An increase of \$110,000 is attributable to increased license and use fees paid to our service partners, whose technology is integrated into our service offerings. The increase of \$54,000 is attributable to internal personnel costs associated with delivery of services. The remainder for the increase is attributable to the stock based compensation component of our delivery team personnel expense.

Gross Profit decreased by \$1,323,650, or 47% and is primarily attributable to impact from 2017 revenue recognition for single customer as described above.

Sales and Marketing expense increased by \$471,682, or 40%. The sales and marketing team payroll related expense was higher by approximately \$100,000. Travel expenses of the sales team were higher by approximately \$62,000. Tradeshow and campaign related expenses were higher by approximately \$24,000. The costs of consultants employed to perform industry research, lead generation, PR and other sales enablement activities were higher by approximately \$112,000. The remainder of the increase is attributable to increase in stock based compensation of sales and marketing team.

Research and Development expense increased by \$19,749, or 1%. Payroll and personnel related expenses of the research and development team decreased by approximately \$210,000, offset by increase in stock based compensation

of approximately \$230,000.

General and Administrative expense increased by \$767,838, or 48%. An increase of approximately \$160,000 is attributable to increased compensation of the CEO (including \$90,000 severance payment to the former CEO), CFO and the fact that board was engaged for a full year in comparison to 2017. Travel costs associated with the executive team and board travel activities increased by approximately \$50,000. Professional services and consultants expense increased by approximately \$65,000. Rent and insurance increased by approximately \$22,000. Stock based compensation of the executive team and the board increased by approximately \$470,000.

Interest expense decreased by \$325,029, or 7%. Interest expense decreased by \$375,000 due to a decrease in average face value of our debt due to conversions, offset by an increase in interest expense related to the Comerica LSA impacted by rising interest rates. The cash interest portion was offset by a increase of approximately \$18,000 in debt discount amortization as a result of increase in beneficial conversion feature associated with debt issuance.



## 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 the Convertible Note Facilities. 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 Notes, together with cash on hand, will provide sufficient funds to finance our operations at least for the next 12 months from the date of this report. 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 Convertible Note Facilities or otherwise on acceptable terms if 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.

During 2018, the Company raised gross proceeds of \$4,715,000 from the private placement to UBP under 2014 NPA and \$525,000 through issuance of subordinated promissory notes to a related party. Subsequent to December 31, 2018 and through the date of this report, the Company issued additional 2014 NPA Notes to UBP in the amount of \$1,450,000 and \$600,000 of subordinated promissory notes to a related party.

Nonetheless, there are factors that can impact our ability to continue to fund our operating 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, if UBS were to elect to not renew the irrevocable letter of credit beyond May 31, 2019, 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 filing date of this report on Form 10-K, 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, 2020 and the Comerica LSA matures on June 9, 2020.



## Uses of Cash

During the year ended December 31, 2018, we used in operating activities approximately \$7.5 million of cash, which was offset by \$2.6 million in cash collected from our customers, netting approximately \$4.9 million of net cash used in operating activities. Approximately \$2.6 million of this amount was used to pay interest payments on the convertible notes and bank debt; approximately \$3.3 million for payroll, benefits and related costs; approximately \$687,000 was used for non-payroll related sales and marketing efforts, such as tradeshow, marketing campaigns, industry research, PR consulting and other outsourced sales enablement activities and approximately \$872,000 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 year ended December 31, 2017, we used in operating activities approximately \$7.6 million of cash, which was offset by \$3.4 million in cash collected from our customers, netting approximately \$4.2 million of net cash used in operating activities. Approximately \$3.2 million of this amount was used to pay interest payments on the convertible notes and bank debt; approximately \$3.3 million for payroll, benefits and related costs; approximately \$370,000 was used for non-payroll related sales and marketing efforts, such as tradeshow and marketing campaigns and approximately \$756,000 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 this Annual Report on Form 10-K in which they express substantial doubt as to our ability to continue as a going concern. The 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.

## Critical accounting policies and estimates

The discussion and analysis of our financial condition and results of operations are based upon our financial statements, which have been prepared in accordance with generally accepted accounting principles in the United States. The preparation of these financial statements requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an on-going basis, we evaluate our estimates, including those related to revenue recognition, bad debts, intangible assets and income taxes. Our estimates are based on historical experience and on various other assumptions that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

We have identified the accounting policies below as critical to our business operations and the understanding of our results of operations.





## Revenue Recognition, Deferred Revenue and Multiple Element Arrangements

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. The adoption of Topic 606 took place with the year beginning January 1, 2018 and did not have material impact on the Company's consolidated financial statements. The Company selected a modified retrospective approach at the time of adoption, at which time cumulative effect of initially adopting the standard was recognized in retained earnings at the date of adoption as well as the inclusion of additional footnote disclosures. 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 consolidated financial statements.

### Revenue Recognition: General Overview and Performance Obligations to Customers

The Company derives revenue primarily from contracts for subscription to the suite of e-health mobile solutions and, to a much lesser degree, ancillary services provided in connection with subscription services.

The Company's contracts include the following performance obligations:

Access to the content available on the App Blueprint Catalog, including hosting of the deployed apps;

App Build and Managed Services;

Custom development work.

The majority of the Company's contracts are for subscription to a catalog of mobile App Blueprints, hosting of the deployed apps and related services. Custom work for specific deliverables is documented in the statements of work. Customers may enter into subscription and various statements of work concurrently or consecutively. Most of the Company's performance obligations are not considered to be distinct from the subscription to Blueprints, hosting of deployed apps 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. The transaction price may include a significant financing component in instances where Company offers discounts for accelerated payments on the long-term contracts. A 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 Blueprints, hosting and related services and, to a lesser degree, allocated between the access and other distinct performance obligations based on the stand-alone selling price. The subscription revenue is then recognized over the term of the contract, using the output method of time elapsed. Other performance obligations identified are evaluated based on the specific terms of the agreement are usually recognized at a point in time upon delivery of a 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 in excess of revenue recognized results in the recording of a contract liability. Unbilled portion of transaction price represents contracted consideration receivable by the Company, that was not yet billed.

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#### 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 December 31, 2018 the Company's other assets include approximately \$73,000 of such costs.

#### Contract Liabilities

A new contract liability is created every time the Company records receivables due from its customers and has not satisfied the requirements to recognize revenue. 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.

#### Recoverability and Impairment of Long-Lived Assets

We evaluate the recoverability of our long-lived assets every reporting period or whenever events and circumstances indicate that the value may be impaired.

#### ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not applicable.

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and  
Stockholders of MobileSmith, Inc.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of MobileSmith, Inc. (the “Company”) as of December 31, 2018 and 2017, and the related consolidated statements of operations, stockholders’ deficit, and cash flows for years then ended, and the related notes (collectively referred to as the “financial statements”). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017, and the results of its operations and its cash flows for years then ended, in conformity with accounting principles generally accepted in the United States of America.

Going Concern Uncertainty

These financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the financial statements, the Company has suffered recurring losses from operations and has a working capital deficiency as of December 31, 2018. These conditions raise substantial doubt about the Company’s ability to continue as a going concern. Management’s plans concerning these matters are described in Note 1 to the financial statements. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Basis for Opinion

These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (“PCAOB”) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

We have served as the Company’s auditor since 2009.

/s/ Cherry Bekaert LLP

Raleigh, North Carolina  
March 29, 2019

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MOBILESMITH, INC.  
CONSOLIDATED BALANCE SHEETS

## ASSETS

	December 31, 2018	December 31, 2017
Cash and Cash Equivalents	\$267,290	\$58,484
Restricted Cash	239,611	120,372
Trade Accounts Receivable, Less Allowance for Doubtful Accounts of \$10,000 and \$0, Respectively	271,387	260,403
Prepaid Expenses and Other Current Assets	125,798	71,992
Total Current Assets	904,086	511,251
Property and Equipment, Net	45,012	71,603
Capitalized Software, Net	64,352	169,593
Intangible Assets, Net	-	20,093
Total Assets	\$1,013,450	\$772,540
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Trade Accounts Payable	\$166,681	\$125,982
Accrued Expenses	278,842	201,528
Accrued Interest	1,584,794	865,822
Capital Lease Obligations, Current	22,591	34,927
Contract Liability, Current	1,476,725	944,674
Bank Loan	-	5,000,000
Convertible Notes Payable, Related Parties, Net of Discount	-	37,101,243
Convertible Notes Payable, Net of Discount	-	680,640
Total Current Liabilities	3,529,633	44,954,816
Bank Loan	5,000,000	-
Subordinated Promissory Notes, Related Party	525,000	-
Convertible Notes Payable, Related Parties, Net of Discount	35,740,085	-
Convertible Notes Payable, Net of Discount	610,740	-



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Capital Lease Obligations	6,378	28,907
Contract Liability	226,270	443,829
Deferred Rent	35,287	26,286
Total Liabilities	45,673,393	45,453,838
Commitments and Contingencies (Note 6)		
Stockholders' Deficit		
Preferred Stock, \$0.001 Par Value, 5,000,000 Shares Authorized, No Shares Issued and Outstanding at December 31, 2018 or 2017	-	-
Common Stock, \$0.001 Par Value, 100,000,000 Shares Authorized At December 31, 2018 and 2017; 28,271,598 and 24,722,647 Shares Issued and Outstanding at December 31, 2018 and 2017, Respectively	28,272	24,723
Additional Paid-in Capital	114,082,897	105,795,621
Accumulated Deficit	(158,771,112)	(150,501,642)
Total Stockholders' Deficit	(44,659,943)	(44,681,298)
Total Liabilities and Stockholders' Deficit	\$1,013,450	\$772,540

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

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MOBILESMITH, INC.  
CONSOLIDATED STATEMENT OF OPERATIONS

	Year Ended	
	December 31, 2018	December 31, 2017
REVENUES:	\$2,323,121	\$3,452,888
COST OF REVENUES:	803,712	609,829
GROSS PROFIT	1,519,409	2,843,059
OPERATING EXPENSES:		
Sales and Marketing	1,647,602	1,175,920
Research and Development	1,693,970	1,674,221
General and Administrative	2,378,381	1,610,543
Total Operating Expenses	5,719,953	4,460,684
LOSS FROM OPERATIONS	(4,200,544)	(1,617,625)
OTHER INCOME (EXPENSE):		
Other Income	3,827	1,688
Interest Expense, Net	(4,138,030)	(4,463,059)
Total Other Expense	(4,134,203)	(4,461,371)
NET LOSS	\$(8,334,747)	\$(6,078,996)
NET LOSS PER COMMON SHARE:		
Basic and Fully Diluted from Continuing Operations	\$(0.29)	\$(0.25)
Weighted-Average Number Of Shares Used In Computing Net Loss Per Common Share:		
Basic And Fully Diluted	28,271,598	24,722,647

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

MOBILESMITH, INC.  
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended	
	December 31, 2018	December 31, 2017
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net Loss	\$(8,334,747)	\$(6,078,996)
Adjustments to Reconcile Net Loss to Net Cash Used in Operating Activities:		
Depreciation and Amortization	161,424	163,604
Bad Debt Expense	10,000	12,500
Amortization of Debt Discount	773,877	799,161
Share Based Compensation	1,370,890	476,957
Changes in Assets and Liabilities:		
Accounts Receivable	(20,984)	188
Prepaid Expenses and Other Assets	61,509	(7,350)
Accounts Payable	44,912	76,149
Deferred Revenue	264,454	(16,448)
Accrued and Other Expenses	801,074	408,657
Net Cash Used in Operating Activities	(4,867,591)	(4,165,578)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Payments to Acquire Property and Equipment	(9,499)	(8,339)
Net Cash Used in Investing Activities	(9,499)	(8,339)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds From Issuance of Subordinated Promissory Notes from Related Party	525,000	-
Proceeds From Issuance of Convertible Notes Payable	4,715,000	3,725,000
Repayments of Capital Lease Obligations	(34,865)	(36,950)
Net Cash Provided by Financing Activities	5,205,135	3,688,050
<b>NET INCREASE (DECREASE) IN CASH, CASH EQUIVALENTS AND RESTRICTED CASH</b>	<b>328,045</b>	<b>(485,867)</b>
<b>CASH, CASH EQUIVALENTS AND RESTRICTED CASH, BEGINNING OF PERIOD</b>	<b>178,856</b>	<b>664,723</b>
<b>CASH, CASH EQUIVALENTS AND RESTRICTED CASH, END OF PERIOD</b>	<b>\$506,901</b>	<b>\$178,856</b>
<b>Supplemental Disclosures of Cash Flow Information:</b>		
Cash Paid During the Period for Interest	\$2,629,518	\$3,253,345
<b>Non-Cash Investing and Financing Activities</b>		
Recorded Debt Discount Associated with Beneficial Conversion Feature	\$1,850,035	\$78,497

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Conversion of notes payable into common shares	\$5,075,000	\$7,000,000
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The accompanying notes are an integral part of these consolidated financial statements.

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MOBILESMITH, INC.  
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' DEFICIT  
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

## Common Stock

	Shares	0.001 Par Value	Additional Paid-In Capital	Accumulated Deficit	Totals
BALANCES, DECEMBER 31, 2016	19,827,542	\$19,828	\$98,245,063	\$(144,422,646)	\$(46,157,755)
Equity-Based Compensation		-	476,957	-	476,957
Beneficial Conversion Feature Recorded as a Result of Issuance of Convertible Debt			78,496		78,496
Conversion of Notes Payable to Common Stock	4,895,105	4,895	6,995,105		7,000,000
Net Loss		-		(6,078,996)	(6,078,996)
BALANCES, DECEMBER 31, 2017	24,722,647	\$24,723	\$105,795,621	\$(150,501,642)	\$(44,681,298)
Cumulative adjustment related to adoption of ASC606 Revenue Recognition guidance				65,277	65,277
Equity-Based Compensation		-	1,370,890	-	1,370,890
Beneficial Conversion Feature Recorded as a Result of Issuance of Convertible Debt			1,850,035		1,850,035
Conversion of Notes Payable to Common Stock	3,548,951	3,549	5,066,351		5,069,900
Net Loss		-		(8,334,747)	(8,334,747)
BALANCES, DECEMBER 31, 2018	28,271,598	\$28,272	\$114,082,897	\$(158,771,112)	\$(44,659,943)

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

1. SUMMARY OF BUSINESS AND DESCRIPTION OF GOING CONCERN

Description of Business and Going Concern

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 same year the Company focused exclusively on development of do-it-yourself customer facing platform that enabled 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. During 2017 the Company concluded that it had its highest rate of success with clients within the Healthcare industry and concentrated its development and sales and marketing efforts in that industry. During 2018 we further refined our Healthcare offering and redefined our product - a suite of e-health mobile solutions, that consists of:

access to a catalog of ready to deploy mobile app solutions (App Blueprint Catalog)

related deployment, support and integration services (App Build and Managed Services and custom development, where applicable), and

hosting of the deployed mobile apps.

Our flagship MobileSmith® Platform has transformed from a do-it-yourself customer facing platform into an internally used engine that supports the deployment of mobile apps created from Blueprints, integration of various third-party code and services into the mobile apps produced from Blueprints and the hosting of deployed apps and design of new Blueprints.

The accompanying 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 years ended December 31, 2018 and 2017, the Company incurred net losses, as well as negative cash flows from operations, and at December 31, 2018 and 2017, had deficiencies in working capital. These factors indicate that the Company may be unable to continue as a going concern. The 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.

The Company’s continuation as a going concern depends upon its ability to generate sufficient cash flows to meet its obligations on a timely basis, to obtain additional financing as may be required, and ultimately to attain profitable operations and positive cash flows. Since November 2007, the Company has been funding its operations, in part, from the proceeds of the issuance of notes under a convertible secured subordinated note facility which was established in 2007, as well as, an unsecured convertible subordinated note facility established in 2014. As of December 31, 2018, the Company had \$37,920,000 of face value outstanding under these facilities and the Company is entitled to request additional notes under these facilities in an amount not exceeding \$21,105,000, subject to the terms and conditions specified in these facilities. There can be no assurance that the Company will in fact be able to raise additional capital through these facilities or even from other sources on commercially acceptable terms if at all. As such, there is substantial doubt about the Company's ability to continue as a going concern.

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## 2. SIGNIFICANT ACCOUNTING POLICIES

### Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States (“US GAAP”) requires management to make estimates and assumptions in the Company’s financial statements and notes thereto. Significant estimates and assumptions made by management include the determination of performance obligations and the allocation of consideration among performance obligations, and the determination of when the Company has met the requirements to recognize revenue related to the performance obligations, share-based compensation, allowance for accounts receivable, estimated useful lives of property and equipment, recoverability of capitalized software asset and other long lived assets. Actual results could differ from those estimates.

### Fair Value of Financial Instruments

US GAAP requires disclosures of fair value information about financial instruments, whether or not recognized in the balance sheet, for which it is practicable to estimate that value. Due to the short period of time to maturity, the carrying amounts of cash equivalents, accounts receivable, accounts payable, accrued liabilities, and notes payable reported in the financial statements approximate the fair value.

### Cash and Cash Equivalents

All highly liquid investments with an original maturity of three months or less are considered to be cash equivalents. The Federal Deposit Insurance Corporation (FDIC) covers \$250,000 for substantially all depository accounts. The Company from time to time may have amounts on deposit in excess of the insured limits.

### Revenue Recognition: General Overview and Performance Obligations to Customers

The Company derives revenue primarily from contracts for subscription to the suite of e-health mobile solutions and, to a much lesser degree, ancillary services provided in connection with subscription services.

The Company’s contracts include the following performance obligations:

Access to the content available on the App Blueprint Catalog, including hosting of the deployed apps;

App Build and Managed Services; and

Custom development work.

The majority of the Company’s contracts are for a subscription to a catalog of mobile App Blueprints, and hosting of the deployed apps and related services. Custom work for specific deliverables is documented in statements of work or separate contracts. Customers may enter into subscription and various statements of work concurrently or consecutively. Most of the Company’s performance obligations are not considered to be distinct from the subscription to Blueprints, hosting of deployed apps 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. The transaction price is impacted by the terms of a contracted agreement with the customer. Such terms range from one to three years. The transaction price excludes any marketing or sales discounts or any future renewal periods, unless the renewal periods represent a material right given to customer to extend the agreement. The transaction price may include a significant financing component in instances where Company offers discounts for accelerated payments on the long-term contracts. Significant financing components are recorded in other assets and amortized as interest expense in the Company's Statement of Operations over the term of the contract.

The transaction price is predominantly allocated to a single performance obligation of access to the Blueprints, hosting and related services and, to a lesser degree, allocated between the access and other distinct performance obligations based on the stand-alone selling price. The subscription revenue is then recognized over time over the term of the contract, using the output method of time elapsed. Other performance obligations identified are evaluated based on the specific terms of the agreement are usually recognized at a point in time upon delivery of a 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 in excess of revenue recognized results in the recording of a contract liability. The unbilled portion of transaction price related to revenue earned 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. Sales commissions 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 December 31, 2018 the Company's other assets include approximately \$73,000 of such costs.

#### Contract Liabilities

A new contract liability is created every time the Company records receivables due from its customers. The contract liability represents the 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 days. The 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 the application of accounting standards to individual contracts with customers, but allows for the 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 the 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.

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

In instances where a customer had been granted a material option which in essence is a right to renew under the terms of the original contract, the Company uses a practical alternative to estimating the standalone selling price of the option: the alternative includes allocation of the transaction price to the optional goods or services by reference to the goods or services expected to be provided and the corresponding expected consideration

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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 the cumulative effect of initially adopting the standard is 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 the Company's Consolidated Balance Sheet at January 1, 2018 due to the adoption of Topic 606 were as follows:

	Balance at		Balance at
	December 31, 2017	Adjustments	January 1, 2018
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 Consolidated Financial Statements:

Consolidated Balance Sheet:

	As Reported as of 12/31/2018	Balances without Adoption of Topic 606	Effect of Adoption
Assets			
Prepaid Expenses and Other Current Assets	\$125,798	\$52,995	\$72,802
Liabilities			
Contract Liability	1,702,995	1,673,521	29,474
Equity			
Accumulated Deficit	\$(158,771,112)	\$(158,836,389)	\$65,277

Consolidated Statement of Operations:

As Reported for the Period Ended 12/31/2018	Balances without Adoption of Topic 606	Effect of Adoption
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REVENUES:

Subscription and Support	\$2,323,121	\$2,302,557	\$20,564
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OPERATING  
EXPENSES:

Sales and Marketing	\$1,647,602	\$1,623,333	\$24,269
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OTHER INCOME  
(EXPENSE)

Interest Expense, Net	\$(4,138,030)	\$(4,119,786)	\$(18,244)
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#### Cost of Revenues

Cost of revenues includes salaries of customer support teams, costs of infrastructure, expenses for outsourced work to fulfill the contracted work, and amortization charges for capitalized software.

#### Allowance for Doubtful Accounts

The Company maintains an allowance for doubtful accounts for estimated losses resulting from the inability or failure of its customers to make required payments. The need for an allowance for doubtful accounts is evaluated based on specifically identified amounts that management believes to be potentially uncollectible. If actual collections experience changes, revisions to the allowance may be required.

#### Property and Equipment

The Company records property and equipment at cost and provides for depreciation and amortization using the straight-line method for financial reporting purposes over the estimated useful lives. The estimated useful lives by asset classification are as follows:

Computer hardware and office equipment	5 years
Computer software	5 years
Furniture and fixtures	5 years
Leasehold improvements	Shorter of the estimated useful life or the lease term

#### Software Development Costs

The Company capitalized certain costs of development and subsequent enhancement of our platform that supports the deployment of mobile apps created from Blueprints (the "Platform") through the middle of 2013. The Company started capitalizing software development costs when technological feasibility of the Platform or its enhancements had been established. The Company expensed costs associated with the preliminary project stage and research activities. The Company's policy provided for the capitalization of certain payroll, benefits, and other payroll-related costs for employees who were directly associated with development.

During 2012, the Platform was substantially completed. During 2013, the Company's development efforts became more driven by market requirements and rapidly changing customers' needs. As a result, the Company's development team adopted iterative approach to software development (the "agile methodology"). Due to agile methodology short development cycles and focus on rapid production, the Company ceased capitalizing software development costs mid-way through 2013 as the documentation produced under the agile methodology did not meet requirements necessary to establish technological feasibility. No development costs were capitalized in 2018 or 2017 and the Company does not expect to capitalize substantial development costs in the future.

#### Intangible Assets

Intangible assets consist of the perpetual license for critical Platform software, costs associated with the Company's patent filings and other acquired intangible assets. The Company also owns several copyrights and trademarks related to products, names, and logos used throughout its non-acquired product lines.

#### Impairment of Long-Lived Assets

The Company evaluates the recoverability of its long-lived assets every reporting period or whenever events and circumstances indicate that the value may be impaired.

#### Advertising Costs

Advertising costs consist primarily of industry related tradeshow and marketing campaigns. Advertising costs are expensed as incurred, or the first time the advertising takes place, applied consistently based on the nature of the advertising activity. The amounts related to advertising during the years ended December 31, 2018 and 2017 were

\$404,882 and \$268,133, respectively.

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### Share-Based Compensation

The Company measures share-based compensation cost at the grant date based on the fair value of the award. The Company recognizes compensation cost on a straight-line basis over the requisite service period. The requisite service period is generally three years. The compensation cost is recognized net of estimated expected forfeiture activity. The Company re-evaluates its expected forfeiture rate periodically. Historically the Company's forfeiture rate used in calculation of share-based compensation expense ranged between 20% and 30%.

The Company uses simplified method allowed by SAB 107 for estimating expected term of the options in calculating the fair value of the awards that have a term of more than 7 years because the Company does not have reliable historical data on exercise of its options. The simplified method was used for options granted in 2018.

The fair value of option grants under the Company's equity compensation plan during the years ended December 31, 2018 and 2017 was estimated using Black-Scholes pricing model using the following weighted-average assumptions :

	2018	2017
Dividend yield	0.00%	0.00%
Expected volatility	108.48%	102.80%
Risk-free interest rate	2.75%	1.9%
Expected lives (years)	6.5	7.0

### Net Loss Per Share

Basic net loss per share is computed by dividing net loss by the weighted average number of shares of common stock outstanding during the periods. Diluted net loss per share is computed using the weighted average number of common and dilutive common equivalent shares outstanding during the periods. Shares of common stock issuable upon conversion of Convertible Subordinated Promissory Notes (the "Notes") and exercise of share-based awards are excluded from the calculation of the weighted average number, because the effect of the conversion and exercise would be anti-dilutive.

### Recently Issued Accounting Pronouncements

In February 2016, the Financial Accounting Standards Board ("FASB") established Topic 842, Leases, by issuing Accounting Standards Update (ASU) No. 2016-02, which requires lessees to recognize leases on-balance sheet and disclose key information about leasing arrangements. The new standard establishes a right-of-use model (ROU) that requires a lessee to recognize a ROU asset and lease liability on the balance sheet for all leases with a term longer than 12 months. Leases will be classified as finance or operating, with classification affecting the pattern and classification of expense recognition in the income statement.

The new standard is effective for us on January 1, 2019, with early adoption permitted. A modified retrospective transition approach is required, applying the new standard to all leases existing at the date of initial application. We expect to adopt the new standard on January 1, 2019 and use the effective date as our date of initial application, as permitted by the guidance. Consequently, financial information will not be updated and the disclosures required under the new standard will not be provided for dates and periods before January 1, 2019.

The new standard provides a number of optional practical expedients in transition. We expect to elect the 'package of practical expedients', which permits us not to reassess under the new standard our prior conclusions about lease identification, lease classification and initial direct costs.

We expect the adoption of this standard will have a material effect on our financial statements. The Company is substantially complete with its implementation and believes the most significant effects relate to the recognition of additional new ROU asset and lease liability on our balance sheet for our Raleigh office operating lease and providing significant new disclosures about our leasing activities. We do not expect a significant change in our leasing activities between now and adoption.

On adoption, we currently expect to recognize additional operating liabilities of between \$800,000 and \$850,000, with corresponding ROU asset of the same amount based on the present value of the remaining minimum rental payments under current leasing standards for existing lease.

The new standard also provides practical expedients for an entity's ongoing accounting. We also currently expect to elect the practical expedient to not separate lease and non-lease components for all of our leases.

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In June 2018, the FASB announced ASU 2018-07 Compensation-Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting. ASU 2018-07 expands the scope of Topic 718, Compensation—Stock Compensation (which currently only includes share-based payments to employees) to include share-based payments issued to nonemployees for goods or services. Consequently, the accounting for share-based payments to nonemployees and employees will be substantially aligned. The ASU supersedes Subtopic 505-50, Equity—Equity-Based Payments to Non-Employees. ASU 2018-07 is effective for public companies for fiscal years beginning after December 15, 2018, including interim periods within that fiscal year. Early adoption is permitted, but no earlier than a company’s adoption date of Topic 606, Revenue from Contracts with Customers. The Company elected to adopt ASU 2018-07 as of January 1, 2018.

In August 2018, the FASB announced ASU 2018-13 Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement. This amendment removes, modifies or adds certain disclosure requirements for Fair Value Measurements. For all entities, amendments are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. The Company doesn't expect that the ASU will have material impact on its financial statements.

### Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The fair value hierarchy prescribed by the accounting literature contains three levels as follows:

Level 1 – Quoted prices in active markets for identical assets or liabilities.

Level 2 – Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimations.

As of December 31, 2018 and 2017, we believe that the fair value of our financial instruments other than cash and cash equivalents, such as, accounts receivable, our line of credit, notes payable, and accounts payable approximate their carrying amounts.

### 3. PROPERTY AND EQUIPMENT AND CAPITALIZED SOFTWARE

Property and equipment:

December 31, 2018    December 31, 2017

Computer hardware	\$99,357	\$110,541
Computer software	37,884	37,884

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Furniture and fixtures	89,580	89,580
Equipment	25,558	25,558
Leasehold improvements	34,162	34,162
	286,541	297,725
Less accumulated depreciation	(241,529)	(226,122)
Property and equipment, net	\$45,012	\$71,603

Capitalized software:

December 31, 2018    December 31, 2017

Capitalized software	\$736,678	\$736,678
Less accumulated amortization	(672,326)	(567,085)
Capitalized software, net	\$64,352	\$169,593

During the years ended December 31, 2018 and 2017, the Company recorded depreciation and amortization expense related to its property and equipment and capitalized software of \$141,331 and \$146,104, respectively.

## 4. INTANGIBLE ASSETS

Intangible assets cost of \$118,534 at December 31, 2018 and 2017 is comprised of acquired licenses, related costs and other. As of December 31, 2018 these assets were fully amortized. As of December 31, 2017 the assets had a net carrying amount of \$20,093.

During the years ended December 31, 2018 and 2017, the Company recorded amortization expense related to its intangible assets of \$20,093 and \$17,500, respectively.

## 5. DEBT

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

Debt Description	December 31, 2018	December 31, 2017	Maturity	Rate
Comerica Bank Loan and Security Agreement	\$5,000,000	\$5,000,000	June 2020	6.10%
Capital lease obligations - Noteholder lease	18,843	45,294	August 2019	8.00%
Capital lease obligations - office furniture and other equipment	-	4,870	August 2018	9.80%
Capital lease obligations - vehicle	10,126	13,670	July 2021	5.59%
Convertible notes - related parties, net of discount of \$1,527,146 and \$447,988, respectively	35,740,085	37,101,243	November 2020	8.00%
Convertible notes, net of discount of \$45,029 and \$50,129, respectively	610,740	680,640	November 2020	8.00%
Subordinated Promissory Notes - related party	525,000	-	November 2020	8.00%
Total debt	41,904,794	42,845,717		
Less: current portion of long term debt				
Capital lease obligations	22,591	34,927		
Convertible notes - related parties, net of discount of \$447,988	-	37,101,243		
Convertible notes, net of discount of \$50,129	-	680,640		
Comerica Bank Loan and Security Agreement	-	5,000,000		
Total current portion of long term debt	22,591	42,816,810		
Debt - long term	\$41,882,203	\$28,907		

## Convertible Notes Overview

Since November 14, 2007 and through December 10, 2014, the Company financed its working capital deficiency primarily through the issuance of its notes of up to \$33,300,000 in principal (the "2007 NPA Notes") under the Convertible Secured Subordinated Note Purchase Agreement, dated November 14, 2007, as amended (as so amended, the "2007 NPA"). On December 11, 2014 the Company entered into an unsecured Convertible Subordinated Note

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Purchase Agreement, as amended (as so amended, the "2014 NPA") with Union Bancaire Privée, UBP SA ("UBP") a related party, for the sum of notes up to \$40,000,000 in principal ("2014 NPA Notes"). At the request of the noteholder any amounts borrowed under the 2007 NPA and the 2014 NPA allow the principal amount to be converted to common shares at a conversion price of \$1.43 per share.

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On May 25, 2018, the Company and the holders of the majority of the aggregate outstanding principal amount of the 2014 NPA Notes and holders of the majority of the aggregate outstanding principal amount of the 2007 NPA Notes agreed to extend to November 14, 2020, the maturity date of the 2014 NPA Notes and the 2007 NPA Notes. All other terms relating to the outstanding 2007 NPA Notes and the 2014 NPA Notes were not modified. The Company is entitled to utilize the amounts available for future borrowing under each of the 2007 Note Purchase Agreement and the 2014 Note Purchase Agreement through November 14, 2020.

As a result of the modification, any unamortized discount will be amortized into interest expense through the new maturity date of November 14, 2020.

During 2018, the Company borrowed an additional \$4,715,000 under the 2014 NPA from UBP. The market value of the Company's common stock on the date of each issuance of the 2014 NPA Notes to UBP was higher than the conversion price, which resulted in a beneficial conversion feature totaling \$1,850,035 and a corresponding debt discount, which is being amortized into interest expense through the maturity date of the Notes.

During the years ended December 31, 2017 and December 31, 2018 a total of \$12,075,000 of notes were converted into 8,444,056 shares of Company's common stock at the stated conversion price of \$1.43 per share. Related party debt was \$12,000,000 of the converted amount.

On October 30, 2018 following request from UBP, the Company simultaneously repaid \$2,000,000 of 2014 NPA Notes and borrowed \$2,000,000 by issuing 2007 NPA Notes in a cashless note exchange with UBP.

During 2018 the Company sold \$525,000 of unsecured subordinated short term notes to a related party. The notes mature in November of 2020 and have an interest rate of 8%.

In September of 2018 the Company changed the frequency of interest payments on its 2007 NPA Notes, 2014 NPA Notes and other related party note from quarterly to twice per year in January and July of each year until maturity.

The table below summarizes convertible notes issued as of December 31, 2018 and 2017 by type:

	2018	2017
2007 NPA notes, net of discount	\$20,374,668	\$23,271,479
2014 NPA notes, net of discount	15,976,157	14,510,404
Total convertible notes, net of discount	\$36,350,825	\$37,781,883

#### Convertible notes issued under 2014 NPA

The aggregate principal amount of 2014 NPA Notes that may be issued under the 2014 NPA is \$40 million, of which \$19,440,000 had been borrowed as of December 31, 2018. The 2014 NPA Notes are convertible into shares of the Company's common stock, par value \$0.001 per share, and are subordinated to the \$5 million outstanding under the Company's Loan and Security Agreement (the "LSA") with Comerica Bank and to any promissory notes outstanding under the Company's existing 2007 NPA program.

The 2014 NPA Notes have the following terms:

a maturity date of the earlier of (i) November 14, 2020, (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), other than for a bankruptcy

related, such amounts are declared due and payable by at least two-thirds of the aggregate outstanding principal amount of the 2014 NPA Notes;

an interest rate of 8% per year, with accrued interest payable in cash in semi-annual installments with the final installment payable on the maturity date of the note;

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

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 2014 NPA Notes.

#### Convertible notes issued under 2007 NPA

The aggregate principal amount of 2007 NPA Notes that may be issued under the 2007 NPA is \$33,300,000, of which \$32,755,000 had been borrowed as of December 31, 2018. The 2007 NPA Notes are convertible into shares of the Company's common stock, par value \$0.001 per share, and are subordinated to the \$5 million outstanding under the LSA with Comerica Bank.

As amended, the 2007 NPA Notes have the following terms:

a maturity date of the earlier of (i) November 14, 2020, (ii) a Change of Control (as defined in the amended 2007 NPA), or (iii) when, upon or after the occurrence of an Event of Default (as defined in the amended 2007 NPA) such amounts are declared due and payable by a 2007 NPA Noteholder or made automatically due and payable in accordance with the terms of the 2007 NPA;

an interest rate of 8% per year, with accrued interest payable in cash in semi-annual installments with the final installment payable on the maturity date of the note;

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

optional conversion upon 2007 NPA 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, as well as the issuance of the maximum amount of common stock permitted under the Company's 2004 Equity Compensation Plan, the 2007 NPA 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 the remaining portion of the Notes outstanding as well as the maximum issuances permitted under the 2004 Equity Compensation Plan.

#### Related Party Convertible Notes under 2007 and 2014 NPAs

Grasford, the Company's largest stockholder, owns \$12,076,282 in face value amount of 2007 NPA Notes as of December 31, 2018. Grasford is controlled by Avy Lugassy, one of the Company's principal shareholders.

UBP owns \$24,457,180 in combined face value amount of 2007 and 2014 NPA Notes as of December 31, 2018 and is considered a significant beneficial owner.

Crystal Management owns \$730,769 in face value amount of 2007 NPA Notes as of December 31, 2018. Crystal Management is controlled by Doron Rotler, the third largest shareholder of the Company.

Interest expense for 2018 for convertible notes was \$3,818,657, including amortization of discount of \$773,877.

Interest expense for 2017 for convertible notes was \$4,219,510, including amortization of discount of \$799,161.

Comerica LSA

The Company has an outstanding Loan and Security Agreement with Comerica Bank dated June 9, 2014 (the "LSA") in the amount of \$5,000,000, with original maturity of June 9, 2016. On June 8, 2018, the Company and Comerica Bank entered into Second Amendment to the LSA, which extended the maturity of the LSA to June 9, 2020. The LSA is secured by an extended irrevocable letter of credit ("SBLC") issued by UBS AG (Geneva, 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.

The LSA with Comerica has the following terms:

a maturity date of June 9, 2020;

a variable interest rate at prime plus 0.6% payable quarterly;

secured by substantially all of the assets of the Company, including the Company's intellectual property;

secured by an extended irrevocable SBLC issued by UBS AG with an initial term expiring on May 31, 2015, which term is automatically 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 (no such notice has been given and SBLC was extended to expire on May 31, 2019); and

acceleration of payment of all amounts due thereunder upon the occurrence and continuation of certain events of default, including but not limited to, failure by the Company to perform its obligations, observe the covenants made by it under the LSA, failure to renew the UBS AG SBLC, and insolvency of the Company.

Capital Leases

On September 4, 2009, the Company entered into a sale transaction whereby it sold its computer equipment, furniture, fixtures and certain personal property located at its former principal executive offices in Durham, North Carolina (collectively, the "Equipment") on an "as-is, where-is" basis to the holders of the Company's Notes, on a ratable basis in proportion to their respective holdings of Notes, for \$200,000 ("Purchase Price"). The Purchase Price was paid through a \$200,000 reduction, on a ratable basis, in the outstanding aggregate principal amount of the Notes. The Purchase Price represented the fair market value of the Equipment based on an independent appraisal.

The payments on the lease are made monthly. The balance of the lease as of December 31, 2018 was \$18,843. In July 2016, the Company acquired a vehicle, that it had been previously leasing since July of 2013. The vehicle is financed through a 5 year auto loan. The payments are made monthly. The unpaid balance on the note payable is \$10,126 as of December 31, 2018.

The table below details future payments under capital leases:

Year:

2019	\$23,631
2020	4,219
Thereafter	2,461



	30,311
Less amount representing interest	(1,342)
Capital lease obligations	\$28,969

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## 6. COMMITMENTS AND CONTINGENCIES

### Operating Leases

On July 29, 2013, the Company signed a 65-month lease for office space in Raleigh, North Carolina, effective October 30, 2013. The landlord built the space to the Company's specifications and provided the Company with five months free rent as an incentive. Rent expense is being recognized over the entire 65-month term of the lease on a straight-line basis. The Company amended the lease on August 20, 2018, which extended the lease through April 2024. As a result of the amendment the Company has received an incentive from the landlord valued at approximately \$100,000. The Company intends to take advantage of the incentive through April 30, 2019. Monthly rent is approximately \$16,000 per month.

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

Year:

2019	\$184,302
2020	191,199
2021	196,950
2022	202,851
2023	208,962
2024	70,693
Total	\$1,054,957

Rent expense for the years ended December 31, 2018 and 2017 was \$177,885, and \$166,729, respectively.

### 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.

## 7. STOCKHOLDERS' DEFICIT

### Common Stock

The Company is authorized to issue 100,000,000 shares of common stock, \$0.001 par value per share. As of December 31, 2018, the Company had 28,271,598 shares of common stock outstanding. Holders of the Company's

shares of common stock are entitled to one vote for each share held.

#### Preferred Stock

The Board of Directors is authorized, without further stockholder approval, to issue up to 5,000,000 shares of \$0.001 par value preferred stock in one or more series and to fix the rights, preferences, privileges, and restrictions applicable to such shares, including dividend rights, conversion rights, terms of redemption, and liquidation preferences, and to fix the number of shares constituting any series and the designations of such series. There were no shares of preferred stock outstanding at December 31, 2018 and 2017.

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## Equity Compensation Plans

## 2004 Equity Compensation Plan

The Company adopted its 2004 Equity Compensation Plan (the “2004 Plan”) as of March 31, 2004. The 2004 Plan provides for the grant of incentive stock options, non-statutory stock options, restricted stock, and other direct stock awards to employees (including officers) and directors of the Company as well as to certain consultants and advisors. The total number of shares of common stock reserved for issuance under the 2004 Plan is 5,000,000 shares, subject to adjustment in the event of a stock split, stock dividend, recapitalization, or similar capital change. The Company can’t make any new grants under the plan.

## 2016 Equity Compensation Plan

In May 2016, the Company’s shareholders authorized adoption of the approved MobileSmith Inc. 2016 Equity Compensation Plan for officers, directors, employees and consultants, initially reserving for issuance thereunder 15,000,000 shares of Common Stock.

The exercise price for incentive stock options granted under the above plans is required to be no less than the fair market value of the common stock on the date the option is granted, except for options granted to 10% stockholders, which are required to have an exercise price of not less than 110% of the fair market value of the common stock on the date the option is granted. Incentive stock options typically have a maximum term of 10 years, except for option grants to 10% stockholders, which are subject to a maximum term of five years. Non-statutory stock options have a term determined by either the Board of Directors or the Compensation Committee of the Board of Directors. Options granted under the plans are not transferable, except by will and the laws of descent and distribution.

A summary of the status of the stock option issuances as of December 31, 2018 and 2017, and changes during the periods ended on these dates is as follows:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding, December 31, 2016	2,184,160	\$1.48	4.28	\$31,760
Cancelled	(231,039)	1.52		
Issued	705,126	1.71		
Outstanding, December 31, 2017	2,658,247	1.54	4.29	\$654,701
Cancelled	(1,011,289)	1.70		
Issued	5,057,758	1.95		
Outstanding, December 31, 2018	6,704,716	1.83	7.41	\$765,927
Vested and exercisable, December 31, 2018	2,000,254	\$1.66	5.12	\$532,076

Weighted-average grant-date fair values of options issued in 2017 and 2018 were \$1.71 and \$1.95, respectively.

At December 31, 2018, \$5,770,565 of unvested expense remains to be recorded related to all options outstanding.

Exercise prices for options outstanding as of December 31, 2018 ranged between \$.90 and \$2.00.

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## 8. INCOME TAXES

The Company accounts for income taxes under the asset and liability method in accordance with the requirements of US GAAP. Under the asset and liability method, deferred income taxes are recognized for the tax consequences of “temporary differences” by applying enacted statutory tax rates applicable to future years to differences between the financial statement carrying amounts and the tax bases of existing assets and liabilities.

U.S. Tax Cuts and Jobs Act of 2017. On December 22, 2017, U.S. tax legislation known as the U.S. Tax Cuts and Jobs Act of 2017 (the “TCJA”) was enacted. For corporations, the TCJA amends existing U.S. Internal Revenue Code by reducing the corporate income tax rate and modifying several business deduction and international tax provisions. Specifically, the corporate income tax rate was reduced to 21% from 34%, which resulted in revaluation of our deferred tax assets and liabilities and adjustment to the corresponding valuation allowance. Other changes that may have significant future impact on the Company’s financial position relates to net operating losses, which going forward will have an unlimited carryforward period (previously 20 years) and no carryback period (previously 2 years), but deductions for such losses are limited to 80% of taxable income (previously 100% of taxable income) beginning with the 2018 tax year.

The balances of deferred tax assets and liabilities are as follows:

	December 31, 2018	December 31, 2017
Net current deferred income tax assets related to:		
Allowance for doubtful accounts	\$59,000	\$50,000
Depreciation, amortization and impairment	114,000	111,000
Stock-based expenses	60,000	60,000
Deferred revenue	99,000	
Other liabilities	-	8,000
Other	9,325	16,860
Net operating loss carryforwards	23,022,000	25,042,000
Total	23,333,325	25,287,860
Less valuation allowance	(23,333,325)	(25,287,860)
Net current deferred income tax	\$-	\$-

Under US GAAP, a valuation allowance is provided when it is more likely than not that the deferred tax asset will not be realized.

Total income tax expense differs from expected income tax expense (computed by applying the U.S. federal corporate income tax rate of 21% in 2018 and 2017 to loss before taxes as follows:

Tax benefit computed at statutory rate of 22%	\$(1,750,297)	\$(2,066,859)
State income tax benefit, net of federal effect	(100,017)	(276,837)
Permanent differences:		
Stock based compensation	304,339	162,165
Debt discount amortization	181,464	308,109
Other	2,323	2,485
Impact of change in tax rate	3,317,028	12,856,000
Change in valuation allowance - continuing operations	(1,954,535)	(10,985,063)

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Totals	\$-	\$-
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As of December 31, 2018, the Company had U.S. federal net operating loss (“NOL”) carryforwards of approximately \$104 million, of which \$5.7 million will never expire and approximately \$97.9 million will expire between 2019 and 2039. For state tax purposes, the NOL carryforwards expire between 2019 and 2034. In accordance with Section 382 of the Internal Revenue Code of 1986, as amended, a change in equity ownership of greater than 50% of the Company within a three-year period can result in an annual limitation on the Company’s ability to utilize its NOL carryforwards that were created during tax periods prior to the change in ownership.

The Company has reviewed its tax positions and has determined that it has no significant uncertain tax positions at December 31, 2018.

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## 9. MAJOR CUSTOMERS AND CONCENTRATIONS

A customer that individually generates more than 10% of revenue is considered a major customer.

For the year ended December 31, 2018, no customer accounted for more than 10% of the Company's revenue. Four customers accounted for 76% of the net accounts receivable balance as of December 31, 2018. Two vendors accounted for 22% of the accounts payable balance as of December 31, 2018.

For the year ended December 31, 2017, one customer accounted for 46% of the Company's revenue. Three customers accounted for 77% of the net accounts receivable balance as of December 31, 2017. One vendor accounted for 13% of the accounts payable balance as of December 31, 2017.

## 10. EMPLOYEE BENEFIT PLAN

All full-time employees who meet certain age and length of service requirements are eligible to participate in the Company's 401(k) Plan. The plan provides for contributions by the Company in such amounts as the Board of Directors may annually determine, as well as a 401(k) option under which eligible participants may defer a portion of their salaries. The Company contributed a total of approximately \$41,477 and \$36,800 to the plan during 2018 and 2017, respectively.

## 11. 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:

	Twelve Months Ended December 31, 2017		Twelve Months	
	Billings	GAAP Revenue	Billings	GAAP Revenue
Top 5 customers by amounts billed	\$815,691	\$356,871	\$1,402,846	\$1,982,185
All other customers	1,790,387	1,966,250	2,016,642	1,470,703
	\$2,606,078	\$2,323,121	\$3,419,488	\$3,452,888

As of December 31, 2018 the aggregate amount of the transaction price allocated to unsatisfied (or partially satisfied) performance obligations was \$3,894,782, of which \$1,702,995 had been billed to the customers and recorded as a contract liability and \$2,191,787 remained unbilled as of December 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 December 31, 2018)	Unbilled	Total
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2019	\$1,494,978	\$653,498	\$2,148,476
2020	208,017	1,159,784	1,367,801
2021	-	378,505	378,505
	\$1,702,995	\$2,191,787	