SMITH MICRO SOFTWARE INC
Form 10-Q
August 03, 2012
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2012

OR

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

Commission file number 01-35525

SMITH MICRO SOFTWARE, INC.

(Exact name of registrant as specified in its charter)

DELAWARE	**33-0029027**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

51 COLUMBIA

ALISO VIEJO, CA 92656

(Address of principal executive offices, including zip code)

(949) 362-5800

(Registrant s telephone number, including area code)

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

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

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

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

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

As of July 27, 2012 there were 35,873,338 shares of common stock outstanding.

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SMITH MICRO SOFTWARE, INC.

QUARTERLY REPORT ON FORM 10-Q

June 30, 2012

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

SMITH MICRO SOFTWARE, INC.

CONSOLIDATED BALANCE SHEETS

(in thousands, except share and par value data)

	June 30, 2012 (unaudited)	December 31, 2011 (audited)
Assets		
Current assets:		
Cash and cash equivalents	$ 10,966	$ 7,475
Short-term investments	20,289	38,497
Accounts receivable, net of allowances for doubtful accounts and other adjustments of $462 (2012) and $1,382 (2011)	8,385	8,525
Income tax receivable	7,687	8,293
Inventories, net of reserves for excess and obsolete inventory of $312 (2012) and $417 (2011)	236	309
Prepaid expenses and other current assets	1,554	1,138
Deferred tax asset	8	8
Total current assets	49,125	64,245
Equipment and improvements, net	13,181	15,482
Other assets	181	214
Total assets	$ 62,487	$ 79,941
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 1,720	$ 3,181
Accrued liabilities	6,392	7,641
Deferred revenue	1,172	703
Total current liabilities	9,284	11,525
Non-current liabilities:		
Long-term liabilities	3,363	3,546
Deferred tax liability	10	10
Total non-current liabilities	3,373	3,556
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, par value $0.001 per share; 5,000,000 shares authorized; none issued or outstanding		
Common stock, par value $0.001 per share; 100,000,000 shares authorized; 35,873,338 and 35,611,976 shares issued and outstanding at June 30, 2012 and December 31, 2011, respectively	36	36
Additional paid-in capital	209,373	207,927
Accumulated comprehensive deficit	(159,579)	(143,103)
Total stockholders equity	49,830	64,860
Total liabilities and stockholders' equity	$ 62,487	$ 79,941

See accompanying notes to the consolidated financial statements.

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SMITH MICRO SOFTWARE, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(in thousands, except per share data)

	Three Months Ended June 30, 2012 (unaudited)	Three Months Ended June 30, 2011 (unaudited)	Six Months Ended June 30, 2012 (unaudited)	Six Months Ended June 30, 2011 (unaudited)
Revenues	$ 10,171	$ 16,105	$ 20,285	$ 33,896
Cost of revenues	1,796	3,560	3,991	7,336
Gross profit	8,375	12,545	16,294	26,560
Operating expenses:				
Selling and marketing	3,954	7,097	8,546	15,459
Research and development	6,173	11,316	13,277	22,996
General and administrative	5,149	7,178	10,653	14,163
Restructuring expense (income)	(77)		257	
Total operating expenses	15,199	25,591	32,733	52,618
Operating loss	(6,824)	(13,046)	(16,439)	(26,058)
Interest and other income, net	31	42	54	85
Loss before provision for income taxes	(6,793)	(13,004)	(16,385)	(25,973)
Provision for income tax expense (benefit)	32	(5,157)	122	(10,373)
Net loss	(6,825)	(7,847)	(16,507)	(15,600)
Other comprehensive income (loss), before tax:				
Unrealized holding gains (losses) on available-for-sale securities	(3)	(8)	37	(1)
Income tax expense (benefit) related to items of other comprehensive income (expense)		(3)	6	
Other comprehensive income (expense), net of tax	(3)	(5)	31	(1)
Comprehensive loss	$ (6,828)	$ (7,852)	$ (16,476)	$ (15,601)
Net loss per share:				
Basic and diluted	$ (0.19)	$ (0.22)	$ (0.46)	$ (0.44)
Weighted average shares outstanding:				
Basic and diluted	36,045	35,775	35,818	35,520

See accompanying notes to the consolidated financial statements.

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SMITH MICRO SOFTWARE, INC.

CONSOLIDATED STATEMENT OF STOCKHOLDERS EQUITY

(in thousands)

	Common stock Shares	Common stock Amount	Additional paid-in capital	Accumulated comprehensive deficit	Total
BALANCE, December 31, 2011	**35,612**	**$ 36**	**$ 207,927**	**$ (143,103)**	**$ 64,860**
Exercise of common stock options	14		11		11
Non cash compensation recognized on stock options and ESPP			30		30
Restricted stock grants, net of cancellations	589		2,124		2,124
Cancellation of shares for payment of withholding tax	(12)		(21)		(21)
Employee stock purchase plan (ESPP)	45		55		55
Shares repurchased and cancelled	(375)		(753)		(753)
Comprehensive loss				(16,476)	(16,476)
BALANCE, June 30, 2012 (unaudited)	**35,873**	**$ 36**	**$ 209,373**	**$ (159,579)**	**$ 49,830**

See accompanying notes to the consolidated financial statements.

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SMITH MICRO SOFTWARE, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

	Six Months Ended June 30, 2012 (unaudited)	2011 (unaudited)
Operating activities:		
Net loss	$ (16,507)	$ (15,600)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	2,218	5,812
Loss on disposal of fixed assets	161	102
Lease incentives		2,223
Provision for doubtful accounts and other adjustments to accounts receivable	585	308
Provision for excess and obsolete inventory	33	63
Excess tax benefits from stock-based compensation		(157)
Non-cash compensation related to stock options and restricted stock	2,154	3,976
Change in operating accounts:		
Accounts receivable	(445)	17,433
Income tax receivable	606	(176)
Deferred taxes		(10,613)
Inventories	40	(19)
Prepaid expenses and other assets	(383)	(786)
Accounts payable and accrued liabilities	(2,445)	(2,316)
Net cash provided by (used in) operating activities	(13,983)	250
Investing activities:		
Capital expenditures	(78)	(11,332)
Sales of short-term investments	18,239	9,809
Net cash provided by (used in) investing activities	18,161	(1,523)
Financing activities:		
Excess tax benefits from stock-based compensation		157
Cash received from stock sale for employee stock purchase plan	55	345
Cash received from exercise of stock options	11	12
Repurchase of common stock	(753)	
Net cash provided by (used in) financing activities	(687)	514
Net increase (decrease) in cash and cash equivalents	3,491	(759)
Cash and cash equivalents, beginning of period	7,475	17,856
Cash and cash equivalents, end of period	$ 10,966	$ 17,097
Supplemental disclosures of cash flow information:		
Cash paid for income taxes	$ 100	$ 262

See accompanying notes to the consolidated financial statements.

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SMITH MICRO SOFTWARE, INC.

Notes to the Consolidated Financial Statements

1. The Company

Smith Micro Software, Inc. (we, us, our, Smith Micro, or the Company) provides software and services that simplify, secure and enhance the mobile experience. The Company s portfolio of wireless solutions includes a wide range of client and server applications that manage voice, data, video and connectivity over mobile broadband networks. Our primary customers are the world s leading mobile network operators, mobile device manufacturers and enterprise businesses. In addition to our wireless and mobility software, Smith Micro offers personal productivity and graphics products distributed through a variety of consumer channels worldwide.

2. Basis of Presentation

The accompanying interim consolidated balance sheet and statement of stockholders equity as of June 30, 2012, and the related statements of comprehensive loss for the three and six months ended June 30, 2012 and the related cash flows for the six months ended June 30, 2012 and 2011 are unaudited. The unaudited consolidated financial statements have been prepared according to the rules and regulations of the Securities and Exchange Commission (SEC) and, therefore, certain information and disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States have been omitted.

In the opinion of management, the accompanying unaudited consolidated financial statements for the periods presented reflect all adjustments, which are normal and recurring, necessary to fairly state the financial position, results of operations and cash flows. These unaudited consolidated financial statements should be read in conjunction with the audited financial statements included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2011 filed with the SEC on February 27, 2012.

Intercompany balances and transactions have been eliminated in consolidation.

Operating results for the three and six months ended June 30, 2012 are not necessarily indicative of the results that may be expected for any other interim period or for the fiscal year ending December 31, 2012.

3. Net Income (Loss) Per Share

The Company calculates earnings per share (EPS) as required by Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic No. 260, Earning Per Share. Basic EPS is calculated by dividing the net income available to common stockholders by the weighted average number of common shares outstanding for the period, excluding common stock equivalents. Diluted EPS is computed by dividing the net income available to common stockholders by the weighted average number of common shares outstanding for the period plus the weighted average number of dilutive common stock equivalents outstanding for the period determined using the treasury-stock method. For periods with a net loss, the dilutive common stock equivalents are excluded from the diluted EPS calculation. For purposes of this calculation, common stock subject to repurchase by the Company and options are considered to be common stock equivalents and are only included in the calculation of diluted earnings per share when their effect is dilutive.

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	Three Months Ended June 30, 2012	Three Months Ended June 30, 2011	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
	(unaudited, in thousands, except per share amounts)			
Numerator:				
Net loss available to common stockholders	$ (6,825)	$ (7,847)	$ (16,507)	$ (15,600)
Denominator:				
Weighted average shares outstanding basic	36,045	35,775	35,818	35,520
Potential common shares options (treasury stock method)				
Weighted average shares outstanding diluted	36,045	35,775	35,818	35,520
Shares excluded (anti-dilutive)	18	209	25	348
Shares excluded due to an exercise price greater than weighted average stock price for the period	1,483	1,970	1,364	1,848
Net loss per common share:				
Basic	($ 0.19)	($ 0.22)	($ 0.46)	($ 0.44)
Diluted	($ 0.19)	($ 0.22)	($ 0.46)	($ 0.44)

4. Stock-Based Compensation

Stock Plans

During the six months ended June 30, 2012, the Company granted options to purchase 20,000 shares of common stock and 1.0 million shares of restricted stock, with a total value of $2.6 million. This cost will be amortized over a period of 12 to 48 months.

As of June 30, 2012 there were 3.0 million shares available for future grants under the 2005 Plan.

Employee Stock Purchase Plan

The Company has a shareholder approved employee stock purchase plan (ESPP), under which substantially all employees may purchase the Company s common stock through payroll deductions at a price equal to 85% of the lower of the fair market values of the stock as of the beginning and end of six-month offering periods. An employee s payroll deductions under the ESPP are limited to 10% of the employee s compensation and employees may not purchase more than the lesser of $25,000 of stock, or 1,000 shares, for any calendar year. Additionally, no more than 1,000,000 shares may be purchased under the plan. Shares purchased under the plan are valued using a Black-Scholes valuation model.

The Company s six-month offering period ended March 31, 2012 resulted in 44,666 shares being purchased/granted at a fair value of $0.69 per share. The next six-month offering period began on April 1, 2012 and will end on September 30, 2012. These shares will have a fair value of $0.93 per share.

Stock Compensation

The Company accounts for all stock-based payment awards made to employees and directors based on their fair values and recognized as compensation expense over the vesting period using the straight-line method over the requisite service period for each award as required by FASB ASC Topic No. 718, Compensation-Stock Compensation. Restricted stock is valued using the closing stock price on the date of the grant. Options are valued using a Black-Scholes valuation model.

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Stock-based non-cash compensation expenses related to stock options, restricted stock grants and the employee stock purchase plan were recorded in the financial statements as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
	(unaudited)		(unaudited)	
Cost of revenues	$ 2	$ 5	$ 6	$ 22
Selling and marketing	222	511	439	1,095
Research and development	195	344	381	850
General and administrative	557	1,009	1,322	2,009
Restructuring expense			6	
Total non-cash stock compensation expense	$ 976	$ 1,869	$ 2,154	$ 3,976

Total share-based compensation for each quarter includes cash payment of income taxes related to grants of restricted stock in the amount of $0.1 million and $0.4 million in the three months ended June 30, 2012 and 2011, respectively. The cash payment of income taxes related to grants of restricted stock totaled $0.2 million and $1.3 million for the six months ended June 30, 2012 and 2011, respectively.

5. Fair Value of Financial Instruments

The Company measures and discloses fair value measurements as required by FASB ASC Topic No. 820, Fair Value Measurements and Disclosures.

The carrying value of accounts receivable, foreign cash accounts, prepaid expenses, other current assets, accounts payable, and accrued expenses are considered to be representative of their respective fair values because of the short-term nature of those instruments.

Fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that is determined based on assumptions that market participants would use in pricing an asset or a liability. As a basis for considering such assumptions, the FASB establishes a three-tier value hierarchy, which prioritizes the inputs used in the valuation methodologies in measuring fair value:

Level 1 Observable inputs that reflect quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2 Include other inputs that are directly or indirectly observable in the marketplace.

Level 3 Unobservable inputs which are supported by little or no market activity.

The fair value hierarchy also requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

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

As required by FASB ASC Topic No. 825, Financial Instruments, an entity can choose to measure at fair value many financial instruments and certain other items that are not currently required to be measured at fair value. Subsequent changes in fair value for designated items are required to be reported in earnings in the current period. This Topic also establishes presentation and disclosure requirements for similar types of assets and liabilities measured at fair value. As permitted, the Company has elected not to use the fair value option to measure our available-for-sale securities under this Topic and will continue to report as required by FASB ASC Topic No. 320, Investments-Debt and Equity Securities. We have made this election because the nature of our financial assets and liabilities are not of such complexity that they would benefit from a change in valuation to fair value.

6. Cash and Cash Equivalents

Cash and cash equivalents generally consist of cash, government securities, mutual funds, and money market funds. These securities are primarily held in two financial institutions and are uninsured except for the minimum Federal Deposit Insurance Corporation (FDIC) coverage, and have original maturity dates of three months or less. As of June 30, 2012 and December 31, 2011, bank balances totaling approximately $5.7 million and $3.3 million, respectively, were uninsured.

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7. Short-Term Investments

Short-term investments consist of U.S. government agency and government sponsored enterprise obligations. The Company accounts for these short-term investments as required by FASB ASC Topic No. 320, Investments-Debt and Equity Securities. These debt and equity securities are not classified as either held-to-maturity securities or trading securities. As such, they are classified as available-for-sale securities. Available-for-sale securities are recorded at fair value, with unrealized gains or losses recorded as a separate component of accumulated other comprehensive income in stockholders equity until realized. Available-for-sale securities with contractual maturities of less than 12 months were as follows (in thousands):

	June 30, 2012			December 31, 2011		
	Fair value	Amortized cost basis	Net unrealized loss	Fair value	Amortized cost basis	Net unrealized loss
Corporate notes, bonds and paper	$ 13,532	$ 13,533	$ (1)	$ 31,180	$ 31,217	$ (33)
Government securities	6,757	6,760	(3)	7,317	7,321	(2)
Total	$ 20,289	$ 20,293	$ (4)	$ 38,497	$ 38,538	$ (35)

There was a de minimis amount of realized gains recognized for the three months and six months ended June 30, 2012.

8. Accounts Receivable

The Company performs ongoing credit evaluations of its customers and generally does not require collateral. The Company maintains reserves for estimated credit losses, and those losses have been within management s estimates. Allowances for product returns are included in other adjustments to accounts receivable on the accompanying consolidated balance sheets. Product returns are estimated based on historical experience and management estimations.

9. Inventories

Inventories consist principally of compact disks (CDs), boxes and manuals and are stated at the lower of cost (determined by the first-in, first-out method) or market. The Company regularly reviews its inventory quantities on hand and records a provision for excess and obsolete inventory based primarily on management s forecast of product demand and production requirements. At June 30, 2012, our net inventory balance consisted of approximately $0.1 million of assembled products and $0.1 million of components.

10. Equipment and Improvements

Equipment and improvements are stated at cost. Depreciation is computed using the straight-line method based on the estimated useful lives of the assets, generally ranging from three to seven years. Leasehold improvements are amortized using the straight-line method over the shorter of the estimated useful life of the asset or the lease term.

11. Segment, Customer Concentration and Geographical Information

Segment Information

Public companies are required to report financial and descriptive information about their reportable operating segments as required by FASB ASC Topic No. 280, Segment Reporting. The Company has two primary business units based on how management internally evaluates separate financial information, business activities and management responsibility. Wireless includes our connection management, mobile VPN, media and content management, device management, Push-To-Talk, Visual Voicemail, Voicemail to Text, video content delivery and network traffic optimization solutions. Productivity & Graphics includes retail and direct sales of our compression and broad consumer-based software. Corporate/Other revenue includes the consulting portion of our services sector which has been de-emphasized and is no longer considered a strategic element of our future plans.

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

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The following table shows the revenues generated by each business unit (in thousands):

	Three Months Ended June 30, 2012	Three Months Ended June 30, 2011	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
	(unaudited)		(unaudited)	
Wireless	$ 8,731	$ 13,808	$ 17,306	$ 29,789
Productivity & Graphics	1,395	2,232	2,870	3,974
Corporate/Other	45	65	109	133
Total revenues	$ 10,171	$ 16,105	$ 20,285	$ 33,896

Customer Concentration Information

Revenues to two customers and their respective affiliates in the Wireless business segment accounted for 39.9% and 15.6% of the Company s total revenues for the three months ended June 30, 2012. Revenues to three customers and their respective affiliates in the Wireless business segment accounted for 33.8%, 18.4% and 11.4% of the Company s total revenues for the three months ended June 30, 2011. Revenues to two customers and their respective affiliates in the Wireless business segment accounted for 36.0% and 20.6% of the Company s total revenues for the six months ended June 30, 2012. Revenues to four customers and their respective affiliates in the Wireless business segment accounted for 23.1%, 19.2%, 12.1% and 11.3% of the Company s total revenues for the six months ended June 30, 2011.

Geographical Information

During the three and six months ended June 30, 2012 and 2011, the Company operated in three geographic locations; the Americas, Asia Pacific, and EMEA (Europe, the Middle East, and Africa). Revenues, attributed to the geographic location of the customer s bill-to address, were as follows (in thousands):

	Three Months Ended June 30, 2012	Three Months Ended June 30, 2011	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
	(unaudited)		(unaudited)	
Americas	$ 8,308	$ 14,475	$ 16,992	$ 30,932
Asia Pacific	1,110	663	1,855	1,137
EMEA	753	967	1,438	1,827
Total Revenues	$ 10,171	$ 16,105	$ 20,285	$ 33,896

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

12. Recent Accounting Pronouncements

In December 2011, the FASB issued Accounting Standards Update (ASU) No. 2011-12, *Comprehensive Income (Topic 220).* The amendments in this Update supersede certain pending paragraphs in ASU No. 2011-05, *Comprehensive Income (Topic 220): Presentation of Comprehensive Income*, to effectively defer only those changes in Update 2011-05 that relate to the presentation of reclassification adjustments out of accumulated other comprehensive income. The amendments will be temporary to allow the Board time to redeliberate the presentation requirements for reclassifications out of accumulated other comprehensive income for annual and interim financial statements for public, private, and non-profit entities.

In June 2011, the FASB issued ASU No. 2011-05, *Comprehensive Income (Topic 220): Presentation of Comprehensive Income.* Under the amendments to this Update, an entity has the option to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. The Company has implemented this guidance in this Form 10-Q.

In May 2011, the FASB issued ASU No. 2011-04, *Fair Value Measurements and Disclosures (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs.* The amendments in this Update result in common fair value measurement and disclosure requirements in U.S. GAAP and IFRSs. Consequently, the amendments change the wording used to describe many of the requirements in U.S. GAAP for measuring fair value and for disclosing information about fair value measurements. The Company has implemented this guidance and its adoption has not had an impact on its consolidated results of operations and financial condition.

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13. Commitments and Contingencies

Leases

The Company leases its buildings under operating leases that expire on various dates through 2022. Future minimum annual lease payments under such leases as of June 30, 2012 are as follows (in thousands):

Year Ending December 31,	Operating
2012-6 months	$ 1,290
2013	2,612
2014	2,607
2015	2,425
2016	2,129
2017	1,787
Beyond	6,314
Total	$ 19,164

Rent expense under operating leases for the three months ended June 30, 2012 and 2011 was $0.6 million and $0.8 million, respectively. Rent expense under operating leases for the six months ended June 30, 2012 and 2011 was $1.4 million and $1.4 million, respectively.

As a condition of our Pittsburgh lease that was signed in November 2010, the landlord agreed to incentives of $40.00 per square foot, or a total of $2.2 million, for improvements to the space. These costs have been included in deferred rent in our long-term liabilities and are being amortized over the ten year lease term.

Pennsylvania Opportunity Grant Program

On September 26, 2011, we received $1.0 million from the State of Pennsylvania to help fund our agreement to start-up a new facility. The grant carries with it an obligation, or commitment, to employ at least 232 people within a three-year time period. This grant contains conditions that would require us to return a pro-rata amount of the monies received if we fail to meet these conditions. As such, the monies have been recorded as a liability in the long-term liabilities line item on the balance sheet until we are irrevocably entitled to retain the monies.

Litigation

On June 29, 2011, a complaint was filed in the U.S. District Court for the Central District of California against us and certain of our current officers on behalf of certain purchasers of our common stock. The complaint was brought as a purported stockholder class action, and, in general, included allegations that we and certain of our officers violated federal securities laws by making materially false and misleading statements regarding our business prospects and financial results, thereby artificially inflating the price of our common stock. The plaintiff sought unspecified monetary damages and other relief. On August 29, 2011, two prospective lead plaintiffs filed motions for appointment of lead plaintiff and for appointment of lead counsel. On October 17, 2011, the court appointed the two prospective lead plaintiffs as co-lead plaintiffs and their respective counsel as co-lead counsel. On December 15, 2011, the co-lead plaintiffs filed their consolidated amended complaint. On February 14, 2012, defendants filed a motion to dismiss the consolidated amended complaint. On April 2, 2012, plaintiffs filed an opposition, and on May 1, 2012, defendants filed a reply. On May 21, 2012, the Court granted defendants motion to dismiss without prejudice and afforded plaintiffs leave to amend their complaint. Co-lead plaintiffs did not file an amended complaint, and instead agreed to dismiss the action with prejudice. On July 19, 2012, the parties stipulated to dismiss the action with prejudice, with each side to bear its own attorney s fees and costs. The stipulation fully, finally and forever releases defendants from any and all claims asserted by co-lead plaintiffs in the federal class action. The Court has not yet entered an order.

On August 11, 2011, a shareholder derivative complaint was filed in the Superior Court of California for the County of Orange against the Company s directors and certain of its executive officers. Thereafter, two additional similar complaints, also styled as shareholder derivative actions, were filed in state court (collectively, the "State Derivative Actions"). On December 23, 2011, one of the plaintiffs in the State Derivative Actions filed a motion to consolidate the State Derivative Actions and to appoint lead counsel. On February 14, 2012, the two other plaintiffs filed an opposition to this motion, and, on March 7, 2012, they filed their own motion to consolidate and appoint lead counsel. On March 29, 2012, the Court heard the motions, consolidated the three State Derivative Actions, and appointed lead counsel. On May 1, 2012, the

Court held an initial Case Management Conference in the consolidated State Derivative Actions, at which the Court approved the parties stipulation to stay the State Derivative Actions pending full resolution of all motions to dismiss in the federal stockholder class action. Following the stipulated dismissal of the federal stockholder class action, the parties filed, on July 30, 2012, a stipulation to dismiss the State Derivative Actions with prejudice. The Court has not yet entered an order.

On September 12, 2011, a shareholder derivative complaint was filed in the U.S. District Court for the Central District of California against certain of the officers and directors named in the State Derivative Actions but also against additional officers of the Company. Thereafter, two additional similar complaints, also styled as shareholder derivative actions, were filed in federal court (collectively, the Federal Derivative Actions). On December 6, 2011, the federal court consolidated the first two filed Federal Derivative Actions and appointed co-lead counsel for plaintiffs. On January 9, 2012, the plaintiff for the third filed federal derivative action requested dismissal of the third filed complaint, which the federal court granted on January 11, 2012. On January 27, 2012, plaintiffs in the Federal Derivative Actions filed their consolidated shareholder derivative complaint. On March 30, 2012, defendants filed a motion to dismiss the consolidated complaint. On May 24, 2012, the parties filed a stipulation to temporarily defer prosecution of the Federal Derivative Actions pending final resolution of all motions to dismiss in the related federal stockholder class action. On June 5, 2012, the Court entered an Order deferring prosecution of the action pursuant to the parties stipulation. Following the stipulated dismissal of the federal stockholder class action, the parties filed, on July 30, 2012, a stipulation to dismiss the Federal Derivative Actions with prejudice. The Court has not yet entered an order.

The Company is and may become involved in various other legal proceedings arising from its business activities. While management does not believe the ultimate disposition of these matters will have a material adverse impact on the Company s consolidated results of operations, cash flows or financial position, litigation is inherently unpredictable, and depending on the nature and timing of these proceedings, an unfavorable resolution could materially affect the Company s future consolidated results of operations, cash flows or financial position in a particular period.

14. Income Taxes

We account for income taxes as required by FASB ASC Topic No. 740, Income Taxes. This Topic clarifies the accounting for uncertainty in income taxes recognized in an enterprise s financial statements and prescribes a recognition threshold and measurement process for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The Topic also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. In the event the future consequences of differences between financial reporting bases and the tax bases of the Company s assets and liabilities result in a deferred tax asset, we are required to evaluate the probability of being able to realize the future benefits indicated by such asset. The Company records a valuation allowance to reduce any deferred tax assets by the amount of any tax benefits that, based on available evidence and judgment, are not expected to be realized.

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The Company assesses whether a valuation allowance should be recorded against its deferred tax assets based on the consideration of all available evidence, using a more likely than not realization standard. The four sources of taxable income that must be considered in determining whether deferred tax assets will be realized are: (1) future reversals of existing taxable temporary differences (i.e., offset of gross deferred tax assets against gross deferred tax liabilities); (2) taxable income in prior carryback years, if carryback is permitted under the applicable tax law; (3) tax planning strategies and (4) future taxable income exclusive of reversing temporary differences and carryforwards.

In assessing whether a valuation allowance is required, significant weight is to be given to evidence that can be objectively verified. A significant factor in the Company s assessment is that the Company is in a three-year historical cumulative loss as of the end of fiscal 2011. This fact, combined with uncertain near-term market and economic conditions, reduced the Company s ability to rely on projections of future taxable income in assessing the realizability of its deferred tax assets.

After a review of the four sources of taxable income as of December 31, 2011 (as described above), and after consideration of the Company s three-year cumulative loss position as of December 31, 2011, the Company recorded a valuation allowance related to its U.S.-based deferred tax amounts, with a corresponding charge to income tax expense, of $53.2 million during the year ended December 31, 2011.

We recorded income tax expense of $32,000 and $0.1 million for the three and six months ended June 30, 2012, respectively. Income tax expense for 2012 only reflects state income tax minimums and foreign income taxes since we are unable to record and utilize any income tax benefits. We recorded an income tax benefit of $5.2 million and $10.4 million for the three and six months ended June 30, 2011, respectively. The effective tax rate for 2011 of 40% was primarily due to the ability to claim income tax benefits/credits on current and past tax returns.

We may from time to time be assessed interest or penalties by major tax jurisdictions, although any such assessments historically have been minimal and immaterial to our financial results. It is the Company s policy to classify any interest and/or penalties in the financial statements as a component of general and administrative expense.

15. Restructuring Expenses

In October 2011, we announced a material Restructuring Plan that was approved by our Board of Directors resulting in charges of $2.2 million in the fourth quarter of fiscal year 2011. This Restructuring Plan involved a realignment of organizational structures, facility consolidations/closures and headcount reductions that will amount to approximately 20% of the Company s worldwide workforce. The Restructuring Plan was implemented primarily during the fourth quarter of the Company s 2011 fiscal year. Of the total charges, all but approximately $0.4 million will be cash expenditures.

In February 2012, we undertook an additional restructuring that included a further reduction of headcount of 7-8% and other cost reductions that will result in annualized savings of approximately $7.0M. One-time employee termination and other costs resulted in additional restructuring expenses of $0.3 million recorded in the period ended March 31, 2012. For the three month period ended June 30, 2012, we returned to profit $0.1 million of the restructuring reserve as a result of lower one-time employee termination benefits and relocation expenses.

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The following is the activity in our restructuring liability account which is included in the accrued liabilities line item on the balance sheet for the period ended June 30, 2012 (in thousands):

	December 31, 2011 Balance	Provision	Usage	June 30, 2012 Balance
One-time employee termination benefits	$ 1,101	$ 144	$ (1,152)	$ 93
Lease/rental terminations	448	14	(374)	88
Relocation, move, other expenses	116	99	(215)	
Total	$ 1,665	$ 257	$ (1,741)	$ 181

The remaining balance in the restructuring reserve is estimated to be used during the fiscal quarter ending September 30, 2012.

16. Stock Repurchase Program

In November 2011, the Company announced that its Board of Directors had approved a program authorizing the repurchase of up to five million shares of the Company's common stock over a period of up to two years. Under this program, stock repurchases may be made from time to time and the actual amount expended will depend on a variety of factors including market conditions, regulatory and legal requirements, corporate cash generation and other factors. The stock repurchases may be made in both open market and privately negotiated transactions, and may include the use of Rule 10b5-1 trading plans. The program does not obligate Smith Micro to repurchase any particular amount of common stock during any period and the program may be modified or suspended at any time at the Company's discretion. During the six months ended June 30, 2012, we repurchased 375,000 shares at a cost of $0.8 million.

17. Subsequent Events

The Company evaluates and discloses subsequent events as required by ASC Topic No. 855, Subsequent Events. The Topic establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before the financial statements are issued or are available to be issued. Subsequent events have been evaluated as of the date of this filing and no further disclosures were required.

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Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations

In this document, the terms Smith Micro, Company, we, us, and our refer to Smith Micro Software, Inc. and, where appropriate, its subsidiaries.

This report contains forward-looking statements regarding Smith Micro which include, but are not limited to, statements concerning projected revenues, expenses, gross profit and income, the competitive factors affecting our business, market acceptance of products, customer concentration, the success and timing of new product introductions and the protection of our intellectual property. These forward-looking statements are based on our current expectations, estimates and projections about our industry, management's beliefs, and certain assumptions made by us. Words such as anticipates, expects, intends, plans, predicts, potential, believes, seeks, estimates, should, may, will and variations of these words or similar expressions are intended to identify forward-looking statements. Forward-looking statements also include the assumptions underlying or relating to any of the foregoing statements. These statements are not guarantees of future performance and are subject to risks, uncertainties and assumptions that are difficult to predict. Therefore, our actual results could differ materially and adversely from those expressed or implied in any forward-looking statements as a result of various factors. Such factors include, but are not limited to, the following:

changes in demand for our products from our customers and their end-users;

our ability to predict consumer needs, introduce new products, gain broad market acceptance for such products and ramp up manufacturing in a timely manner;

our business and stock price may decline further which could cause an additional impairment of long-lived assets or restructuring charge resulting in a material adverse effect on our financial condition and results of operations;

the intensity of the competition and our ability to successfully compete;

the pace at which the market for new products develop;

the response of competitors, many of whom are bigger and better financed than us;

our ability to protect our intellectual property and our ability to not infringe on the rights of others;

our ability to successfully execute our business plan and control costs and expenses;

the continued economic slowdown and uncertainty and its effects on capital expenditures by our customers and their end users;

the amount of our legal expenses and our financial exposure to any adverse judgments or settlements associated with the outstanding securities litigation, and any future litigation that may arise, and the adequacy of our insurance policy coverage regarding those expenses and any damages or settlement payments related to such litigation; and

those additional factors which are listed under the section Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2011.

The forward-looking statements contained in this report are made on the basis of the views and assumptions of management regarding future events and business performance as of the date this report is filed with the Securities and Exchange Commission (the SEC). We do not undertake any obligation to update these statements to reflect events or circumstances occurring after the date this report is filed.

Overview

Smith Micro Software, Inc. provides software and services that simplify, secure and enhance the mobile experience. The Company s portfolio of wireless solutions includes a wide range of client and server applications that manage voice, data, video and connectivity over mobile broadband networks. Our primary customers are the world s leading mobile network operators, mobile device manufacturers and enterprise businesses. In addition to our wireless and mobility software, Smith Micro offers personal productivity and graphics products distributed through a variety of consumer channels worldwide.

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The proliferation of mobile broadband technology continues to provide new opportunities for Smith Micro on a global basis. Over the last decade, the Company has developed extensive expertise in embedded software for networked devices (both wireless and wired), and we have leveraged that expertise to solve an unending tide of connectivity and mobile service challenges for our customers. As network operators and businesses struggle to reduce costs and complexity in a market that is characterized by rapid evolution and fragmentation, Smith Micro answers with innovative solutions that increase reliability, security, performance, efficiency, and usability of wireless services over a wide variety of networks and device platforms.

Our innovative line of productivity and graphics products are distributed through a variety of consumer channels worldwide, our online stores, and third-party wholesalers, retailers and value-added resellers. We offer products that operate on Windows, Mac, UNIX, Linux, Apple iPhone/iPad, Android, Windows Mobile, Symbian and Java platforms.

Revenues to two customers and their respective affiliates in the Wireless business segment accounted for 39.9% and 15.6% of the Company s total revenues for the three months ended June 30, 2012. Revenues to three customers and their respective affiliates in the Wireless business segment accounted for 33.8%, 18.4% and 11.4% of the Company s total revenues for the three months ended June 30, 2011. Revenues to two customers and their respective affiliates in the Wireless business segment accounted for 36.0% and 20.6% of the Company s total revenues for the six months ended June 30, 2012. Revenues to four customers and their respective affiliates in the Wireless business segment accounted for 23.1%, 19.2%, 12.1% and 11.3% of the Company s total revenues for the six months ended June 30, 2011.

Results of Operations

The table below sets forth certain statements of comprehensive loss data expressed as a percentage of revenues for the three and six months ended June 30, 2012 and 2011. Our historical results are not necessarily indicative of the operating results that may be expected in the future.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Revenues	100.0%	100.0%	100.0%	100.0%
Cost of revenues	17.7	22.1	19.7	21.6
Gross profit	82.3	77.9	80.3	78.4
Operating expenses:				
Selling and marketing	38.9	44.1	42.1	45.6
Research and development	60.7	70.2	65.5	67.9
General and administrative	50.6	44.6	52.5	41.8
Restructuring expense (income)	(0.8)	0.0	1.3	0.0
Total operating expenses	149.4	158.9	161.4	155.3
Operating loss	(67.1)	(81.0)	(81.1)	(76.9)
Interest and other income, net	0.3	0.3	0.3	0.3
Loss before provision for income taxes	(66.8)	(80.7)	(80.8)	(76.6)
Provision for income tax expense (benefit)	0.3	(32.0)	0.6	(30.6)
Net loss	(67.1)%	(48.7)%	(81.4)%	(46.0)%

Revenues and Expense Components

The following is a description of the primary components of our revenues and expenses:

Revenues. Revenues are net of sales returns and allowances. Our operations are organized into two business segments:

Wireless, which includes our connection management, mobile VPN, media and content management, device management, Push-To-Talk, Visual Voicemail, Voicemail to Text, video content delivery and network traffic optimization solutions; and

Productivity & Graphics, which includes retail and direct sales of our compression and broad consumer-based software.

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The following table shows the revenues generated by each business segment (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Wireless	$ 8,731	$ 13,808	$ 17,306	$ 29,789
Productivity & Graphics	1,395	2,232	2,870	3,974
Corporate/Other	45	65	109	133
Total revenues	10,171	16,105	20,285	33,896
Cost of revenues	1,796	3,560	3,991	7,336
Gross profit	$ 8,375	$ 12,545	$ 16,294	$ 26,560

Corporate/Other refers to the consulting portion of our services sector which has been de-emphasized and is no longer considered a strategic element of our future plans.

Cost of revenues. Cost of revenues consists of direct product costs, royalties, and the amortization of purchased intangibles and capitalized software.

Selling and marketing. Selling and marketing expenses consist primarily of personnel costs, advertising costs, sales commissions, trade show expenses, and the amortization of certain purchased intangibles. These expenses vary significantly from quarter to quarter based on the timing of trade shows and product introductions.

Research and development. Research and development expenses consist primarily of personnel and equipment costs required to conduct our software development efforts and the amortization of certain acquired intangibles.

General and administrative. General and administrative expenses consist primarily of personnel costs, professional services and fees paid for external service providers, space and occupancy costs, and legal and other public company costs.

Restructuring expense (income). Restructuring expenses consist primarily of one-time employee termination benefits, lease and other contract terminations and costs to consolidate facilities and relocate employees.

Interest and other income, net. Interest and other income are directly related to our average cash and short term investment balances during the period and vary among periods. Our other excess cash is invested in short term marketable equity and debt securities classified as cash equivalents.

Provision for income tax expense (benefit). The Company accounts for income taxes as required by Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic No. 740, Income Taxes. This statement requires the recognition of deferred tax assets and liabilities for the future consequences of events that have been recognized in the Company s financial statements or tax returns. Measurement of the deferred items is based on enacted tax laws. In the event the future consequences of differences between financial reporting bases and tax bases of the Company s assets and liabilities result in a deferred tax asset, we are required to evaluate the probability of being able to realize the future benefits indicated by such asset. The deferred tax assets are reduced by a valuation allowance if, based upon all available evidence, it is more likely than not that some or all of the deferred tax assets will not be realized. Establishing, reducing or increasing a valuation allowance in an accounting period generally results in an increase or decrease in tax expense in the statement of comprehensive loss. We must make significant judgments to determine the provision for income taxes, deferred tax assets and liabilities, unrecognized tax benefits and any valuation allowance to be recorded against deferred tax assets. After consideration of the Company s three year cumulative loss position as of December 31, 2011 and sources of taxable income, the Company recorded a valuation allowance related to its U.S.-based deferred tax amounts, with a corresponding charge to income tax expense, of $53.2 million for the year ended December 31, 2011.

Three Months Ended June 30, 2012 Compared to the Three Months Ended June 30, 2011

Revenues. Revenues were $10.2 million and $16.1 million for the three months ended June 30, 2012 and 2011, respectively, representing a decrease of $5.9 million, or 36.8%. Wireless revenues decreased $5.1 million, or 36.8%, primarily due to lower sales of our connection manager products. Productivity & Graphics revenues decreased $0.8 million, or 37.5% due to lower sell through at large retailers and overall lower demand. Due to the introduction and market acceptance of mobile hotspot devices, Tablets and Smartphones capable of functioning as a WWAN hotspot, our core connection management products continue to experience lower demand in our North American marketplace. While we have launched new wireless products that address this technology shift, they are new to the market and their rate of adoption and deployment is unknown at this time causing material uncertainty regarding the timing of our future wireless revenues.

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Cost of revenues. Cost of revenues was $1.8 million and $3.6 million for the three months ended June 30, 2012 and 2011, representing a decrease of $1.8 million, or 49.6%. Direct product costs decreased $0.5 million primarily due to the lower volume and cost reductions. Amortization of intangibles decreased $1.3 million as all intangibles were fully impaired at the end of the fiscal third quarter of 2011.

Gross profit. Gross profit was $8.4 million, or 82.3% of revenues for the three months ended June 30, 2012, a decrease of $4.1 million, or 33.2%, from $12.5 million, or 77.9% of revenues for the three months ended June 30, 2011. The 4.4 percentage point increase was primarily due to lower product margins of 3.4 points as a result of the decrease in revenues being offset by the amortization of intangibles that decreased as a percentage of revenues by 7.8 points due to no amortization this fiscal quarter versus the same fiscal period last year.

Selling and marketing. Selling and marketing expenses were $4.0 million and $7.1 million for the three months ended June 30, 2012 and 2011, respectively, representing a decrease of $3.1 million, or 44.3%. This decrease was primarily due to lower headcount of $1.9 million, lower third party commissions/distribution fees of $0.2 million, partially offset by higher trade shows of $0.1 million. Amortization of intangibles decreased $0.7 million as all intangibles were fully impaired at the end of the fiscal third quarter of 2011. Stock-based compensation decreased from $0.6 million to $0.2 million, or $0.4 million.

Research and development. Research and development expenses were $6.2 million and $11.3 million for the three months ended June 30, 2012 and 2011, respectively, representing a decrease of $5.1 million, or 45.4%. This decrease was primarily due to lower headcount of $4.4 million, less travel of $0.2 million, and less small equipment and software maintenance of $0.2 million. Amortization of intangibles decreased $0.1 million as all intangibles were fully impaired at the end of the fiscal third quarter of 2011. Stock-based compensation decreased from $0.4 million to $0.2 million, or $0.2 million.

General and administrative. General and administrative expenses were $5.2 million and $7.2 million for the three months ended June 30, 2012 and 2011, respectively, representing a decrease of $2.0 million, or 28.3%. This decrease was primarily due to lower legal fees of $0.6 million, lower headcount and people related cost of $0.6 million, and lower rent expense of $0.2 million. Stock-based compensation decreased from $1.2 million to $0.6 million, or $0.6 million.

Restructuring expense (income). Restructuring income was $0.1 million for the three months ended June 30, 2012 and was zero for the same period last year. We returned to profit $0.1 million of the restructuring reserve as a result of lower one-time employee termination benefits and relocation expenses.

Interest and other income, net. Interest and other income was de minimis for both of the three months ended June 30, 2012, and 2011.

Provision for income tax expense (benefit). We recorded income tax expense of $32,000 for the three months ended June 30, 2012. We recorded an income tax benefit of $5.2 million for the three months ended June 30, 2011. The income tax expense for the three months ended June 30, 2012 only reflects state income tax minimums and foreign income taxes. For 2012, we have reserved our income tax benefit due to consecutive quarterly losses. The effective tax rate for the three months ended June 30, 2011 was 40%, primarily due to the ability to claim income tax benefits for state and R&D tax credits.

Six Months Ended June 30, 2012 Compared to the Six Months Ended June 30, 2011

Revenues. Revenues were $20.3 million and $33.9 million for the six months ended June 30, 2012 and 2011, respectively, representing a decrease of $13.6 million, or 40.2%. Wireless revenues decreased $12.5 million, or 41.9%, primarily due to lower sales of our connection manager products. Productivity & Graphics revenues decreased $1.1 million, or 27.8% due to lower sell through at large retailers and overall lower demand. Due to the introduction and market acceptance of mobile hotspot devices, Tablets and Smartphones capable of functioning as a WWAN hotspot, our core connection management products continue to experience lower demand in our North American marketplace. While we have launched new wireless products that address this technology shift, they are new to the market and their rate of adoption and deployment is unknown at this time causing material uncertainty regarding the timing of our future wireless revenues.

Cost of revenues. Cost of revenues was $4.0 million and $7.3 million for the six months ended June 30, 2012 and 2011, representing a decrease of $3.3 million, or 45.6%. Direct product costs decreased $0.8 million primarily due to the lower volume, lower maintenance, and other cost reductions. Amortization of intangibles decreased $2.5 million as all intangibles were fully impaired at the end of the fiscal third quarter of 2011.

Gross profit. Gross profit was $16.3 million, or 80.3% of revenues for the six months ended June 30, 2012, a decrease of $10.3 million, or 38.7%, from $26.6 million, or 78.4% of revenues for the six months ended June 30, 2011. The 1.9 percentage point

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increase was primarily due to lower product margins of 5.5 points as a result of the decrease in revenues being offset by the amortization of intangibles that decreased as a percentage of revenues by 7.4 points due to no amortization for the six months ended June 30, 2012 versus the same fiscal period last year.

Selling and marketing. Selling and marketing expenses were $8.6 million and $15.5 million for the six months ended June 30, 2012 and 2011, respectively, representing a decrease of $6.9 million, or 44.7%. This decrease was primarily due to lower headcount of $3.0 million, lower travel expense of $0.7 million, lower third party commissions/distribution fees of $0.5 million, and other cost reductions of $0.3 million. Amortization of intangibles decreased $1.4 million as all intangibles were fully impaired at the end of the fiscal third quarter of 2011. Stock-based compensation decreased from $1.5 million to $0.5 million, or $1.0 million.

Research and development. Research and development expenses were $13.3 million and $23.0 million for the six months ended June 30, 2012 and 2011, respectively, representing a decrease of $9.7 million, or 42.3%. This decrease was primarily due to lower headcount of $8.4 million, less travel of $0.4 million, and less small equipment and software maintenance of $0.2 million. Amortization of intangibles decreased $0.1 million as all intangibles were fully impaired at the end of the fiscal third quarter of 2011. Stock-based compensation decreased from $1.0 million to $0.4 million, or $0.6 million.

General and administrative. General and administrative expenses were $10.7 million and $14.2 million for the six months ended June 30, 2012 and 2011, respectively, representing a decrease of $3.5 million, or 24.8%. This decrease was primarily due to lower headcount and people related cost of $1.0 million, lower legal fees of $0.6 million, and other cost reductions of $0.4 million. Stock-based compensation decreased from $2.8 million to $1.3 million, or $1.5 million.

Restructuring expense (income). Restructuring expense was $0.3 million for the six months ended June 30, 2012 and was zero for the same period last year. The expense was primarily related to severance and relocation costs.

Interest and other income, net. Interest and other income was $0.1 million for both of the six months ended June 30, 2012, and 2011.

Income tax provision. We recorded income tax expense of $0.1 million for the six months ended June 30, 2012. We recorded an income tax benefit of $10.4 million for the six months ended June 30, 2011. The income tax expense for the six months ended June 30, 2012 only reflects state income tax minimums and foreign income taxes. For 2012, we have reserved our income tax benefit due to consecutive quarterly losses. The effective tax rate for the six months ended June 30, 2011 was 40%, primarily due to the ability to claim income tax benefits for state and R&D tax credits.

Liquidity and Capital Resources

At June 30, 2012, we had $31.3 million in cash and cash equivalents and short-term investments and $39.8 million of working capital.

In November 2011, the Company announced that its Board of Directors had approved a program authorizing the repurchase of up to five million shares of the Company's common stock over a period of up to two years. Under this program, stock repurchases may be made from time to time and the actual amount expended will depend on a variety of factors including market conditions, regulatory and legal requirements, corporate cash generation and other factors. The stock repurchases may be made in both open market and privately negotiated transactions, and may include the use of Rule 10b5-1 trading plans. The program does not obligate Smith Micro to repurchase any particular amount of common stock during any period and the program may be modified or suspended at any time at the Company's discretion. During the six months ended June 30, 2012, we repurchased 375,000 shares at a cost of $0.8 million.

Capital expenditures were only $0.1 million for the six months ended June 30, 2012 versus $11.3 million for the six months ended June 30, 2011 as we expanded our Aliso Viejo datacenter and built out our new Pittsburgh facility last year. We currently anticipate that capital expenditures will be considerably lower in 2012 from 2011.

We believe that our existing cash, cash equivalents and short-term investment balances will be sufficient to finance our working capital and capital expenditure requirements through at least the next twelve months. We are hopeful that our new products will gain market acceptance in order to increase our revenues in upcoming quarters. If our new products do not gain market acceptance, or market acceptance is slower than anticipated, then we anticipate that it will be necessary to undertake additional restructuring to lower costs to bring them more in line with actual revenues, thus slowing the usage of cash. We may require additional funds to support our working capital requirements or for other purposes and may seek to raise additional funds through public or private equity or debt financing or from other sources. If additional financing is needed, we cannot assure that such financing will be available to us at commercially reasonable terms or at all.

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Operating activities

Net cash used in operating activities was $14.0 million for the six months ended June 30, 2012. The primary uses of operating cash were to fund our net loss of $16.5 million, and decreases in our accounts payable and accrued expenses of $2.4 million and accounts receivable of $0.4 million. These were partially offset by non-cash expenses including depreciation and amortization of $2.2 million, stock-based compensation of $2.2 million, state income tax refunds of $0.6 million, and other account adjustments of $0.3 million.

Net cash provided by operating activities was $0.2 million for the six months ended June 30, 2011. The primary sources of operating cash were accounts receivable of $17.4 million, non-cash expenses including depreciation and amortization of $5.8 million, stock-based compensation of $4.0 million, lease incentives of $2.2 million and other account adjustments of $0.3 million. These were partially offset by our net loss of $15.6 million, the increase of deferred tax assets of $10.6 million and other net assets increasing by $3.3 million.

Investing activities

During the six months ended June 30, 2012, we were provided with $18.2 million in investing activities due to the sale of short-term investments of $18.3 million, partially offset by capital expenditures of $0.1 million.

During the six months ended June 30, 2011, we used $1.5 million in investing activities due to investing in capital expenditures of $11.3 million as we expanded our Aliso Viejo datacenter and built out our new Pittsburgh facility and datacenter partially offset by the sale of short-term investments of $9.8 million.

Financing activities

During the six months ended June 30, 2012, we used $0.8 million to repurchase our common stock and received $0.1 million from the stock sale for the employee stock purchase plan.

During the six months ended June 30, 2011, we received $0.3 million from the stock sale for the employee stock purchase plan and $0.2 million from tax benefits related to stock-based compensation.

Contractual obligations and commercial commitments

As of June 30, 2012 we had no debt. The following table summarizes our contractual obligations as of June 30, 2012 (in thousands):

	Payments due by period				
Contractual obligations:	**Total**	**1 year or less**	**1-3 years**	**3-5 years**	**More than 5 years**
Operating Lease Obligations	$ 19,164	$ 2,590	$ 5,146	$ 4,219	$ 7,209
Purchase Obligations	1,262	1,262			
Total	$ 20,426	$ 3,852	$ 5,146	$ 4,219	$ 7,209

During our normal course of business, we have made certain indemnities, commitments and guarantees under which we may be required to make payments in relation to certain transactions. These include: intellectual property indemnities to our customers and licensees in connection with the use, sale and/or license of our products; indemnities to various lessors in connection with facility leases for certain claims arising from such facility or lease; indemnities to vendors and service providers pertaining to claims based on the negligence or willful misconduct; indemnities involving the accuracy of representations and warranties in certain contracts; and indemnities to directors and officers of the Company to the maximum extent permitted under the laws of the State of Delaware. We may also issue a guarantee in the form of a standby letter of credit as security for contingent liabilities under certain customer contracts. The duration of these indemnities, commitments and guarantees varies, and in certain cases, may be indefinite. The majority of these indemnities, commitments and guarantees may not provide for any limitation of the maximum potential for future payments we could be obligated to make. We have not recorded any liability for these indemnities, commitments and guarantees in the accompanying consolidated balance sheets.

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Real Property Leases

Our corporate headquarters, including our principal administrative, sales and marketing, customer support and research and development facility, is located in Aliso Viejo, California, where we currently lease and occupy approximately 52,700 square feet of space pursuant to leases that expire on May 31, 2016 and January 31, 2022. We lease approximately 55,600 square feet in Pittsburgh, Pennsylvania under a lease that expires December 31, 2021. We lease approximately 16,000 square feet in Sunnyvale, California under a lease that expires February 28, 2015. We lease approximately 14,400 square feet in Chicago, Illinois under a lease that expires August 31, 2012. We lease approximately 15,300 square feet in Watsonville, California under a lease that expires September 30, 2018. Internationally, we lease space in Belgrade, Serbia and Vancouver, Canada. These leases are for two to five-year terms.

Critical Accounting Policies and Estimates

Our discussion and analysis of results of operations, financial condition and liquidity are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances. Actual results may materially differ from these estimates under different assumptions or conditions. On an on-going basis, we review our estimates to ensure that the estimates appropriately reflect changes in our business or new information as it becomes available.

We believe the following critical accounting policies affect our more significant estimates and assumptions used in the preparation of our consolidated financial statements:

Revenue Recognition

We currently report our net revenues under two operating groups: Wireless and Productivity & Graphics. Within each of these groups software revenue is recognized based on the customer and contract type. We recognize revenue when persuasive evidence of an arrangement exists, delivery has occurred, the price is fixed and determinable, and collectibility is probable as required by FASB ASC Topic No. 985-605, Software-Revenue Recognition. We recognize revenues from sales of our software to our customers or end users as completed products are shipped and title passes; or from royalties generated as authorized customers duplicate our software, if the other requirements are met. If the requirements are not met at the date of shipment, revenue is not recognized until these elements are known or resolved. Returns from customers are limited to defective goods or goods shipped in error. Historically, customer returns have not exceeded the very nominal estimates and reserves. We also provide some technical support to our customers. Such costs have historically been insignificant.

We have a few multiple element agreements for which we have contracted to provide a perpetual license for use of proprietary software, to provide non-recurring engineering, and in some cases to provide software maintenance (post contract support). As of January 1, 2011, we adopted ASU No. 2009-13, *Revenue Recognition (Topic 605): Multiple-Deliverable Revenue Arrangements* which amends revenue recognition guidance for arrangements with multiple deliverables. The new guidance eliminated the residual method of revenue recognition and allows the use of management s best estimate of selling price for individual elements of an arrangement when vendor specific objective evidence (VSOE), vendor objective evidence (VOE) or third-party evidence (TPE) is unavailable. For most of our multiple element agreements, VSOE for all contract elements is used and the timing of the individual element revenue streams is determined and recognized as delivered.

For Productivity & Graphics sales, management reviews available retail channel information and makes a determination of a return provision for sales made to distributors and retailers based on current channel inventory levels and historical return patterns. Certain sales to distributors or retailers are made on a consignment basis. Revenue for consignment sales are not recognized until sell through to the final customer is established. Certain revenues are booked net of revenue sharing payments. Sales directly to end-users are recognized upon shipment. End users have a thirty day right of return, but such returns are reasonably estimable and have historically been immaterial. We also provide technical support to our customers. Such costs have historically been insignificant.

Accounts Receivable and Allowance for Doubtful Accounts

We sell our products worldwide. We perform ongoing credit evaluations of our customers and adjust credit limits based upon payment history, the customer s current credit worthiness and various other factors, as determined by our review of their current credit information. We continuously monitor collections and payments from our customers. We estimate credit losses and maintain an allowance for doubtful accounts reserve based upon these estimates. While such credit losses have historically been within our estimated reserves, we cannot guarantee that we will continue to experience the same credit loss rates that we have in the past. If not, this could have an adverse effect on our consolidated financial statements.

Impairment or Disposal of Long Lived Assets

Long-lived assets to be held are reviewed for events or changes in circumstances which indicate that their carrying value may not be recoverable. They are tested for recoverability using undiscounted cash flows to determine whether or not impairment to such value has occurred as required by FASB ASC Topic No. 360, Property, Plant, and Equipment. The Company has determined that there was no impairment at June 30, 2012.

Income Taxes

We account for income taxes as required by FASB ASC Topic No. 740, Income Taxes. This Topic clarifies the accounting for uncertainty in income taxes recognized in an enterprise s financial statements and prescribes a recognition threshold and measurement process for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The Topic also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. In the event the future consequences of differences between financial reporting bases and the tax bases of the Company s assets and liabilities result in a deferred tax asset, we are required to evaluate the probability of being able to realize the future benefits indicated by such asset. The Company records a valuation allowance to reduce any deferred tax assets by the amount of any tax benefits that, based on available evidence and judgment, are not expected to be realized.

The Company assesses whether a valuation allowance should be recorded against its deferred tax assets based on the consideration of all available evidence, using a more likely than not realization standard. The four sources of taxable income that must be considered in determining whether deferred tax assets will be realized are: (1) future reversals of existing taxable temporary differences (i.e., offset of gross deferred tax assets against gross deferred tax liabilities); (2) taxable income in prior carryback years, if carryback is permitted under the applicable tax law; (3) tax planning strategies and (4) future taxable income exclusive of reversing temporary differences and carryforwards.

In assessing whether a valuation allowance is required, significant weight is to be given to evidence that can be objectively verified. A significant factor in the Company s assessment is that the Company is in a three-year historical cumulative loss as of the end of fiscal 2011. This fact, combined with uncertain near-term market and economic conditions, reduced the Company s ability to rely on projections of future taxable income in assessing the realizability of its deferred tax assets.

After a review of the four sources of taxable income as of December 31, 2011 (as described above), and after consideration of the Company s three-year cumulative loss position as of December 31, 2011, the Company recorded a valuation allowance related to its U.S.-based deferred tax amounts, with a corresponding charge to income tax expense, of $53.2 million during the year ended December 31, 2011.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Interest Rate Risk

Our financial instruments include cash and cash equivalents and short-term investments. At June 30, 2012, the carrying values of our financial instruments approximated fair values based on current market prices and rates.

Foreign Currency Risk

While a majority of our business is denominated in U.S. dollars, we do invoice in foreign currencies. For the three months ended June 30, 2012 and 2011, our revenues denominated in foreign currencies were $0.2 million and $0.6 million, respectively. For the six months ended June 30, 2012 and 2011, our revenues denominated in foreign currencies were $0.2 million and $0.8 million, respectively. Fluctuations in the rate of exchange between the U.S. dollar and certain other currencies may affect our results of operations and period-to-period comparisons of our operating results. We do not currently engage in hedging or similar transactions to reduce these risks. The operational expenses of our foreign entities reduce the currency exposure we have because our foreign currency revenues are offset in part by expenses payable in foreign currencies. As such, we do not believe we have a material exposure to foreign currency rate fluctuations at this time.

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Item 4. Controls and Procedures.

Evaluation of disclosure controls and procedures

We conducted an evaluation under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) under the Securities Exchange Act of 1934 (Exchange Act)) as of June 30, 2012. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer have determined that as of June 30, 2012, our disclosure controls and procedures were effective to ensure that the information required to be disclosed in our Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission s rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, our management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and our management necessarily is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

Management s responsibility for financial statements

Our management is responsible for the integrity and objectivity of all information presented in this report. The consolidated financial statements were prepared in conformity with accounting principles generally accepted in the United States of America and include amounts based on management s best estimates and judgments. Management believes the consolidated financial statements fairly reflect the form and substance of transactions and that the financial statements fairly represent the Company s financial position and results of operations for the periods and as of the dates stated therein.

The Audit Committee of the Board of Directors, which is composed solely of independent directors, meets regularly with our independent registered public accounting firm, SingerLewak LLP, and representatives of management to review accounting, financial reporting, internal control and audit matters, as well as the nature and extent of the audit effort. The Audit Committee is responsible for the engagement of the independent auditors. The independent auditors have free access to the Audit Committee.

Changes in internal control over financial reporting

There have been no changes in our internal controls over financial reporting during the quarter ended June 30, 2012 that have materially affected, or is reasonably likely to materially affect, our internal controls over financial reporting.

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PART II. OTHER INFORMATION

Item 1. Legal Proceedings.

On June 29, 2011, a complaint was filed in the U.S. District Court for the Central District of California against us and certain of our current officers on behalf of certain purchasers of our common stock. The complaint was brought as a purported stockholder class action, and, in general, included allegations that we and certain of our officers violated federal securities laws by making materially false and misleading statements regarding our business prospects and financial results, thereby artificially inflating the price of our common stock. The plaintiff sought unspecified monetary damages and other relief. On August 29, 2011, two prospective lead plaintiffs filed motions for appointment of lead plaintiff and for appointment of lead counsel. On October 17, 2011, the court appointed the two prospective lead plaintiffs as co-lead plaintiffs and their respective counsel as co-lead counsel. On December 15, 2011, the co-lead plaintiffs filed their consolidated amended complaint. On February 14, 2012, defendants filed a motion to dismiss the consolidated amended complaint. On April 2, 2012, plaintiffs filed an opposition, and on May 1, 2012, defendants filed a reply. On May 21, 2012, the Court granted defendants motion to dismiss without prejudice and afforded plaintiffs leave to amend their complaint. Co-lead plaintiffs did not file an amended complaint, and instead agreed to dismiss the action with prejudice. On July 19, 2012, the parties stipulated to dismiss the action with prejudice, with each side to bear its own attorney s fees and costs. The stipulation fully, finally and forever releases defendants from any and all claims asserted by co-lead plaintiffs in the federal class action. The Court has not yet entered an order.

On August 11, 2011, a shareholder derivative complaint was filed in the Superior Court of California for the County of Orange against the Company s directors and certain of its executive officers. Thereafter, two additional similar complaints, also styled as shareholder derivative actions, were filed in state court (collectively, the "State Derivative Actions"). On December 23, 2011, one of the plaintiffs in the State Derivative Actions filed a motion to consolidate the State Derivative Actions and to appoint lead counsel. On February 14, 2012, the two other plaintiffs filed an opposition to this motion, and, on March 7, 2012, they filed their own motion to consolidate and appoint lead counsel. On March 29, 2012, the Court heard the motions, consolidated the three State Derivative Actions, and appointed lead counsel. On May 1, 2012, the Court held an initial Case Management Conference in the consolidated State Derivative Actions, at which the Court approved the parties stipulation to stay the State Derivative Actions pending full resolution of all motions to dismiss in the federal stockholder class action. Following the stipulated dismissal of the federal stockholder class action, the parties filed, on July 30, 2012, a stipulation to dismiss the State Derivative Actions with prejudice. The Court has not yet entered an order.

On September 12, 2011, a shareholder derivative complaint was filed in the U.S. District Court for the Central District of California against certain of the officers and directors named in the State Derivative Actions but also against additional officers of the Company. Thereafter, two additional similar complaints, also styled as shareholder derivative actions, were filed in federal court (collectively, the Federal Derivative Actions). On December 6, 2011, the federal court consolidated the first two filed Federal Derivative Actions and appointed co-lead counsel for plaintiffs. On January 9, 2012, the plaintiff for the third filed federal derivative action requested dismissal of the third filed complaint, which the federal court granted on January 11, 2012. On January 27, 2012, plaintiffs in the Federal Derivative Actions filed their consolidated shareholder derivative complaint. On March 30, 2012, defendants filed a motion to dismiss the consolidated complaint. On May 24, 2012, the parties filed a stipulation to temporarily defer prosecution of the Federal Derivative Actions pending final resolution of all motions to dismiss in the related federal stockholder class action. On June 5, 2012, the Court entered an Order deferring prosecution of the action pursuant to the parties stipulation. Following the stipulated dismissal of the federal stockholder class action, the parties filed, on July 30, 2012, a stipulation to dismiss the Federal Derivative Actions with prejudice. The Court has not yet entered an order.

The Company is and may become involved in various other legal proceedings arising from its business activities. While management does not believe the ultimate disposition of these matters will have a material adverse impact on the Company s consolidated results of operations, cash flows or financial position, litigation is inherently unpredictable, and depending on the nature and timing of these proceedings, an unfavorable resolution could materially affect the Company s future consolidated results of operations, cash flows or financial position in a particular period.

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Item 1A. Risk Factors

In addition to the information set forth elsewhere in this report, you should carefully consider the factors discussed in Part I, Item 1A. Risk Factors in our Annual Report on Form 10-K for our fiscal year ended December 31, 2011 and the risk factor set forth below. These risks could materially affect our business, financial condition and future results, but are not the only risks facing us. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially and adversely affect our business, financial condition or operating results.

We rely directly and indirectly on third-party intellectual property and licenses, which may not be available on commercially reasonable terms or at all.

Many of the Company s products and services include third-party intellectual property, which requires licenses from those third parties directly to us or to unrelated companies which provide us with sublicenses and/or execution of services for the operation of our business. These products and services include our wireless suite of products as well as our productivity and graphics products. Based on past experience and industry practice, the Company believes such licenses generally could be obtained on reasonable terms. There is however no assurance that the necessary licenses could be obtained on acceptable terms or at all. If the Company or our third party service providers are unable to obtain or renew critical licenses on reasonable terms, we may be forced to terminate or curtail our products and services which rely on such intellectual property and our financial condition and operating results may be materially adversely affected.

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Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.
The table set forth below shows all repurchases of securities by us during the three months ended June 30, 2012:

ISSUER PURCHASES OF EQUITY SECURITIES

Period	Total Number of Shares (or Units) Purchased	Average Price Paid per Share (or Unit)	Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs
Apr. 1-30, 2012				4,875,000
May 1-31, 2012	6,827(a)	$ 1.71	196,500(b)	4,678,500
Jun 1-30, 2012		$ 1.68	53,500	4,625,000
Total	6,827		250,000	4,625,000

The above table includes:

(a) Acquisition of stock by the Company as payment of withholding taxes in connection with the vesting of restricted stock awards, in an aggregate amount of 6,827 shares during the periods set forth in the table.

(b) Repurchases of stock under a program announced on November 2, 2011 authorizing the repurchase by the Company of up to 5,000,000 shares over a period of up to two years. Under this program, stock repurchases may be made from time to time and the actual amount expended will depend on a variety of factors including market conditions, regulatory and legal requirements, corporate cash generation and other factors. The stock repurchases may be made in both open market and privately negotiated transactions, and may include the use of Rule 10b5-1 trading plans. The program does not obligate the Company to repurchase any particular amount of common stock during any period and the program may be modified or suspended at any time at the Company s discretion. During the three months ended June 30, 2012, we repurchased an aggregate of 250,000 shares of common stock at a cost of $0.4 million.

Item 6. Exhibits.

3.1	Certificate of Designations of Series A Junior Participating Preferred Stock of Smith Micro Software, Inc. filed with the Delaware Secretary of State on April 25, 2012 (incorporated by reference to Exhibit 3.1 to the Registrant s Current Report on Form 8-K filed with the SEC on April 25, 2012).
3.2	Certificate of Amendment of Amended and Restated Certificate of Incorporation of Smith Micro Software, Inc. filed with the Delaware Secretary of State on June 25, 2012 (incorporated by reference to Appendix B to the Registrant s Definitive Proxy Statement on Schedule 14A filed with the SEC on April 27, 2012).
4.1	Stockholder Rights Agreement dated as of April 24, 2012, between Smith Micro Software, Inc. and Computershare Trust Company, N.A., as Rights Agent (incorporated by reference to Exhibit 4.1 to the Registrants Current Report on Form 8-K filed with the SEC on April 25, 2012).
31.1	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS**	XBRL Instance Document

101.SCH**	XBRL Taxonomy Extension Schema Document
101.CAL**	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF**	XBRL Taxonomy Extension Definition Linkbase Document

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101.LAB**	XBRL Taxonomy Extension Label Linkbase Document
101.PRE**	XBRL Taxonomy Extension Presentation Linkbase Document

** XBRL (Extensible Business Reporting Language) information is furnished and not filed or a part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, is deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, and otherwise is not subject to liability under these sections.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

	SMITH MICRO SOFTWARE, INC.
August 3, 2012	By /s/ William W. Smith, Jr. William W. Smith, Jr. President and Chief Executive Officer *(Principal Executive Officer)*
August 3, 2012	By /s/ Andrew C. Schmidt Andrew C. Schmidt Vice President and Chief Financial Officer *(Principal Financial Officer)*

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