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 Raleigh, North Carolina	27607
(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

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. 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.

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.

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.

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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.

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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

			Increase (Decrease)	
Category	Year ended December 31, 2018	Year ended December 31, 2017	$	%
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. Tradeshows 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.

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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 pursing 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 tradeshows, 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 tradeshows 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