SMITH MICRO SOFTWARE INC
Form 424B5
May 17, 2017

Filed pursuant to Rule 424(b)(5)

Registration No. 333-215786

PROSPECTUS SUPPLEMENT

(To the Prospectus Dated February 10, 2017)

SMITH MICRO SOFTWARE, INC.

2,077,000 Shares of Common Stock

We are offering 2,077,000 shares of common stock, par value $0.001 per share pursuant to this prospectus supplement and the accompanying prospectus at a price of $1.05 per share.

Our common stock is traded on NASDAQ Capital Market under the symbol "SMSI." On May 16, 2017, the last reported sale price per share of our common stock on the NASDAQ Capital Market was $1.15 per share.

Based on the reported sale price of $1.15 of our common stock on the NASDAQ Capital Market on May 16, 2017, the aggregate market value of our public float, calculated according to General Instruction I.B.6 of Form S-3, is approximately $9,530,046. Under the registration statement to which this prospectus supplement forms a part, we may not sell our securities in a primary offering with a value exceeding one-third of our public float in any 12-month period (unless our public float rises to $75.0 million or more). We have not offered any securities during the 12 calendar months preceding and including the date of this prospectus supplement pursuant to General Instruction I.B.6, and, accordingly, may sell up to $3,176,682 in common stock hereunder.

We have engaged Sutter Securities Incorporated and Chardan Capital Markets, LLC as our placement agents in connection with this offering. The placement agents have no obligation to buy any of the securities from us or to arrange for the purchase or sale of any specific number or dollar amount of securities. See "Plan of Distribution" beginning on page S-12 of this prospectus supplement for more information regarding these arrangements.

Investing in our securities involves a high degree of risk. We refer you to the section entitled "Risk Factors" on page S-4 of this prospectus supplement and on page 5 of the accompanying prospectus and under similar sections in the documents we incorporate by reference into this prospectus.

	Per Share	Total
Public offering price	$ 1.05	$2,180,850
Placement agents fees(1)	$ 0.063	$130,851
Proceeds, before expenses, to us	$ 0.987	$2,049,999

(1)

We have also agreed to reimburse the placement agents for certain expenses incurred by the placement agents up to an aggregate amount not to exceed $30,000. For additional information about the compensation paid to the placement agents, see "Plan of Distribution" on page S-12 of this prospectus supplement.

We expect that delivery of the securities being offered pursuant to this prospectus supplement and the accompanying prospectus will be made on or about May 17, 2017.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the adequacy or accuracy of this prospectus supplement or the accompanying prospectus. Any representation to the contrary is a criminal offense.

SUTTER SECURITIES INCORPORATED CHARDAN CAPITAL MARKETS, LLC

The date of this prospectus supplement is May 16, 2017.

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Prospectus

ABOUT THIS PROSPECTUS SUPPLEMENT

This prospectus supplement and the accompanying prospectus dated February 10, 2017 are part of a registration statement that we filed with the Securities and Exchange Commission, or SEC, utilizing a “shelf” registration process. This prospectus supplement and the accompanying prospectus relate to the offer by us of our securities to certain investors. We provide information to you about this offering of our securities in two separate documents that are bound together: (1) this prospectus supplement, which describes the specific details regarding this offering; and (2) the accompanying prospectus, which provides general information, some of which may not apply to this offering. Generally, when we refer to this “prospectus,” we are referring to both documents combined. If information in this prospectus supplement is inconsistent with the accompanying prospectus, you should rely on this prospectus supplement. However, if any statement in one of these documents is inconsistent with a statement in another document having a later date—for example, a document incorporated by reference in this prospectus supplement or the accompanying prospectus—the statement in the document having the later date modifies or supersedes the earlier statement as our business, financial condition, results of operations and prospects may have changed since the earlier dates. You should read this prospectus supplement, the accompanying prospectus and the documents and information incorporated by reference in this prospectus supplement and the accompanying prospectus when making your investment decision. You should also read and consider the information in the documents we have referred you to under the headings “Where You Can Find More Information” and “Incorporation of Certain Information by Reference.”

You should rely only on information contained in or incorporated by reference into this prospectus supplement and the accompanying prospectus. We have not, and the placement agents have not, authorized anyone to provide you with information that is different. We are offering to sell and seeking offers to buy our securities only in jurisdictions where offers and sales are permitted. The information contained in this prospectus supplement, the accompanying prospectus and the documents and information incorporated by reference in this prospectus supplement and the accompanying prospectus are accurate only as of their respective dates, regardless of the time of delivery of this prospectus supplement or of any sale of our securities.

PROSPECTUS SUPPLEMENT SUMMARY

The following summary is qualified in its entirety by, and should be read in conjunction with, the more detailed information and financial statements incorporated by reference into this prospectus. In addition to this summary, we urge you to read the entire prospectus carefully, especially the risks discussed under "Risk Factors" on page S-4 of this prospectus supplement and on page 5 of the accompanying prospectus and under similar sections in the documents we incorporate by reference into this prospectus before making an investment decision.

Unless otherwise stated in this prospectus,

- references to "Smith Micro," the "Company," "we," "us" or "our" refer to Smith Micro Software, Inc., and, where appropriate, its subsidiaries; and
- references to "dollars," "US$" or "$" refer to the legal currency of the United States.

Overview

Smith Micro provides software to simplify and enhance the mobile experience. As a leader in wireless connectivity, our applications ensure high quality of service for mobile users while optimizing networks for wireless service providers and enterprises. Using our intelligent device software, along with premium voice, video and messaging applications, we create new opportunities to engage consumers and monetize mobile services. In addition to wireless solutions, Smith Micro develops 2D/3D graphics software used by professional artists, animators, illustrators, and designers worldwide.

Smith Micro's mission is to help our customers thrive in a connected world. Over the past three decades, we have developed deep expertise in embedded software for mobile devices, policy-based management platforms, and highly-scalable client and server applications. Our wireless software is used by Tier 1 mobile network operators, cable providers, and device manufacturers, as well as enterprise companies across a wide range of industries, helping these businesses capitalize on the growth of connected consumers and the Internet of Things. Specifically, we help our customers:

- optimize networks, reduce operational costs, and deliver "best-connected" user experiences;
- manage mobile devices over the air for maximum performance, efficiency and reliability;

- provide greater insight into user experience to improve service quality and customer loyalty; and

- engage and grow high-value relationships with their customers using smartphones.

We continue to innovate and evolve our business to take advantage of industry trends and emerging markets, such as "Big Data" analytics, the explosion of Wi-Fi hotspots, and business-to-consumer mobile marketing and advertising. The key to our longevity, however, is not simply technology innovation, but a never-ending focus on customer value.

We were incorporated in California in November 1983, and reincorporated in Delaware in June 1995. Our principal executive offices are located at 51 Columbia, Aliso Viejo, California 92656. Our telephone number is (949) 362-5800. Our website address is www.smithmicro.com. Our NASDAQ symbol is SMSI, and we make our SEC filings available on the Investor Relations page of our website. Information contained on our website is not part of this prospectus.

THE OFFERING

Common Stock offered	2,077,000 shares of common stock.
Offering Price	$1.05 per share.
Shares of common stock to be outstanding immediately following this offering(1)	Approximately 14,211,505 shares of common stock.
Use of proceeds	We estimate that the net proceeds from the sale of our securities in this offering will be approximately $1.9 million, after deducting placement agent fees and expense reimbursements and our estimated expenses related to this offering. We intend to use the net proceeds from this offering for general corporate purposes, other than repayment of outstanding indebtedness owed to affiliates of the Company. See "Use of Proceeds" on page S-7.
Risk Factors	This investment involves a high degree of risk. See "Risk Factors" on page S-4 of this prospectus supplement and on page 5 of the accompanying prospectus and under similar sections in the documents we incorporate by reference into this prospectus for a discussion of factors you should consider carefully before making an investment decision.

(1)The number of shares of common stock to be outstanding after this offering is based on 12,134,505 shares of common stock outstanding as of May 16, 2017, and excludes:

- 1,700,000 shares of common stock issuable upon the exercise of outstanding warrants with a weighted average exercise price of $2.74 per share of common stock;
- 186,281 shares of common stock issuable upon the exercise of outstanding options with a weighted average exercise price of $8.61 per share of common stock, granted under our option and equity incentive plans; and
- 1,749,830 shares of common stock that are available for future option and restricted stock grants under our 2015 Omnibus Equity Incentive Plan.

RISK FACTORS

Before deciding to invest in our securities, you should consider carefully the discussion of risks and uncertainties affecting us and our securities contained in our Annual Report on Form 10-K for the fiscal year ended December 31, 2016 and the other information contained or incorporated by reference in this prospectus supplement and the accompanying prospectus. As a result of these risks and uncertainties, our business, financial condition and results of operations could be materially and adversely affected, and the value of our securities could decline. The risks and uncertainties we discuss in the documents incorporated by reference are those that we currently believe may materially affect our company. Additional risks and uncertainties not presently known to us or that we currently deem immaterial also may materially and adversely affect our business, financial condition and results of operations. Please also consider the following additional risks specifically pertaining to the offering.

Risks Relating to the Offering

We currently do not meet the minimum stockholders' equity requirements of the NASDAQ Stock Market and the proceeds of this offering are anticipated to bring us back into compliance with these requirements. If this offering fails to bring us into compliance with applicable listing requirements or we otherwise fail to meet the requirements for continued listing on the NASDAQ Stock Market, our common stock would likely be delisted from trading on NASDAQ, which would likely reduce the liquidity of our common stock and could cause our trading price to decline.

Our common stock is currently listed for quotation on the NASDAQ Stock Market. We currently do not meet the requirements of NASDAQ'S Marketplace Rule 5550(b)(1) because the Company's stockholders' equity as of March 31, 2017 fell below the required minimum of $2,500,000, and the Company does not meet the alternatives of market value of listed securities or net income from continuing operations for continued listing. The proceeds of this offering are expected to bring us back into compliance with the minimum stockholders' equity requirements of NASDAQ, but if this offering fails to bring us into compliance with these requirements or we otherwise fail to satisfy NASDAQ's continued listing requirements, our common stock would likely be delisted from NASDAQ and may trade on the OTC Market. Any potential delisting of our common stock from NASDAQ would likely result in decreased liquidity and increased volatility of our common stock, and would likely cause our trading price to decline.

In addition, a potential delisting from NASDAQ may cause our common stock to be considered a "penny stock", subjecting securities broker-dealers participating in sales of our common stock to the "penny stock" regulations of the SEC which require a broker-dealer, prior to a transaction in a penny stock not otherwise exempt from those rules, to deliver a standardized risk disclosure document prepared by the SEC, which specifies information about penny stocks and the nature and significance of risks of the penny stock market. The broker-dealer also must provide the customer with bid and offer quotations for the penny stock, the compensation of the broker-dealer and any salesperson in the transaction, and monthly account statements indicating the market value of each penny stock held in the customer's account. In addition, the penny stock rules require that, prior to a transaction in a penny stock not otherwise exempt from those rules, the broker-dealer must 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 trading activity in the secondary market for our common stock.

Since we have broad discretion in how we use the proceeds from this offering, we may use the proceeds in ways with which you disagree.

Our management will have significant flexibility in applying the net proceeds of this offering. You will be relying on the judgment of our management with regard to the use of these net proceeds, and you will not have the opportunity, as part of your investment decision, to influence how the proceeds are being used. It is possible that the net proceeds will be invested in a way that does not yield a favorable, or any, return for us. The failure of our management to use such funds effectively could have a material adverse effect on our business, financial condition, prospects, financial condition, operating results and cash flow.

You will experience immediate dilution in the book value per share of common stock you purchase.

Because the public offering price per share of common stock is expected to be substantially higher than the book value per share of our common stock, you will suffer substantial dilution in the net tangible book value of the common stock you purchase in this offering. Based on the public offering price of $1.05 per share of common stock, if you purchase common stock in this offering, you will suffer immediate and substantial dilution of approximately $1.18 per share in the net tangible book value of the common stock you acquire.

Future sales of our common stock may cause the prevailing market price of our shares to decrease.

The issuance and sale of additional common stock or securities convertible into or exercisable for common stock could reduce the prevailing market price for our common stock as well as make future sales of equity securities by us less attractive or not feasible. The sale of common stock issued upon the exercise of our outstanding options and warrants could further dilute the holdings of our then existing stockholders.

There has been and may continue to be significant volatility in the volume and price of our common stock on the NASDAQ Capital Market.

The market price of our common stock has been and may continue to be highly volatile. Factors, including our customer concentration, changes in demand for our products and from our key customers and their end users, the intensity of competition and the pace at which the market for new products develop, may have a significant impact on the market volume and price of our stock. Unusual trading volume in our shares occurs from time to time.

We have not paid and do not intend to pay dividends on our common stock. Investors in this offering may never obtain a return on their investment.

We have not paid dividends on our ordinary since inception, and do not intend to pay any dividends on our common stock in the foreseeable future. We intend to reinvest earnings, if any, in the development and expansion of our business. Accordingly, you will need to rely on sales of your common stock after price appreciation, which may never occur, in order to realize a return on your investment.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This prospectus supplement contains forward-looking statements regarding Smith Micro which include, but are not limited to, statements concerning our ability to remain a going concern, our ability to raise more funds, customer concentration, projected revenues, expenses, gross profit and income, the competitive factors affecting our business, market acceptance of products, 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 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:

- our ability to remain a going concern;
- our ability to raise additional capital to fund our operations and such capital may not be available to us at commercially reasonable terms or at all;
- our customer concentration given that the majority of our sales depend on a few large client relationships, including Sprint;
- our ability to become and remain profitable;
- our quarterly revenues and operating results are difficult to predict and could fall below analyst or investor expectations, which could cause the price of our common stock to fall;
- changes in demand for our products from our key customers and their end users;
- the intensity of the competition and our ability to successfully compete;
- the pace at which the market for new products develop;
- our ability to hire and retain key personnel;
- the availability of third party intellectual property and licenses which may not be on commercially reasonable terms, or not at all;
- our ability to establish and maintain strategic relationships with our customers;
- our ability to assimilate acquisitions without diverting management attention and impacting current operations;
- our ability to protect our intellectual property and our ability to not infringe on the rights of others;
- security and privacy breaches in our systems may damage client relations and inhibit our ability to grow;
- interruptions or delays in the services we provide from our data center hosting facilities could harm our business; and
- the risk of being delisted from NASDAQ if we fail to meet any of the listing requirements; and
- those additional factors which are included on page S-4 of this prospectus supplement and on page 5 of the accompanying prospectus.

The forward-looking statements contained in this prospectus supplement are made on the basis of the views and assumptions of management regarding future events and business performance as of the date of this prospectus supplement. We do not undertake any obligation to update these statements to reflect events or circumstances occurring after the date of this prospectus supplement.

USE OF PROCEEDS

We estimate that the net proceeds from the sale of our securities in this offering will be approximately $1.9 million, after deducting placement agent fees and expense reimbursements and our estimated expenses related to this offering.

We intend to use the net proceeds from this offering for general corporate purposes, other than repayment of outstanding indebtedness owed to affiliates of the Company.

DIVIDEND POLICY

We have never declared or paid dividends on our common stock and currently do not intend to pay cash dividends on our common stock in the foreseeable future. We currently intend to retain all of our future earnings, if any, to finance the growth and development of our business.

CAPITALIZATION

The following table sets forth our capitalization as of March 31, 2017:

- on an actual basis; and
- on an as adjusted basis to give effect to the issuance and sale of 2,077,000 shares of common stock at the offering price of $1.05 after deducting placement agent fees and estimated offering expenses payable by us.

	March 31, 2017	
	Actual	As Adjusted
	(in thousands, unaudited)	
Cash and cash equivalents	$2,504	$4,432
Debt:		
Related-party notes payable, short-term	$2,000	$2,000
Related-party notes payable, net of discount & issuance costs of $938	1,062	1,062
Notes payable, net of discount & issuance costs of $938	1,062	1,062
Warrant liability	502	502
Total debt	4,626	4,626
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; 12,116,156 shares issued and outstanding; 14,193,156 as adjusted	12	14
Additional paid-in capital	228,265	230,179
Accumulated comprehensive deficit	(227,629)	(227,629)
Total stockholders' equity	648	2,564
Total capitalization	$5,274	$7,190

The number of issued and outstanding shares as of March 31, 2017 on an as adjusted basis in the table excludes:

- 1,700,000 shares of common stock issuable upon the exercise of outstanding warrants with a weighted average exercise price of $2.74 per share of common stock;

- 209,955shares of common stock issuable upon the exercise of outstanding options with a weighted average exercise price of $9.50 per share of common stock, granted under our option and equity incentive plans; and

- 1,749,830 shares of common stock that are available for future option and restricted stock grants under our 2015 Omnibus Equity Incentive Plan.

DILUTION

Purchasers of the securities offered by this prospectus supplement and the accompanying prospectus will suffer immediate and substantial dilution in the net tangible book value per share of our common stock. Dilution in net tangible book value per share represents the difference between the amount per share paid by purchasers in this offering and the net tangible book value per share of our common stock immediately after this offering.

Our historical net tangible book value as of March 31, 2017 was approximately ($3,717,000) or $(0.31) loss per share of our outstanding Common Stock, based on 12,116,156 shares of Common Stock outstanding as of March 31, 2017.

Investors participating in this offering will incur immediate and significant dilution. After giving effect to the issuance and sale in this offering of 2,077,000 shares of Common Stock at the public offering price of $1.05 per share of Common Stock, after deducting placement agent fees and estimated offering expenses payable by us, our as adjusted net tangible book value as of March 31, 2017 would have been approximately $(1,789,001), or approximately $(0.13) loss per share of Common Stock. This amount represents an immediate increase in net tangible book value of $0.18 per share of Common Stock to existing shareholders and an immediate dilution in net tangible book value of $1.18 per share of Common Stock to investors purchasing securities in this offering. The following table illustrates this dilution:

Offering price per share of Common Stock		$ 1.05
Net tangible book value per share before this offering, as of March 31, 2017	$ (3,717,000)	
Increase in net tangible book value per share attributable to new investors in this offering	$ 1,927,999	
Net tangible book value per share after the offering	$ (1,789,001)	
Dilution in net tangible book value per share to new investors in this offering		$ 1.18

The number of issued and outstanding shares as of March 31, 2017 in the table excludes:

- 1,700,000 shares of common stock issuable upon the exercise of outstanding warrants with a weighted average exercise price of $2.74 per share of common stock;

- 207,955 shares of common stock issuable upon the exercise of outstanding options with a weighted average exercise price of $9.50 per share of common stock, granted under our option and equity incentive plans; and

- 1,749,830 shares of common stock that are available for future option and restricted stock grants under our 2015 Omnibus Equity Incentive Plan.

MARKET PRICE INFORMATION

Our common stock is traded on the NASDAQ Stock Market under the symbol "SMSI." The high and low sale prices for our common stock as reported by NASDAQ are set forth below for the periods indicated. The prices have been adjusted for our 1:4 reverse stock split on August 17, 2016.

	High	Low
YEAR ENDED DECEMBER 31, 2017:		
First Quarter	$ 2.32	$0.80
Second Quarter (Through May 16, 2017)	1.39	0.81
YEAR ENDED DECEMBER 31, 2016:		
First Quarter	$ 3.12	$ 1.80
Second Quarter	3.20	2.24
Third Quarter	3.20	2.00
Fourth Quarter	2.34	1.28
YEAR ENDED DECEMBER 31, 2015:		
First Quarter	$ 7.40	$ 3.64
Second Quarter	6.52	4.32
Third Quarter	5.36	3.00
Fourth Quarter	3.68	2.56

On May 16, 2017, the closing sale price for our common stock as reported by NASDAQ was $1.15.

DESCRIPTION OF SECURITIES

We are offering 2,077,000 shares of common stock.

Common Stock

The material terms and provisions of our common stock are described under the caption "Common Stock" on page 6 of the accompanying prospectus.

PLAN OF DISTRIBUTION

Pursuant to engagement letters between us and each of Sutter Securities Incorporated and Chardan Capital Markets, LLC (the “Placement Agents”) we have engaged the Placement Agents to solicit offers to purchase the common stock. The Placement Agents are not purchasing or selling any of the securities we are offering, and they are not required to arrange the purchase or sale of any specific number or dollar amount of common stock, but each of them has agreed to use their respective best efforts to arrange for the sale of these securities. The Placement Agents may retain sub-agents and selected dealers in connection with this offering.

The Placement Agents propose to arrange for the sale of the securities we are offering pursuant to this prospectus supplement to one or more investors through securities purchase agreements directly between the purchasers and us. All of the common stock will be sold at the price set forth on the cover of this prospectus supplement and at a single closing. We established the price following negotiations with prospective investors and with reference to the prevailing market price of our common stock, recent trends in such price and other factors. We anticipate that the sale of the common stock will be completed on the date indicated on the cover page of this prospectus supplement, subject to customary closing conditions. On the closing date, the following will occur:

- we will receive funds in the amount of the aggregate purchase price;
- the Placement Agents will receive the placement agent fees in accordance with the terms of their respective engagement agreements; and
- we will deliver the shares to the investors.

In connection with this offering, the Placement Agents may distribute this prospectus supplement and the accompanying prospectus electronically.

We will pay the Placement Agents cash fees equal to six percent (6%) of the gross proceeds from the sale of the shares through each of them. We will also issue to the Placement Agents warrants to purchase shares of our common stock equal to five percent (5%) of the amount of shares which we have sold through each of them, without duplication, in this offering, provided that the exercise price per share of common stock is no less than 110% of the offering price of the Shares. The placement agent warrants will have a term of five years from the date of this prospectus supplement and have piggy back registration rights. Pursuant to FINRA Rule 5110(g), the placement agent warrants and any shares issued upon exercise of the placement agent warrants shall not be sold, transferred, assigned, pledged, or hypothecated, or be the subject of any hedging, short sale, derivative, put or call transaction that would result in the effective economic disposition of the securities by any person for a period of 180 days immediately following the date of effectiveness or commencement of sales of this offering, except the transfer of any security: (i) by operation of law or by reason of our reorganization; (ii) to any FINRA member firm participating in the offering and the officers or partners thereof, if all securities so transferred remain subject to the lock-up restriction set forth above for the remainder of the time period; (iii) if the aggregate amount of our securities held by the placement agent or related persons do not exceed 1% of the securities being offered; (iv) that is beneficially owned on a pro-rata basis by all equity owners of an investment fund, provided that no participating member manages or otherwise directs investments by the fund and the participating members in the aggregate do not own more than 10% of the equity in the fund; or (v) the exercise or conversion of any security, if all securities remain subject to the lock-up restriction set forth above for the remainder of the time period.

In addition, we have agreed to provide Chardan Capital Markets with a financial advisory fee of $50,000 upon closing of this offering and to reimburse each Placement Agent for its expenses reasonable and actually incurred in connection with this offering up to a maximum of $15,000 for all such expenses, and have given Sutter Securities a “tail fee” of 6% for a period of 12 months with respect to future investments by the purchasers which purchased shares in this offering through Sutter Securities.

The following table shows per security and total cash placement agent fees we will pay to the Placement Agents in connection with the sale of the common stock, assuming the purchase of all of the securities we are offering.

	Per Share	Total
Public offering price	$ 1.05	$2,180,850
Placement agents fees(1)	$ 0.063	$130,851
Proceeds, before expenses, to us	$ 0.987	