SMITH MICRO SOFTWARE INC
Form 10-K/A
May 02, 2005

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

FORM 10-K/A

AMENDMENT NO. 1

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

For the fiscal year ended December 31, 2004

o **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 0-26536

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 Number)
51 Columbia, Suite 200, Aliso Viejo, CA	**92656**
(Address of principal executive offices)	(Zip Code)

Registrant s telephone number, including area code: (949) 362-5800

Common Stock, $.001 par value	**Nasdaq SmallCap Market**
(Title of each class)	(Name of each exchange on which registered)

Securities registered pursuant to Section 12(b) of the Act: None
Securities registered pursuant to Section 12(g) of the Act: Common Stock, $.001 par value

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 R NO o

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 NO. o

Indicate by check mark if whether the registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2). YES o NO þ

As of June 30, 2004, the last business day of the registrant s most recently completed second quarter, the aggregate market value of the common stock of the registrant held by non-affiliates was $15,151,026 based upon the closing sale price of such stock as reported on the Nasdaq SmallCap Market on that date. For purposes of such calculation, only executive officers, board members, and beneficial owners of more than 10% of the registrant s outstanding common stock are deemed to be affiliates.

As of February 25, 2005, there were 21,536,918 shares of common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE: None.

SMITH MICRO SOFTWARE, INC.

2004 FORM 10-K/A ANNUAL REPORT

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EXPLANATORY NOTE

On March 31, 2005, Smith Micro Software, Inc. (the Company) filed with the Securities and Exchange Commission (the SEC) its Annual Report on Form 10-K for the year ended December 31, 2004 (the Initial Form 10-K). In accordance with the SEC rules, the Company incorporated by reference Part III of the Initial Form 10-K from the Proxy Statement to be filed by the Company in connection with its 2005 Annual Stockholders Meeting, which the Company anticipated filing on or before April 30, 2005. Since filing the Initial Form 10-K, the Company has determined that it will not file its Proxy Statement prior to the April 30 deadline and, in accordance with SEC rules, must file an amendment to its Initial Form 10-K to include the disclosures required by Part III of Form 10-K.

This Amendment No. 1 on Form 10-K/A amends Part III of the Initial Form 10-K in order to include those disclosures required by Part III of Form 10-K. This Amendment No.1 also deletes the incorporation by reference of the Company s Proxy Statement from the cover page and updates the signature page, Item 15 of Part IV, and Exhibits 23.1, 31.1, 31.2 and 32.1.

Pursuant to Rule 12b-15 under the Securities Exchange Act of 1934, as amended, the complete text of each of Items 10, 11, 12, 13 and 14 of Part III and Item 15 of Item IV, as amended, is set forth below. The Company has also reproduced, but not modified or updated, Items 1-4 of Part I and Items 5-9A of Part II in this Amendment No. 1. This Amendment No. 1 speaks as of the original filing date of the Initial Form 10-K and reflects only the changes discussed above. No other information included in the Initial Form 10-K, including the information set forth in Part I, Part II, the financial statements and the footnotes thereto, has been modified or updated in any way.

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SPECIAL NOTE REGARDING FORWARD LOOKING STATEMENTS

In this document, the terms Smith Micro, Company, we, us, and our refer to Smith Micro Software, Inc. and 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, the protection of our intellectual property, and the need for additional capital. 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 in any forward-looking statements as a result of various factors. Such factors include, but are not limited to the following:

- *our ability to predict consumer needs, introduce new products, gain broad market acceptance for such products and ramp up manufacturing in a timely manner;*
- *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 successfully execute our business plan and control costs and expenses;*
- *our ability to protect our intellectual property and our ability to not infringe on the rights of others;*
- *our depressed market capitalization; and*
- *those additional factors which are listed under the section Risk Factors on page 18 of this report.*

All forward looking statements included in this document are based on information available to us on the date hereof. We do not undertake any obligation to revise or update publicly any forward-looking statements for any reason.

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PART I

Item 1. BUSINESS

General

Smith Micro Software, Inc. is a diversified developer and marketer of wireless communication software products and services. Our primary focus and strategy for our products and services is directed to wireless communications including WWAN as well as Wi-Fi software. We sell our products and services to some of the world s leading companies as well as to consumers. Specific wireless products include: QuickLink Mobile and QuickLink Mobile Phonebook. The proliferation of wireless technologies is providing new opportunities globally. The wireless infrastructures being implemented, such as 1xRTT, GPRS and 3G including EVDO and UMTS, offer wider bandwidth wireless data services. This infrastructure combined with mobile platforms such as the basic mobile phone, notebook computing devices (PCs) and personal communications devices (PDA s) provide opportunities for new communications software products. Our core communications technology is designed to address this emerging wireless data market.

We manufacture, market and sell value-added wireless connectivity products targeted to the original equipment manufacturers (OEM) market, particularly wireless service providers and mobile phone manufacturers, as well as direct to the consumer. We offer software products for Windows XP, Windows 2000, Windows Me, Windows 98, Windows CE, Pocket PC, Mac, Palm, Unix and Linux operating systems. The underlying design concept is the long-standing Smith Micro criteria of enhancing the out-of-box experience for the customer. Our custom engineering services bring more than 20 years of hardware and software experience, having shipped over 40 million copies of products to OEM s seeking to better market their products by adding product features, customizing existing features and translating applications into additional languages.

During the fourth quarter of 2004, we announced our latest addition to the QuickLink family, namely QuickLink Mobile Enterprise aimed at the corporate marketplace to take advantage of the demand for additional security built into the Enterprise product. This product will ship in the second quarter of 2005. QuickLink Mobile provides notebook users with the ability to easily roam between wireless wide area networks (WWAN) and Wi-Fi hot spots. QuickLink Mobile allows users to seek out and select available hot spots in their area. We currently maintain OEM relationships with many wireless industry companies including: Verizon Wireless, Telus, Audiovox, LGIC and, Kyocera. Smith Micro also offers products in the PC Utility, Fax and eBusiness markets. Smith Micro s complete line of products are available through direct sales and OEMs. Sales to Verizon Wireless amounted to approximately 68.4% of the Company s net revenues for 2004. Sales to Verizon Wireless, Cingular Wireless and Apple Computer amounted to approximately 27.0%, 10.7% and 10.2% of our net revenues for 2003, respectively. Sales to Verizon Wireless and Apple Computer amounted to approximately 19.0% and 10.7% of our net revenues in 2002, respectively.

We also offer professional consulting services that help clients implement web-based projects. An extension of this activity includes the offering of fulfillment services for customer web stores.

We currently operate in two business segments: products and services. We do not separately allocate operating expenses to these segments, nor do we allocate specific assets to these segments. Therefore, segment information reported includes only revenues and cost of revenues. See Note 7 of Notes to Consolidated Financial Statements for financial information related to our operating segments.

Research and development expenses amounted to $2.6 million, $2.5 million and $2.2 million for the years ended December 31, 2004, 2003 and 2002, respectively. Our research and development expenses consist primarily of personnel and equipment costs required to conduct our software development efforts. We remain focused on the

development and expansion of our technology, particularly our wireless, diagnostic, utility and Internet software technologies.

Our business is primarily dependent upon the worldwide demand for wireless communications and the resulting requirements wireless data connectivity to support this demand. During the last three years, demand for these types of products has fluctuated dramatically, and there has been a significant increase in price competition within our industry.

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We were incorporated in California in November 1983, and we reincorporated in Delaware in June 1995. Our principal executive offices are located at 51 Columbia, Suite 200, Aliso Viejo, California 92656. Our telephone number is (949) 362-5800. Our website address is www.smithmicro.com. We make our filings with the SEC available on the Investor Relations page of our website. Information contained on our website is not part of this Annual Report on Form 10-K.

Industry Backgrounds

Wireless Industry The evolving types of wireless infrastructures being implemented, such as 1xRTT, GPRS and the emerging 3G offer wider bandwidth data services. Wireless platforms include the basic cellular phone, personal computing devices (PC s) and personal communications devices including PDA s and handheld s. The adoption of these new mobile and wireless communications services provides opportunities for new communications software products.

Diagnostic/Utility Software Industry Diagnostic and utility software products assist home or corporate users, and hardware manufacturers or service companies to identify and repair computer system related errors and problems.

Computer Consulting Industry A corporation s information technology department generally evaluates whether to design, build or support computer applications internally or to contract some or all of this work to outside specialists with technical expertise. Many corporations choose to use outside consulting contractors for this work in order to focus their resources on their core competencies and avoid the time and expense required to train their own employees. Our efforts are focused on these outsourced services. Our cross-platform (Windows, Unix, Linux and Macintosh) WebDNA product is targeted at this market.

Products and Services

The following is a list of the software products and services we offer, as well as a brief description of their principal features and functions:

Software Products

QuickLink® Mobile	Turns data capable wireless phones into wireless modems.
QuickLink® Mobile Phonebook	Enables users to be able to easily edit wireless phonebooks on a PC computer and copy, email or PIM databases to the phone.
FAXstf X & FAXstf X Pro	Enables users to exchange faxes and data files with remote modems, fax/modems, and fax machines quickly and easily on the Mac OS X operating environment.
HotFax® MessageCenter And HotFax®	An integrated voice, fax and data communication software program that lets users receive voice mail and exchange faxes and data files with remote modems, fax/modems, and fax machines quickly and easily.
WebDNA	Provides the tools necessary to develop a Web site or an eBusiness site supporting Windows, Mac, Unix and Linux. Wireless WebDNA is an additional function that can be added to a Web site built using WebDNA that enables WAP capability.

CheckIt® Utilities	Provides end-users the hardware information they need to evaluate, fine-tune and manage their systems.

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Services

Consulting	Consulting services range from supporting our WebDNA product to complete website design and installation consulting services.
Hosting	We maintain a network operations facility that is monitored 24 x 7 to ensure maximum uptime. We offer a broad spectrum of bandwidth and service options to customers. We host customers on our servers or house their server at our location.
Fulfillment	An extension of our eBusiness activity includes order fulfillment services for customer web stores.

Sales and Marketing

Our products are available worldwide to customers through original equipment manufacturers. We also sell products and product upgrades over the Internet through our own web store at www.smithmicro.com.

Our OEM market continues to evolve as we continue to offer new communications products and OEM s adopt new technologies and software bundling techniques. Our OEM customers include wireless service providers, wireless phone manufacturers and other PC related equipment manufacturers. These manufacturers bundle our software products with their own products. We have translated selected products into as many as eighteen languages to allow our OEM customers the flexibility of offering multi-language products that meet the needs of their worldwide markets.

The cycle from the placement of an OEM order to shipping is very short. OEM customers generally operate under a just-in-time system, and we typically ship our products as we receive orders. A percentage of our OEM revenue is derived from royalties accrued by customers that are authorized to replicate or to preload our software products.

Our three largest OEM customers (Verizon Wireless, Kyocera Wireless and Symantec in 2004), and their respective affiliates, in each year, have accounted for 77.8% of our net revenue in 2004, 47.9% of our net revenues in 2003 and 39.4% of our net revenues in 2002. Our major customers could reduce their orders of our products in favor of a competitor s product or for any other reason. The loss of any of our major OEM customers, decisions by a significant OEM customer to substantially reduce purchases or our inability to collect receivables from these customers could have a material adverse effect on our business.

We traditionally have relatively little backlog for our OEM products at any given time, and we have not considered backlog to be a significant indicator of future performance. As of December 31, 2004, however, we had reported a backlog of $1 million resulting from orders placed late in the fourth quarter but not shipped. Since we generally do not produce software in advance of anticipated orders, our revenues in any quarter are substantially dependent on orders booked in that quarter.

We sell product directly to retail customers. During the period 2002 through 2004, the retail product sales mix has changed as the result of a reduced emphasis on the retail channel and a renewed focus on our OEM and direct sales as we exited the distribution channel.

Our consulting service group assists customers in deploying and using computer operating systems, applications, and communications products. This group is a part of our Internet & Direct unit and helps create enterprise-wide computing solutions for large corporate accounts.

Customer Service and Technical Support

We provide technical support and customer service through our web site, email, telephone and fax. OEM customers generally provide their own primary customer support functions and rely on us for back-up support for their own technical support personnel.

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Product Development

The software industry, particularly the wireless market, is characterized by rapid and frequent changes in technology and user needs. We work closely with industry groups and customers, both current and potential, to help us anticipate changes in technology and determine future customer needs. Software functionality depends upon the capabilities of the hardware. Accordingly, we maintain engineering relationships with various hardware manufacturers and we develop our software in tandem with their development. Our engineering relationships with manufacturers, as well as with our major customers, are central to our product development efforts. We remain focused on the development and expansion of our technology, particularly in the wireless space. Research and development expenditures amounted to $2.6 million, $2.5 million and $2.2 million for the years ended December 2004, 2003 and 2002, respectively.

Manufacturing

Our software is sold in several forms. We offer a package or kit that may include: CD-ROM(s) for product and hardware-specific drivers; a cable; a manual; and certain other documentation or marketing material. We offer software on CD-ROMs. We also permit selected OEM customers to duplicate our products on their own CD-ROM s and pay a royalty based on usage. This method of sale does not require us to provide a CD or manual. Finally, we grant licenses to certain OEM customers that enable those customers to preload a copy of our software onto a personal computer s hard drive. With the corporate sales program, we offer site licenses under which a corporate user is allowed to distribute copies of the software to users within the corporate sites.

Our product development group produces a product master for each product that is then duplicated and packaged into products by the manufacturing organization. All product components are purchased by our personnel in our Aliso Viejo, California facility. The manufacturing steps that are subcontracted to outside vendors include the replication of CD-ROM s and the printing of documentation materials. Assembly of the final package is completed by an outside vendor or in our Aliso Viejo, California facility.

Competition

The markets in which we operate are highly competitive and subject to rapid changes in technology. Rapidly changing technology combined with relatively low barriers to entry in the communication software market is constantly creating new opportunities, and we expect new competitors to enter the market. We also believe that competition from established and emerging software companies will continue to intensify as the emerging mobile, wireless and Internet markets evolve. We compete with other software vendors for the attention of customers as well as in our efforts to acquire technology and qualified personnel.

We believe that the principal competitive factors affecting the communication software market include: product features, ease of use, customization to customer-specific needs, product quality, price, customer service and effective sales and marketing efforts. Although we believe that our products currently compete favorably with respect to these factors, there can be no assurance that we can maintain our competitive position against current and potential competitors. We believe that the market for our software products has been and will continue to be characterized by significant price competition. A material reduction in the price of our products could negatively affect our profitability. We face competition from Microsoft due to its market dominance and the fact that it is the publisher of the most prevalent personal computer operating system, Windows. Microsoft represents a significant competitive threat to all personal computer software vendors, including us.

Many existing and potential OEM customers have technological capabilities to develop products that compete directly with our products. In such event, these customers may discontinue purchases of our products. Our future

performance is substantially dependent upon the extent to which existing OEM customers elect to purchase communication software from us rather than design and develop their own software. Because our customers are not contractually obligated to purchase any of our products, they may cease to rely, or fail to expand their reliance on us as a source for communication software in the future.

Proprietary Rights and Licenses

Our success and ability to compete is dependent upon our software code base, our programming methodologies and other intellectual properties. To protect our proprietary technology, we rely on a combination of trade secrets, nondisclosure and patent, copyright and trademark law that may afford only limited protection. As of December 31,

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2004, four currently effective U.S. patents have been issued since December 1997 and three patent applications are currently pending. These patents provide generalized protection to our intellectual property base, and we will continue to apply for various patents and trademarks in the future.

We seek to avoid disclosure of our intellectual property by requiring employees and consultants with access to our proprietary information to execute confidentiality agreements with us and by restricting access to our source code. The steps that we have taken to protect our proprietary technology may not be adequate to deter misappropriation of our proprietary information or prevent the successful assertion of an adverse claim to software utilized by us. In addition, we may not be able to detect unauthorized use of our intellectual property rights or take effective steps to enforce those rights.

In selling our products, we primarily rely on shrink wrap licenses that are not signed by licensees and, therefore, may be unenforceable under the laws of certain jurisdictions. In addition, the laws of some foreign countries do not protect our proprietary rights to as great an extent as do the laws of the United States. Accordingly, the means we use currently to protect our proprietary rights may not be adequate. Moreover, our competitors may independently develop technology similar to ours. We also license technology on a non-exclusive basis from several companies for inclusion in our products and anticipate that we will continue to do so in the future. If we are unable to continue to license these technologies or to license other necessary technologies for inclusion in our products, or if we experience substantial increases in royalty payments under these third party licenses, our business could be materially and adversely affected.

Employees

As of December 31, 2004, we had a total of fifty-two employees: twenty-seven engaged in engineering; nine in sales and marketing; eight in management and administration; four in customer support; and four in manufacturing. We utilize temporary labor to assist during peak periods of manufacturing volume. We believe that our future success will depend in large part upon our continuing ability to attract and retain highly skilled managerial, sales, marketing, customer support, research and development personnel and consulting staff. Like other software companies, we face intense competition for such personnel, and we have at times experienced and continue to experience difficulty in recruiting qualified personnel. There can be no assurance that we will be successful in attracting, assimilating and retaining other qualified personnel in the future. We are not subject to any collective bargaining agreement and we believe that our relationships with our employees are good.

Item 2. PROPERTIES

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 23,500 square feet of space pursuant to a lease that expires May 31, 2009. We operate both our products and services reporting segments within this facility.

We also have a facility of approximately 1,000 square feet in Lee s Summit, Missouri, pursuant to a lease that expires June 14, 2005. During 2003, we terminated leases in San Diego, California and Beaverton, Oregon.

We believe that suitable additional or alternative space will be available in the future on commercially reasonable terms as needed.

Item 3. LEGAL PROCEEDINGS

There are no pending material legal issues at this time although we may become subject to various legal proceedings and claims that arise in the ordinary course of business.

Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

There were no matters submitted to a vote of stockholders during the quarter ended December 31, 2004.

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PART II

Item 5. MARKET FOR THE REGISTRANT S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Market Information

Our common stock is traded on the Nasdaq SmallCap 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.

	High	Low
YEAR ENDED DECEMBER 31, 2004:	$ 3.66	$ 2.00
First Quarter	3.31	1.80
Second Quarter	5.50	1.28
Third Quarter	11.20	3.27
Fourth Quarter		
YEAR ENDED DECEMBER 31, 2003:		
First Quarter	0.75	0.42
Second Quarter	5.23	0.45
Third Quarter	4.87	2.50
Fourth Quarter	4.08	1.77

On February 25, 2005, the closing sale price for our common stock as reported by Nasdaq was $6.15.

Holders

As of February 25, 2005, there were approximately 175 holders of record of our common stock based on information provided by our transfer agent.

Dividends

We have never paid any cash dividends on our common stock and we have no current plans to do so.

Recent Sales of Unregistered Securities

On February 18, 2005, the Company entered into a Common Stock Purchase Agreement for the private placement of 3,500,000 shares of the Company s common stock, $0.001 par value, at a price of $6.40 per share, resulting in aggregate gross cash proceeds to the Company of $22,400,000 and approximate net cash proceeds to the Company of $21,056,000. The transaction closed simultaneously with the execution of the Purchase Agreement on February 18, 2005.

C.E. Unterberg, Towbin LLC, the placement agent for the transaction, received a cash fee equal to 6% of the aggregate gross proceeds of the Private Placement.

Item 6. SELECTED CONSOLIDATED FINANCIAL DATA

The following selected consolidated financial data should be read in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations and our consolidated financial statements and the related notes thereto appearing elsewhere in this Annual Report. The following selected consolidated statement of operations data for the years ended December 31, 2004, 2003 and 2002, and the consolidated balance sheet data at December 31, 2004 and 2003, have been derived from audited consolidated financial statements included elsewhere in this Annual Report. The consolidated statement of operations data presented below for the years ended December 31, 2001 and 2000, and the consolidated balance sheet data at December 31, 2002, 2001 and 2000 are derived from audited consolidated financial statements that are not included in this Annual Report.

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	Year Ended December 31,				
	2004	2003	2002	2001	2000
	(in thousands, except per share data)				
Consolidated Statement of Operations Data:					
Net Revenues:					
Products	$ 12,394	$ 6,291	$ 6,029	$ 6,945	$ 10,884
Services	922	925	1,102	2,544	2,595
Total Net Revenues	13,316	7,216	7,131	9,489	13,479
Cost of Revenues:					
Products	2,530	1,350	1,420	1.880	2,499
Services	380	321	782	2,048	1,150
Total Cost of Revenues	2,910	1,671	2,202	3,928	3,649
Gross profit	10,406	5,545	4,929	5,561	9,830
Operating expenses:					
Selling and marketing	1,519	1,666	2,175	4,571	5,319
Research and development	2,556	2,506	2,162	2,997	4,041
General and administrative	2,868	2,330	2,387	3,847	4,053
Restructuring Costs				380	
Total operating expenses	6,943	6,502	6,724	11,795	13,413
Operating income (loss)	3,463	(957)	(1,795)	(6,234)	(3,583)
Interest income	53	37	45	199	482
Income (Loss) before income taxes	3,516	(920)	(1,750)	(6,035)	(3,101)
Income tax expense (benefit)	71	3	(1,062)	90	54
Net Income (Loss)	$ 3,445	$ (923)	$ (688)	$ (6,125)	$ (3,155)
Net income (loss) per share, basic	$ 0.20	$ (0.06)	$ (0.04)	$ (0.38)	$ (0.20)
Weighted average shares, basic	17,267	16,511	16,235	16,232	15,984
Net income (loss) per share, fully diluted	$ 0.19	$ (0.06)	$ (0.04)	$ (0.38)	$ (0.20)
Weighted average shares, fully diluted	18,412	16,511	16,235	16,232	15,984

	As of December 31,				
	2004	**2003**	**2002**	**2001**	**2000**
Consolidated Balance Sheet Data:					
Total assets	$ 12,828	$ 6,587	$ 6,766	$ 9,257	$ 15,314
Total liabilities	1,729	997	1,154	2,955	2,887
Accumulated deficit	(16,669)	(20,114)	(19,191)	(18,503)	(12,378)
Total stockholders equity	11,099	5,590	5,612	6,302	12,427

Item 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Introduction and Overview

Our business model is based primarily upon the design, production and sale of wireless connectivity software for use with wireless communication networks worldwide. Our products are utilized with major wireless networks

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throughout the world that support data communications through the use of cell phones or other wireless communication devices such as PC cards. Wireless network providers generally incorporate our products into their accessory products sold directly to individual consumers to offer wireless PC data connectivity to their wireless networks.

Our business is primarily dependent upon the demand for wireless communications and the corresponding requirements for wireless connectivity software to support this demand. During the last three years, demand for these types of products has fluctuated dramatically, and there has been a significant increase in price competition within our industry. These factors have led to swings in our revenues and contributed to the operating losses reported in our financial results.

We continue to invest in research and development of wireless software products, and we believe that we have one the industry s leading wireless product lines in terms of performance and features. We believe that our out-of-the-box design technology further differentiates our products.

We also sell eBusiness and utility software and professional consulting services related to eBusiness applications.

During 2004, we have maintained a sharp focus on our operating cost structure while ensuring that we maintain our operating flexibility to support future growth in the industry. We measure success by monitoring our net sales and gross margins and operating cash flow. We believe that there continues to be excellent growth opportunities within the wireless communications software marketplace and we continue to focus on positioning Smith Micro to benefit from these opportunities.

Results of Operations

The following table sets forth certain consolidated statement of operating data as a percentage of total revenues for the periods indicated:

	Years Ended December 31,		
	2004	**2003**	**2002**
Net Revenues:			
Products	93.1%	87.2%	84.6%
Services	6.9%	12.8%	15.4%
Total Net Revenues	100.00%	100.00%	100.00%
Cost of Revenues:			
Products	19.0%	18.7%	19.9%
Services	2.9%	4.5%	11.0%
Total Cost of Revenues	21.9%	23.2%	30.9%
Gross profit	78.1%	76.8%	69.1%
Operating expenses:			
Selling and marketing	11.4%	23.1%	30.5%
Research and development	19.2%	34.7%	30.3%
General and administrative	21.5%	32.3%	33.5%

Total operating expenses	52.1%	90.1%	94.3%
Operating income (loss)	26.0%	13.3%	25.2%
Interest income	0.4%	0.5%	0.6%
Income (Loss) before income taxes	26.4%	12.8%	24.6%
Income tax expense (benefit)	0.5%	0.0%	15.0%
Net Income (Loss)	25.9%	12.8%	9.6%

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Revenues

Total net revenues were $13.3 million, $7.2 million and $7.1 million in 2004, 2003 and 2002, respectively, with an increase of $6.1 million, or 84.5% from 2003 to 2004 and an increase of $85,000, or 1.2%, from 2002 to 2003.

We currently operate in two business segments: products and services. In addition, product revenues are broken down into two business units, Wireless and OEM and Internet & Direct Sales. Our Internet & Direct Sales unit includes utility and fax software products as well as consulting, fulfillment and hosting revenue.

The following table shows the net revenues and cost of revenues generated by each segment:

	Year Ended December 31,					
	2004		2003		2002	
	Products	Services	Products	Services	Products	Services
Wireless & OEM	$ 11,424	$	$ 4,711	$	$ 4,555	
Internet & Direct	970	922	1,580	925	1,474	1,102
Total Revenues	12,394	922	6,291	925	6,029	1,102
Cost of revenues	2,530	380	1,350	321	1,420	782
Gross Profit	$ 9,864	$ 542	$ 4,941	$ 604	$ 4,609	$ 320

Products. Net revenues from sales of products were $12.4 million, $6.3 million and $6.0 million for 2004, 2003 and 2002, respectively, representing an increase of $6.1 million, or 97.0% from 2003 to 2004 and $262,000 or 4.4% from 2002 to 2003. Product revenues accounted for 93.1% of total revenues in 2004, 87.2% of total revenues in 2003 and 84.6% of total revenues in 2002. The change in our product revenue from 2003 to 2004 is primarily due to the increase in sales to Verizon of $7.2 million consisting of sales of QuickLink Mobile and QuickLink Mobile Phonebook. Internet & Direct Sales decreased, reflecting the move out of the retail distribution channel. Product revenues from 2002 to 2003, while fairly flat, reflect a significant change from core fax technology products to new wireless communications products for Wireless & OEM.

We traditionally have relatively little backlog for our OEM products at any given time and we have not considered backlog to be a significant indicator of future performance. However, as our wireless business has evolved, production cycle time for items such as data kits has increased to the point that orders received towards the end of a quarter may not ship until the subsequent quarter. Additionally, customers may issue purchase orders that have extended delivery dates that may cause the shipment to fall in a subsequent quarter. Therefore, in 2004, we began tracking our quarterly backlog situation although the level of backlog is not necessarily indicative of trends in our business. As of December 31, 2004 however, we had a backlog of $1.0 million resulting from orders placed late in the fourth quarter and not shipped. Since we generally do not produce software in advance of anticipated orders our revenues in any quarter are substantially dependent on orders booked in that quarter.

Services. Consulting services revenues were $922,000, $925,000 and $1.1 million in 2004, 2003 and 2002, respectively, representing a decrease of $3,000, or 0.3% from 2003 to 2004 and a decrease of $177,000 or 16.1% from 2002 to 2003. Services revenue accounted for 6.9% of total revenues in 2004, 12.8% of total revenues in 2003 and 15.4% of total revenues in 2002. The decrease in service revenue is due to the reduced focus on consulting services,

which was announced in the first quarter of 2002, due to the decrease in demand for such services.

Cost of Revenues

Cost of Product Revenues. Cost of product revenues was $2.5 million, $1.4 million and $1.4 million in 2004, 2003 and 2002, respectively, representing an increase of $1.1 million, or 87.4%, from 2003 to 2004 and remaining fairly constant in 2002 and 2003. The cost of product revenue as a percentage of product revenue was 20.4% in 2004, 21.5% in 2003 and 23.6% in 2002. The 87.4% increase in 2004 is consistent with the 2004 growth in product revenues of 97.0%, the majority of which is primarily related to the increase in sales to Verizon as indicated above. During the period from 2002 through 2004, the cost of product revenue has moved from being heavily retail product driven to primarily wireless software kit related. Software kits often contain a hardware element, such as a cable, which result in slightly lower margins.

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Cost of Service Revenues. Cost of service revenues was $380,000, $321,000 and $782,000 in 2004, 2003 and 2002, respectively, representing an increase of $59,000, or 18.4% from 2003 to 2004 and a decrease of $461,000, or 59.0% from 2002 to 2003. Cost of service revenues includes the cost of our consulting personnel and the cost of any outside consultants contracted to support our staff. The increase in the cost of service revenues from 2003 to 2004 is due to increased consulting labor costs and modest hardware sales not present in 2003. The decrease in the cost of service revenues from 2002 to 2003 was due to headcount reductions related to the elimination of selected Microsoft products consulting services announced in the first quarter of 2002. Cost of service revenues as a percentage of service revenues was 41.2% in 2004, 34.7% in 2003 and 71.0% in 2002.

Operating Expenses

The following table presents a breakdown of our operating expenses by functional category and as a percentage of total net revenues:

	Year Ended December 31,					
	2004		2003		2002	
Operating expenses:	$ 1,519	11.4%	$ 1,666	23.1%	$ 2,175	30.5%
Selling and marketing	2,556	19.2%	2,506	34.7%	2,162	30.3%
Research and development	2,868	21.5%	2,330	32.3%	2,387	33.5%
General and administrative						
Total operating expenses	$ 6,943	52.1%	$ 6,502	90.1%	$ 6,724	94.3%

Selling and Marketing. Selling and marketing expenses were $1.5 million, $1.7 million and $2.2 million in 2004, 2003 and 2002, respectively, representing decreases of $147,000 or 8.8%, from 2003 to 2004 and $509,000 or 23.4%, from 2002 to 2003. Our selling and marketing expenses consist primarily of personnel costs, advertising costs, sales commissions and trade show expenses. These expenses vary significantly from quarter to quarter based on the timing of trade shows and product introductions. The decrease in these costs from 2003 to 2004 is directly attributable to the elimination of channel marketing expenses of approximately $100,000 and the elimination of depreciation and other miscellaneous expenses of $95,000 relating to the San Diego sales office which was closed in 2003. These decreases were offset by an increase in salaries and related expenses of approximately $50,000 which relates to the reallocation of resources from other departments to sales and marketing. The decrease in these costs from 2002 to 2003 is directly attributable to stringent cost reduction measures in all the above expense areas as implemented by management in late 2002. Advertising expenses were $47,000, $95,000 and $276,000 for the years ended December 31, 2004, 2003 and 2002, respectively. Selling and marketing expenses were 11.4%, 23.1% and 30.5% of revenues in the years ended December 31, 2004, 2003 and 2002, respectively. Decreases in selling and marketing expenses as a percentage of revenues were caused by the increase in revenues as well as the absolute dollar decreases discussed above.

Research and Development. Research and development expenses were $2.6 million, $2.5 million and $2.2 million in 2004, 2003 and 2002, respectively, representing increases of $50,000, or 2.0% from 2003 to 2004 and $344,000, or 15.9%, from 2002 to 2003. Our research and development expenses consist primarily of personnel and equipment costs required to conduct our software development efforts. We remain focused on the development and expansion of our technology, particularly our wireless, diagnostic, utility and Internet software technologies. The increase in our research and development expenses in each year was primarily due to the development of new wireless products that were released during the periods, with an accompanying increase in headcount and a refocus of engineering resources from consulting projects to development. Research and development expenses were 19.2%, 34.7% and 30.3% of

revenues in the years ended December 31, 2004, 2003 and 2002, respectively. The decrease in research and development expenses as a percentage of revenues from 2003 to 2004 is due to the significant increase in revenues during the period. The increase from 2002 to 2003 is primarily due to the absolute dollar increase discussed above, slightly offset by the small increase in revenues.

General and Administrative. General and administrative expenses were $2.9 million, $2.3 million and $2.4 million in 2004, 2003 and 2002, respectively, representing increases of $538,000, or 23.1%, from 2003 to 2004 and $57,000, or 2.4% from 2002 to 2003. The increase in General and Administrative costs from 2003 to 2004 consist of increases in accounting, legal and consulting fees of approximately $120,000, travel expenses of approximately $65,000 and compensation and benefit costs of approximately $320,000. General and administrative costs in 2002

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and 2003 were relatively flat as we reduced costs to align our general and administrative cost base with existing revenues. General and administrative expenses were 21.5%, 32.3% and 33.5% of revenues in the years ended December 31, 2004, 2003 and 2002, respectively. The decrease in general and administrative expenses as a percentage of revenues from 2003 to 2004 is due to the increase in revenues, partially offset by the absolute dollar increase in expenses. The decrease in general and administrative expenses as a percentage of revenues from 2002 to 2003 is due to the increase in revenues and the absolute dollar decrease in expenses.

Interest Income. Interest income was $53,000, $37,000 and $45,000 in 2004, 2003 and 2002, respectively, representing an increase of $16,000, or 43.2% from 2003 to 2004 and a decrease of $8,000 or 17.8%, from 2002 to 2003. The differences in our interest income are directly related to the fluctuations in our cash balances during the periods and changing interest rates. We have not changed our investment strategy during the periods being reported, with our excess cash consistently being invested in short term marketable securities. (See Liquidity and Capital Resources for further discussion elsewhere in this report.)

Provision for Income Taxes. In the years ended December 31, 2004 and December 31, 2003, we reported a provision for income taxes in the amounts of $71,000 and $3,000, respectively. In the year ended December 31, 2002, we reported an income tax benefit in the amount of $1.1 million. The provision in 2004 relates to alternative minimum tax liability. The provision in 2003 consists of minimum payments for state taxes. The benefit in 2002 is the result of a net operating loss carry-back, which, pursuant to a change in federal tax law, allowed us to file for a refund of income taxes paid in 1996. Prior to the tax law change such amount was included in the net operating loss carry-forward, which had carried a full valuation allowance. We have provided a valuation allowance on 100% of our deferred tax assets. We will continue to evaluate the recoverability of our deferred tax asset and the need for a valuation allowance against such asset. Factors that are considered in the evaluation of the recoverability of the deferred tax asset are continued profitability and our ability to meet our future forecasts. In general, any realization of our net deferred tax asset will reduce the effective rate in future periods. However, the realization of deferred tax assets that are related to net operating losses that were generated by tax deductions resulting from the exercise of non-qualified stock options, will result in a direct increase to stockholders equity.

Liquidity and Capital Resources

Since inception, we have financed our operations primarily through cash generated from operations and from net proceeds of $18.1 million generated by our initial public offering in 1995. Our principal source of liquidity as of December 31, 2004, consisted of cash and cash equivalents of $8.6 million.

Net cash provided by operations was $3.0 million in 2004 compared with cash used in operations of $767,000 in 2003. This difference in operating cash flows is primarily due to the increase in net income in 2004. This was partially offset by increases in accounts receivable.

Cash flows used in investing activities were $102,000 in 2004 and $39,000 in 2003, related to investments in property and equipment, including computers and production equipment.

Cash flows from financing activities were $2.1 million in 2004 and $901,000 in 2003. This was the result of stock options being exercised by employees, net of a tax adjustment in 2004 and cash used to repurchase Company stock in the first quarter of 2003.

At December 31, 2004, we had $8.6 million in cash and cash equivalents and $9.2 million of working capital. We have no significant capital commitments, and currently anticipate that capital expenditures will not vary significantly from recent periods. We believe that our existing cash, cash equivalent investment balances and cash flow from operations will be sufficient to finance our working capital and capital expenditure requirements through at least the

next twelve months. 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.

We have non-cancelable operating leases for our facilities in Aliso Viejo, California and Lee s Summit, Missouri which expire in May 2009 and June 2005, respectively.

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As of December 31, 2004, we had no debt and no long term liabilities. The following table summarizes our contractual obligations as of December 31, 2004 (in thousands):

	Payments due by period				
Contractual obligations:	**Total**	**1 year**	**1 3 years**	**3 5 years**	**More than 5 years**
Operating Lease Obligations	$ 1,686	$ 388	$ 760	$ 538	$
Purchase Obligations	62	62			
Total	$ 1,748	$ 450	$ 760	$ 538	$

On February 18, 2005, we entered into a Common Stock Purchase Agreement for the private placement of 3,500,000 shares of our common stock, $0.001 par value, at a price of $6.40 per share, resulting in aggregate gross cash proceeds to the Company of $22,400,000 and approximate net cash proceeds to the Company of $21,056,000. The transaction closed simultaneously with the execution of the Purchase Agreement on February 18, 2005. C.E. Unterberg, Towbin LLC, the placement agent for the transaction, received a cash fee equal to 6% of the aggregate gross proceeds of the Private Placement. The form of the Purchase Agreement was filed as Exhibit 10.1 to our Current Report on Form 8-K which was filed on February 24, 2005

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. In addition, we have made contractual commitments to employees providing for severance payments upon the occurrence of certain prescribed events. 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.

Critical Accounting Policies

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 - Software revenue is recognized in accordance with the Statement of Position (SOP) 97-2, *Software Revenue Recognition*, as amended, when persuasive evidence of an arrangement exists, delivery has occurred, the price to seller is fixed and determinable, and collectibility is probable. We recognize revenues from sales of our software to OEM 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 of SOP 97-2 are met. If the requirements of SOP 97-2 are not met at the date of shipment, revenue is not recognized until these elements

are known or resolved. Returns from OEM customers are limited to defective goods or goods shipped in error. Historically, OEM customer returns have not exceeded the very nominal estimates and reserves.

In 2003, we exited the retail distribution channel. Prior to that time, we permitted reseller customers to return or exchange product and provided price protection on products unsold by a customer. As a result, revenue from resellers was recognized upon sell-through to the end customer, rather than upon shipment. Product sales directly to end users are recognized upon delivery. End users have a thirty day right of return, but such returns have historically been immaterial. We also provide technical support to our customers. Such costs have historically been insignificant.

Service revenues include sales of consulting services, website hosting and fulfillment. We recognize service revenues as services are provided or as milestones are delivered and accepted by our customers.

Accounts Receivable 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 a bad debt 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.

Goodwill We have adopted SFAS No. 142, Goodwill and Other Intangible Assets, effective January 1, 2002 and no impairment was identified. As a result of the adoption, we are no longer required to amortize goodwill. Prior to the adoption of SFAS 142, goodwill was amortized over 7 years. In accordance with SFAS No. 142, we review the recoverability of the carrying value of goodwill at least annually or whenever events or circumstances indicate a potential impairment. Our annual impairment testing date is December 31. Recoverability of goodwill is determined by comparing the estimated fair value of our reporting units to the carrying value of the underlying net assets in the reporting units. If the estimated fair value of a reporting unit is determined to be less than the fair value of its net assets, goodwill is deemed impaired and an impairment loss is recognized to the extent that the carrying value of goodwill exceeds the difference between the estimated fair value of the reporting unit and the fair value of its other assets and liabilities. We determined that we did not have any impairment of goodwill at December 31, 2004. Estimates of reporting unit fair value are based upon market capitalization and therefore are volatile being sensitive to market fluctuations. To the extent that our market capitalization decreases significantly or the allocation of value to our reporting units changes, we could be required to write off some or all of our goodwill.

Deferred Income Taxes - We account for income taxes under SFAS No. 109, Accounting for Income Taxes. This statement requires the recognition of deferred tax assets and liabilities for the future consequences of events that have been recognized in our financial statements or tax returns. The measurement of the deferred items is based on enacted tax laws. In the event the future consequences of differences between financial reporting bases and the tax bases of our assets and liabilities result in a deferred tax asset, SFAS No. 109 requires an evaluation of the probability of being able to realize the future benefits indicated by such asset. A valuation allowance related to a deferred tax asset is recorded when it is more likely than not that some portion or all of the deferred tax asset will not be realized. We currently have a full valuation allowance on our deferred tax assets. To the extent that it becomes more likely than not that we will recover such assets, we would be required to reverse some or all of the valuation allowance.

Recent Accounting Pronouncements

In December 2004, the FASB issued SFAS No. 123 (revised 2004), *Share-Based Payment*, which replaces SFAS No. 123, *Accounting for Stock-Based Compensation* and supersedes APB No. 25, *Accounting for Stock Issued to Employees*. SFAS No. 123R requires all share-based payments to employees, including grants of employee stock

options, to be recognized in the financial statements based on their fair values, beginning with the first interim or annual period after June 15, 2005, with early adoption encouraged. In addition, SFAS No. 123R will cause unrecognized expense (based on the amounts in our pro forma footnote disclosure) related to options vesting after the date of initial adoption to be recognized as a charge to results of operations over the remaining vesting period. We are required to adopt SFAS No. 123R in our third quarter of 2005, beginning July 1, 2005. Under SFAS No. 123R, we must determine the appropriate fair value model to be used for valuing share-based payments, the amortization method for compensation cost and the transition method to be used at the date of adoption. The

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transition alternatives include prospective and retroactive adoption methods. Under the retroactive methods, prior periods may be restated either as of the beginning of the year of adoption or for all periods presented. The prospective method requires that compensation expense be recorded for all unvested stock options and share awards at the beginning of the first quarter of adoption of SFAS No. 123R, while the retroactive methods would record compensation expense for all unvested stock options and share awards beginning with the first period restated. We are evaluating the requirements of SFAS No. 123R and we expect that the adoption of SFAS No. 123R will have a material impact on our consolidated results of operations and earnings per share. We have not determined the method of adoption or the effect of adopting SFAS No. 123R.

In March 2004, the Emerging Issues Task Force (EITF) reached a consensus on Issue No. 03-1, *The Meaning of Other-Than- Temporary Impairment and Its Application to Certain Investments*. EITF 03-1 provides new guidelines for the evaluation and determination of whether a loss on certain investments is other-than-temporary and requires certain additional disclosures pertaining to unrealized investment losses in a company s financial statements. The effective date of the evaluation and measurement criteria of Issue No. 03-1 have been delayed pending issuance of additional implementation guidance by the FASB. The additional disclosure requirements, however, remain effective for annual periods ending after December 15, 2004. We continue to monitor the FASB s progress and do not currently expect the adoption of the evaluation and measurement criteria, once issued to have a material impact on our consolidated results of operations or financial position.

RISK FACTORS

Our future operating results are highly uncertain. Before deciding to invest in our common stock or to maintain or increase your investment, you should carefully consider the risks described below, in addition to the other information contained in this report and in our other filings with the SEC, including our subsequent reports on Forms 10-K, 10-Q and 8-K. The risks and uncertainties described below are not the only ones we face. Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also affect our business operations. If any of these risks actually occur, that could seriously harm our business, financial condition or results of operations. In that event, the market price for our common stock could decline and you may lose all or part of your investment.

Our quarterly operating results may fluctuate and cause the price of our common stock to fall.

Our quarterly revenue and operating results have fluctuated significantly in the past and may continue to vary from quarter to quarter due to a number of factors, many of which are not within our control. If our operating results do not meet the expectations of securities analysts or investors, our stock price may decline. Fluctuations in our operating results may be due to a number of factors, including the following:

- the size and timing of orders from and shipments to our major customers;
- the size and timing of any return product requests for our products;
- our ability to maintain or increase gross margins;
- variations in our sales channels or the mix of our product sales;
- the gain or loss of a key customer;
- our ability to specify, develop, complete, introduce, market and transition to volume production new products and technologies in a timely manner;

the availability and pricing of competing products and technologies and the resulting effect on sales and pricing of our products;

the effect of new and emerging technologies;

deferrals of orders by our customers in anticipation of new products, applications, product enhancements or operating systems; and

general economic and market conditions.

A large portion of our operating expenses, including rent, depreciation and amortization is fixed and difficult to reduce or change. Accordingly, if our total revenue does not meet our expectations, we may not be able to adjust our expenses quickly enough to compensate for the shortfall in revenue. In that event, our business, financial condition and results of operations would be materially and adversely affected.

Due to all of the foregoing factors, and the other risks discussed in this report, you should not rely on quarter-to-quarter comparisons of our operating results as an indication of future performance.

Although we have begun reporting backlog, our ability to predict our revenues and operating results is extremely limited.

We have historically operated with little backlog because we have generally shipped our software products and recognized revenue shortly after we received orders because our production cycle has traditionally been very short. As a result, our sales in any quarter were generally dependent on orders that were booked and shipped in that quarter. As our wireless business has evolved, production cycle time for items such as data kits has increased to the point that orders received towards the end of a quarter may not ship until the subsequent quarter. Additionally, customers may issue purchase orders that have extended delivery dates that may cause the shipment to fall in a subsequent quarter. These situations make it difficult for us to predict what our revenues and operating results will be in any quarter. Therefore, the level of backlog is not necessarily indicative of trends in our business. As of December 31, 2004, we had a backlog of approximately $1.0 million.

We depend upon a small number of customers for a significant portion of our revenues.

In the past we have derived a substantial portion of our revenues from sales to a small number of customers and expect to continue to do so in the future. The agreements we have with these entities do not require them to purchase any minimum quantity of our products and may be terminated by the entity or us at any time for any reason upon minimal prior written notice. Accordingly, we cannot be certain that these customers will continue to place large orders for our products in the future, or purchase our products at all. Our largest OEM customer accounted for 68.4% and 27.0% of our net revenues in the years ended December 31, 2004 and 2003, respectively. Our three largest OEM customers accounted for 77.8% and 47.9% in the years ended December 31, 2004 and 2003, respectively.

Our customers may acquire products from our competitors or develop their own products that compete directly with ours. Any substantial decrease or delay in our sales to one or more of these entities in any quarter would have an adverse effect on our results of operations. In addition, certain of our customers have in the past and may in the future acquire competitors or be acquired by competitors, causing further industry consolidation. In the past, such acquisitions have caused the purchasing departments of the combined companies to reevaluate their purchasing decisions. If one of our major customers engages in an acquisition in the future, it could change its current purchasing habits. In that event, we could lose the customer, or experience a decrease in orders from that customer or a delay in orders previously made by that customer. Further, although we maintain allowances for doubtful accounts, the insolvency of one or more of our major customers could result in a substantial decrease in our revenues.

Competition within our product markets is intense and includes numerous established competitors, which could negatively affect our revenues.

We operate in markets that are extremely competitive and subject to rapid changes in technology. Specifically, Microsoft Corporation poses a significant competitive threat to us because Microsoft operating systems may include some capabilities now provided by certain of our OEM and retail software products. If users are satisfied relying on the capabilities of the Windows-based systems or other operating systems, or other vendors products, sales of our

products are likely to decline. In addition, because there are low barriers to entry into the software market, we expect significant competition from both established and emerging software companies in the future. Furthermore, many of our existing and potential OEM customers may acquire or develop products that compete directly with our products.

Microsoft and many of our other current and prospective competitors have significantly greater financial, marketing, service, support, technical and other resources than we do. As a result, they may be able to adapt more

quickly to new or emerging technologies and changes in customer requirements or to devote greater resources to the promotion and sale of their products. There is also a substantial risk that announcements of competing products by large competitors such as Microsoft or other vendors could result in the cancellation of orders by customers in anticipation of the introduction of such new products. In addition, some of our competitors currently make complementary products that are sold separately. Such competitors could decide to enhance their competitive position by bundling their products to attract customers seeking integrated, cost-effective software applications. Some competitors have a retail emphasis and offer OEM products with a reduced set of features. The opportunity for retail upgrade sales may induce these and other competitors to make OEM products available at their own cost or even at a loss. We also expect competition to increase as a result of software industry consolidations, which may lead to the creation of additional large and well-financed competitors. Increased competition is likely to result in price reductions, fewer customer orders, reduced margins and loss of market share.

Acquisitions of companies or technologies may disrupt our business and divert management attention and cause our current operations to suffer.

We have in the past made and we expect to continue to consider acquisitions of complementary companies, products or technologies. If we make any additional acquisitions, we will be required to assimilate the operations, products and personnel of the acquired businesses and train, retain and motivate key personnel from the acquired businesses. We may be unable to maintain uniform standards, controls, procedures and policies if we fail in these efforts. Similarly, acquisitions may cause disruptions in our operations and divert management s attention from our company s day-to-day operations, which could impair our relationships with our current employees, customers and strategic partners. Acquisitions may also subject us to liabilities and risks that are not known or identifiable at the time of the acquisition.

We may also have to incur debt or issue equity securities in order to finance future acquisitions. The issuance of equity securities for any acquisition could be substantially dilutive to our existing stockholders. In addition, we expect our profitability could be adversely affected because of acquisition-related accounting costs and write offs. In consummating acquisitions, we are also subject to risks of entering geographic and business markets in which we have had limited or no prior experience. If we are unable to fully integrate acquired businesses, products or technologies within existing operations, we may not receive the intended benefits of acquisitions.

If the adoption of new technologies and services grows more slowly than anticipated in our product planning and development, our future sales and profits may be negatively affected.

If the adoption of new technologies and services does not grow or grows more slowly than anticipated in our product planning and development, demand for certain of our products and services will be reduced. For example, our new QuickLink Mobile Wi-Fi product provides notebook users with the ability to roam between wireless wide area networks (WWAN) and Wi-Fi hot spots. Another product, QuickLink Wi-Fi, allows users to seek out and select available hot spots in their area. Therefore, future sales and any future profits from these and related products are substantially dependent upon the widespread acceptance and use of Wi-Fi as an effective medium of communication by consumers and businesses.

Our products may contain undetected software errors, which could negatively affect our revenues.

Our software products are complex and may contain undetected errors. In the past, we have discovered software errors in certain of our products and have experienced delayed or lost revenues during the period it took to correct these errors. Although we and our OEM customers test our products, it is possible that errors may be found in our new or existing products after we have commenced commercial shipment of those products. These undetected errors could result in adverse publicity, loss of revenues, delay in market acceptance of our products or claims against us by

customers.

Technology and customer needs change rapidly in our market, which could render our products obsolete and negatively affect our revenue.

Our future success will depend on our ability to anticipate and adapt to changes in technology and industry standards. We will also need to continue to develop and introduce new and enhanced products to meet our customers changing demands, keep up with evolving industry standards, including changes in the Microsoft operating systems with which our products are designed to be compatible, and to promote those products successfully. The communications and utilities software markets in which we operate are characterized by rapid

technological change, changing customer needs, frequent new product introductions, evolving industry standards and short product life cycles. Any of these factors could render our existing products obsolete and unmarketable. In addition, new products and product enhancements can require long development and testing periods as a result of the complexities inherent in today s computing environments and the performance demanded by customers. If our software markets do not develop as we anticipate, or our products do not gain widespread acceptance in these markets or if we are unable to develop new versions of our software products that can operate on future operating systems, our business, financial condition and results of operations could be materially and adversely affected.

Delays or failure in deliveries from our component suppliers could cause our net revenue to decline and harm our results of operations.

We rely on third party suppliers to provide us with services and components for our product kits. These components include: compact discs; cables; printed manuals; and boxes. We do not have long-term supply arrangements with any vendor to obtain these necessary services and components for our products. If we are unable to purchase components from these suppliers or if the compact disc replication services that we use do not deliver our requirements on schedule, we may not be able to deliver products to our customers on a timely basis or enter into new orders because of a shortage in components. Any delays that we experience in delivering our products to customers could impair our customer relationships and adversely impact our reputation and our business. In addition, if our third party suppliers raise their prices for components or services, our gross margins would be reduced.

We may be unable to adequately protect our intellectual property and other proprietary rights, which could negatively impact our revenues.

Our success is dependent upon our software code base, our programming methodologies and other intellectual properties and proprietary rights. In order to protect our proprietary technology, we rely on a combination of trade secret, nondisclosure and copyright and trademark law. We currently own United States trademark registrations for certain of our trademarks and United States patents for certain of our technologies, however, these measures afford us only limited protection. Furthermore, we rely primarily on shrink wrap licenses that are not signed by the end user and, therefore, may be unenforceable under the laws of certain jurisdictions. Accordingly, it is possible that third parties may copy or otherwise obtain our rights without our authorization. It is also possible that third parties may independently develop technologies similar to ours. It may be difficult for us to detect unauthorized use of our intellectual property and proprietary rights.

We may be subject to claims of intellectual property infringement as the number of trademarks, patents, copyrights and other intellectual property rights asserted by companies in our industry grows and the coverage of these patents and other rights and the functionality of software products increasingly overlap. From time to time, we have received communications from third parties asserting that our trade name or features, content, or trademarks of certain of our products infringe upon intellectual property rights held by such third parties. We have also received correspondence from third parties separately asserting that our fax products may infringe on certain patents held by each of the parties. Although we are not aware that any of our products infringe on the proprietary rights of others, third parties may claim infringement by us with respect to our current or future products. Infringement claims, whether with or without merit, could result in time-consuming and costly litigation, divert the attention of our management, cause product shipment delays or require us to enter into royalty or licensing agreements with third parties. If we are required to enter into royalty or licensing agreements, they may not be on terms that are acceptable to us. Unfavorable royalty or licensing agreements could seriously impair our ability to market our products.

Our stock price is highly volatile. Accordingly, you may not be able to resell your shares of common stock at or above the price you paid for them.

The market price of our common stock has fluctuated substantially in the past and is likely to continue to be highly volatile and subject to wide fluctuations. These fluctuations have occurred and may continue to occur in response to various factors, many of which we cannot control, including:

- quarter-to-quarter variations in our operating results;
- announcements of technological innovations or new products by our competitors, customers or us;

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- market conditions within our retail and OEM software markets;
- general global economic and political instability;
- changes in earnings estimates or investment recommendations by analysts;
- changes in investor perceptions; or
- changes in expectations relating to our products, plans and strategic position or those of our competitors or customers.

In addition, the market prices of securities of high technology companies have been especially volatile. This volatility has significantly affected the market prices of securities of many technology companies. Accordingly, you may not be able to resell your shares of common stock at or above the price you paid. In the past, companies that have experienced volatility in the market price of their securities have been the subjects of securities class action litigation. If we were the object of a securities class action litigation, it could result in substantial losses and divert management s attention and resources from other matters.

If we are unable to retain key personnel, the loss of their services could materially and adversely affect our business, financial condition and results of operations.

Our future performance depends in significant part upon the continued service of our senior management and other key technical and consulting personnel. We do not have employment agreements with our key employees that govern the length of their service. The loss of the services of our key employees would materially and adversely affect our business, financial condition and results of operations. Our future success also depends on our ability to continue to attract, retain and motivate qualified personnel, particularly highly skilled engineers involved in the ongoing research and development required to develop and enhance our communication software products as well those in our highly specialized consulting business. Competition for these employees remains high and employee retention is a common problem in our industry. Our inability to attract and retain the highly trained technical personnel that are essential to our product development, consulting services, marketing, service and support teams may limit the rate at which we can generate revenue, develop new products or product enhancements and generally would have an adverse effect on our business, financial condition and results of operations. Additionally, retaining key employees during restructuring efforts is critical to our company s success.

We may need to raise additional capital in the future through the issuance of additional equity, or convertible debt securities or by borrowing money, in order to meet our capital needs. Additional funds may not be available on terms acceptable to us to allow us to meet our capital needs.

We believe that the cash, cash equivalents and investments on hand and the cash we expect to generate from operations will be sufficient to meet our capital needs for at least the next twelve months. However, it is possible that we may need or choose to obtain additional financing to fund our activities. We could raise these funds by selling more stock to the public or to selected investors, or by borrowing money. We may not be able to obtain additional funds on favorable terms, or at all. If adequate funds are not available, we may be required to curtail our operations or other business activities significantly or to obtain funds through arrangements with strategic partners or others that may require us to relinquish right to certain technologies or potential markets. If we raise additional funds by issuing additional equity or convertible debt securities, the ownership percentages of existing stockholders would be reduced. In addition, the equity or debt securities that we issue may have rights, preferences or privileges senior to those of the holders of our common stock. We currently have no established line of credit or other business borrowing facility in place.

It is possible that our future capital requirements may vary materially from those now planned. The amount of capital that we will need in the future will depend on many factors, including:

- the market acceptance of our products;
- the levels of promotion and advertising that will be required to launch our products and achieve and maintain a competitive position in the marketplace;

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- our business, product, capital expenditure and research and development plans and product and technology roadmaps;
- the levels of inventory and accounts receivable that we maintain;
- capital improvements to new and existing facilities;
- technological advances;
- our competitors response to our products; and
- our relationships with suppliers and customers.

In addition, we may require additional capital to accommodate planned growth, hiring, infrastructure and facility needs or to consummate acquisitions of other businesses, products or technologies.

Our business, financial condition and operating results could be adversely affected as a result of legal, business and economic risks specific to international operations.

Approximately 5.2%, 14.8% and 15.1% of our revenues in the years ended December 31, 2004, 2003 and 2002, respectively, were derived from sales to customers outside the United States. We also frequently ship products to our domestic customers international manufacturing divisions and subcontractors. In the future, we may expand these international business activities. International operations are subject to many inherent risks, including:

- general political, social and economic instability;
- trade restrictions;
- the imposition of governmental controls;
- exposure to different legal standards, particularly with respect to intellectual property;
- burdens of complying with a variety of foreign laws;
- import and export license requirements and restrictions of the United States and each other country in which we operate;
- unexpected changes in regulatory requirements;
- foreign technical standards;
- changes in tariffs;
- difficulties in staffing and managing international operations;
- difficulties in securing and servicing international customers;
- difficulties in collecting receivables from foreign entities; and
- potentially adverse tax consequences.

These conditions may increase our cost of doing business. Moreover, as our customers are adversely affected by these conditions, our business with them may be disrupted and our results of operations could be adversely affected.

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The market price of our common stock may be adversely affected by the sale of significant numbers of shares of our common stock by any of our principal stockholders.

A total of 3,500,000 shares of our common stock was recently sold in a private placement in February 2005, and we expect to file a registration statement covering the resale of such shares in April 2005. In addition, there are other large blocks of shares held by individual stockholders which are eligible for resale under Rule 144, including William W. Smith, who held 3,772,115 shares at February 21, 2005, and Rhonda L. Smith who held 3,316,615 shares. Overall, our trading volume fluctuates widely and at times is relatively limited. The market price for our common stock could decline as a result of the sale of a large number of the shares or the perception that such sales may occur. The sale of a large number of our common stock also might make it more difficult for us to sell equity or equity-related securities in the future at a time and at the prices that we deem appropriate.

We may be subject to regulatory scrutiny and may sustain a loss of public confidence if we are unable to satisfy regulatory requirements relating to internal controls over financial reporting.

Section 404 of the Sarbanes-Oxley Act of 2002 requires us to perform an evaluation of our internal controls over financial reporting and have our independent registered public accounting firm attest to such evaluation on an annual basis. Compliance with these requirements can be expensive and time-consuming. While we believe that we will be able to meet the required deadlines, no assurance can be given that we will meet the required deadlines in future years. If we fail to timely complete this evaluation, or if our auditors cannot timely attest to our evaluation, we may be subject to regulatory scrutiny and a loss of public confidence in our internal controls.

Provisions of our charter and bylaws and Delaware law could make a takeover of our company difficult.

Our certificate of incorporation and bylaws contain provisions that may discourage or prevent a third party from acquiring us, even if doing so would be beneficial to our stockholders. For instance, our certificate of incorporation authorizes the board of directors to fix the rights and preferences of shares of any series of preferred stock, without action by our stockholders. As a result, the board can authorize and issue shares of preferred stock, which could delay or prevent a change of control because the rights given to the holders of such preferred stock may prohibit a merger, reorganization, sale or other extraordinary corporate transaction. In addition, we are organized under the laws of the State of Delaware and certain provisions of Delaware law may have the effect of delaying or preventing a change in our control.

We may be subject to additional risks.

The risks and uncertainties described above are not the only ones we face. Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also adversely affect our business operations.

Item 7A. QUALITATIVE AND QUANTITATIVE DISCLOSURES ABOUT MARKET RISK

Our financial instruments include cash and cash equivalents. At December 31, 2004, the carrying values of our financial instruments approximated fair values based on current market prices and rates. Because of their short duration, changes in market interest rates would not have a material effect on fair value.

It is our policy not to enter into derivative financial instruments. We do not currently have any significant foreign currency exposure as we do not transact business in foreign currencies. As such, we do not have significant currency exposure at December 31, 2004.

Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Our consolidated financial statements and schedule appear in a separate section of this Annual Report on Form 10-K beginning on page F-1 and S-1, respectively.

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SUPPLEMENTARY FINANCIAL DATA

SELECTED QUARTERLY FINANCIAL DATA
STATEMENT OF OPERATIONS DATA
(UNAUDITED)

	Three Months Ended			
	March 31,	June 30,	September 30,	December 31,
	(in thousands, except per share amounts)			
2004				
Net Revenues	$ 2,488	$ 3,117	$ 3,556	$ 4,155
Gross Profit	1,798	2,385	2,883	3,340
Operating Income	94	644	1,085	1,640
Net Income	$ 103	$ 634	$ 1,077	$ 1,631
Net Income Per Share, Basic	$ 0.01	$ 0.04	$ 0.06	$ 0.09
Weighted Average Shares Outstanding, Basic	17,024	17,072	17,254	17,706
Net Income Per Share, Diluted	$ 0.01	$ 0.04	$ 0.06	$ 0.09
Weighted Average Shares Outstanding, Diluted	18,042	18,022	18,617	19,125

	Three Months Ended			
	March 31,	June 30,	September 30,	December 31,
	(in thousands, except per share amounts)			
2003				
Net Revenues	$ 1,867	$ 2,286	$ 1,501	$ 1,562
Gross Profit	1,462	1,771	1,132	1,180
Operating Loss	(254)	115	(483)	(335)
Net (Loss) Income	$ (250)	$ 124	$ (472)	$ (325)
Net (Loss) Income Per Share, Basic	$ (0.02)	$ 0.01	$ (0.03)	$ (0.02)
Weighted Average Shares Outstanding, Basic	16,223	16,257	16,610	16,946
Net (Loss) Income Per Share, Diluted	$ (0.02)	$ 0.01	$ (0.03)	$ (0.02)
Weighted Average Shares Outstanding, Diluted	16,223	17,822	16,610	16,946

Item 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Not applicable.

Item 9A. CONTROLS AND PROCEDURES

(a) *Evaluation of Disclosure Controls and Procedures*. Under the supervision and with the participation of our management, including our Chief Executive Officer and our Chief Financial Officer, we evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) or 15d-15(e) under the Exchange Act). Based upon that evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that, as of the end of the period covered by this report, our disclosure controls and procedures were effective in timely alerting them to the material information related to us (or our consolidated subsidiaries) required to be included in the reports we file or submit under the Exchange Act.

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(b) *Changes in Internal Controls*. During the most recent fiscal quarter covered by this report, there has been no change in our internal control over financial reporting (as defined in Rule 13a-15(f) or 15d-15(f) under the Exchange Act) that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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PART III

Item 10. DIRECTORS AND EXECUTIVE OFFICERS

The following table sets forth certain information regarding our directors and executive officers as of February 15, 2005.

Name	Age	Position
William W. Smith, Jr.	57	Chairman of the Board, President and Chief Executive Officer
Robert W. Scheussler	58	Senior Vice President, Chief Operating Officer, Chief Financial Officer and Director
William C. Keiper	54	Director
Thomas G. Campbell	54	Director
Samuel Gulko	73	Director
Gregory J. Szabo	57	Director
David P. Sperling	36	Vice President and Chief Technical Officer
William R. Wyand	57	Vice President, Wireless and OEM Sales
Christopher G. Lippincott	33	Vice President, Internet and Direct Sales

Mr. Smith co-founded Smith Micro and has served as our Chairman of the Board, President and Chief Executive Officer since inception in 1982. Mr. Smith was employed by Rockwell International Corporation in a variety of technical and management positions from 1975 to 1984. Mr. Smith served with Xerox Data Systems from 1972 to 1975 and RCA Computer Systems Division from 1969 to 1972 in mainframe sales and pre-sale technical roles. Mr. Smith received a B.A. in Business Administration from Grove City College.

Mr. Scheussler joined us in May 1995 and has served as our Chief Operating Officer since September 1999 and as our Chief Financial Officer since June 2001. Mr. Scheussler served as Senior Vice President-Engineering and Chief Technical Officer from May 1995 until September 1999. From May 1995 to April 1997, he was also Vice President of Operations. From February 1996 to the present, Mr. Scheussler has been a member of our Board of Directors. Prior to joining us, from June 1973 to May 1995 Mr. Scheussler held positions with Rockwell International Corporation, most recently as the Director-Architecture and Technology at its Information Systems Center. Mr. Scheussler holds a B.S. in Industrial Engineering from Pennsylvania State University and an M.S. in Operations Research from Polytechnic University in New York. He also completed the Executive Program at Stanford University.

Mr. Keiper became a director in May, 2002. Mr. Keiper currently serves as Chief Executive Officer of Arrange Technology LLC, a software development services outsourcing company. He also currently serves as Chairman and Interim President and Chief Executive Officer of Hypercom Corporation (NYSE: HYC). From 1997 to 2002, Mr. Keiper was a principal in the mergers and acquisitions business, serving software, middle market IT services, consulting and e-commerce companies. Mr. Keiper was the Chief Executive Officer and a member of the Board of Directors of Artisoft, Inc., a publicly-held software company that develops and markets computer telephony and communications software, from 1993 to 1997. From 1986 to 1993, Mr. Keiper held variety of executive positions, including President and Chief Operating Officer, with MicroAge, Inc., a publicly-held distributor and integrator of information technology products and services. Mr. Keiper currently serves on the Boards of Directors of several high technology companies, including JDA Software Group, Inc. (NASDAQ: JDAS) an enterprise software company that provides solutions for the retail industry; Hypercom Corporation (NYSE: HYC), a company providing electronic payment transfer technology and solutions; and Zones, Inc. (NASDAQ: ZONS), a marketer and distributor of IT products and services. Mr. Keiper received a B.S. in Business from Eastern Illinois University, a J.D. from Arizona State University and an M.B.A. in International Management from the Thunderbird American Graduate School of

International Management.

Mr. Campbell became a director in July 1995. From March 1999 to the present, he has served as the Executive Vice President of King Printing, Inc. From July 1996 to March 1999, he was the Vice President, Operations of Complete Concepts, Ltd., a manufacturer and distributor of women s accessories. From November 1995 to July 1996, Mr. Campbell was an independent management consultant specializing in corporate turnarounds. From February 1995 to November 1995, he served as the Chief Operating Officer of Laser Atlanta Optics, Inc. From 1990 to February 1995, he served in several senior management positions at Hayes, Inc., including Vice President of Operations and Business Development, and as Chief Operating Officer and a member of the Board of Directors of

Practical Peripherals, a Hayes subsidiary. Prior to 1989, Mr. Campbell was employed by Digital Equipment Corporation. Mr. Campbell attended Boston University.

Mr. Gulko became a member of the board of directors in October of 2004. Prior to joining the board, Mr. Gulko served as a partner in the audit practice of Ernst & Young from 1968 until his retirement in 1987. From April 1987 to 1996, Mr. Gulko was self employed as a Certified Public Accountant and business consultant, as well as the part time Chief Financial Officer of several privately-owned companies. From July 1996 until his retirement in September 2002, Mr. Gulko functioned as the Chief Financial Officer, and as the Vice President of Finance, Secretary and Treasurer of a biotechnology company, Neotherapeutics, Inc. During this same period he also served as a member of the Board of Directors of Neotherapeutics, Inc. Since September 2002, Mr. Gulko has continued to provide tax and consulting services on a part-time basis to a limited number of clients. Mr. Gulko obtained his B.S. in Accounting from the University of Southern California in 1958.

Mr. Szabo became a director in June 2001. Mr. Szabo is the former Chief Executive Officer and currently serves as Chairman of the Board of Ertek Solutions, LLC. Ertek provides antenna technology to the wireless industry including high performance low cost RFID Tag antennas. He also currently serves on the United Internet Technologies Board of Advisors. Mr. Szabo has served in a series of senior management positions during a 13-year career with AirTouch s wireless communications operations, prior to its acquisition by Vodafone and merger with Verizon Wireless in 2000. As Vice President-Network Services, he directed the engineering and operations of its cellular systems in the eastern U.S. Earlier, Mr. Szabo held managerial positions with Motorola and Martin Marietta. Mr. Szabo received a B.S. and an M.S. in Electrical Engineering from Ohio University.

Mr. Sperling joined us in April 1989 and has been our Director of Software Engineering since April 1992. He assumed the Chief Technology Officer position from Mr. Scheussler in September 1999. Mr. Sperling began his professional career as a software engineer with us and he currently has three patents pending for various telephony and Internet technologies. Mr. Sperling earned a B.S. degree in Computer Science from the University of California, Irvine.

Mr. Wyand joined the Company in 1999 when Smith Micro acquired STF Technologies where Mr. Wyand was President and Chief Executive Officer. As General Manager he ran the Macintosh division sales, marketing, engineering and customer support efforts. Later that year, Mr. Wyand moved into the newly created Wireless and Broadband division as General Manager and in 2004 became Vice President, Wireless and OEM Sales. From 1995 to 1999, Mr. Wyand was President and Chief Executive Officer of STF Technologies. From 1984 to 1995, Mr. Wyand held various interim management and consulting positions. From 1977 to 1984, he held various positions with United Telecom Computer Group. From 1973 to 1977, he was a Consultant with Arthur Young & Co. He graduated with a B.S. from Pennsylvania State University and an MBA from Rockhurst College.

Mr. Lippincott joined the Company in 1993 as a senior sales representative. In 1998 he was appointed Director of North American Sales and in 2000 named General Manager of the Internet Solutions Division, then as Vice President, Internet and Direct Sales in 2004. Prior to joining Smith Micro, Mr. Lippincott held several retail sales positions. He attended the University of California at Berkeley majoring in business administration.

Officers are elected by, and serve at the discretion of, the Board of Directors.

Audit Committee; Audit Committee Financial Expert

Our Board of Directors has a separately-designated standing Audit Committee established in accordance with Section 3(a)(58)(A) of the Exchange Act. The members of the Audit Committee are Messrs. Gulko and Szabo. Our Board has determined that Mr. Gulko, Chairman of the Audit Committee, is an audit committee financial expert as

defined by Item 401(h) of Regulation S-K and that each member of the Audit Committee is independent within the meaning of Nasdaq Marketplace Rule 4200(a)(15).

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Exchange Act requires certain of the company s executive officers, as well as its directors and persons who own more than then percent (10%) of a registered class of the Company s equity securities to file reports of ownership and changes in ownership with the Securities and Exchange Commission.

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Based solely on its review of the copies of such forms received by the Company, or written representations from certain reporting person, the Company believes that during the last fiscal year all executive officers and directors complied with their filing requirements under Section 16(a) for all reportable transactions during the year except that the following individuals failed to file timely reports: Mr. Gulko failed to timely file his initial Form 3 (due October 15, 2004, and filed November 9, 2004), and Mr. Keiper was one day late filing a Form 4 related to the exercise of options for the purchase of 5,000 shares of Common Stock on October 28, 2004.

Code of Ethics

We have adopted a Code of Ethics that applies to all of our employees, including our principal executive officer, our principal financial officer, and all members of our finance department performing similar functions. Our Code of Ethics was filed as Exhibit 14 to the Annual Report on Form 10-K for the year ended December 31, 2003 which was filed on March 25, 2004. In the event of an amendment to, or a waiver from, certain provisions of our Code of Ethics, we intend, to the extent possible, to satisfy Form 8-K disclosure requirements by disclosing this information on our website at www.smithmicro.com.

Item 11. EXECUTIVE COMPENSATION

The following table sets forth the compensation earned by (i) our Chief Executive Officer and (ii) each of our four other most highly compensated executive officers whose total cash salary and bonus for the fiscal year ended December 31, 2004, exceeded $100,000 (hereafter, with the Chief Executive Officer, referred to as the Named Executive Officers), for the three fiscal years ended December 31, 2004, 2003 and 2002, respectively. No other executive officers who would have otherwise been includable in such table on the basis of salary and bonus earned for the 2004 fiscal year has been excluded by reason of his or her termination of employment or change in executive officer status during that year.

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Summary Compensation Table

		Annual Compensation			Long-Term Compensation	
Name and Principal Position	**Year**	**Salary ($)**	**Bonus ($)**	**Other Annual Compensation ($) (1)**	**Securities Underlying Options (#)**	**All Other Compensation ($) (2)**
William W. Smith, Jr.						
Chairman of the Board,	2004	224,927	43,502		100,000	2,600
President and Chief	2003	222,750	30,038			2,400
Executive Officer	2002	222,750	33,469		200,000	2,100
William R. Wyand	2004	150,000	20,000	74,941	100,000	2,600
Vice President,	2003	150,000	18,750	46,304		2,400
Wireless and OEM Sales	2002	146,875	19,000	54,851	100,000	2,100
Christopher G. Lippincott	2004	164,000	16,000	28,196	50,000	1,200
Vice President,	2003	164,000	16,000	27,080		1,200
Internet and Direct Sales	2002	147,600	15,700	27,040	50,000	2,200
Robert W. Scheussler						
Senior Vice President,	2004	163,583	31,638		100,000	2,600
Chief Operating Officer,	2003	162,000	21,845			2,400
Chief Financial Officer and Director	2002	162,000	24,341		200,000	2,100
David P. Sperling	2004	125,000	34,595(3)		100,000	2,600
Vice President and	2003	125,000	15,562			2,201
Chief Technical Officer	2002	121,875	18,290		100,000	2,147

(1) These amounts reflect commissions earned and paid in each year.

(2) These amounts represent contributions made by us on behalf of the Named Executive Officer to our 401(k) Plan.

(3) Includes reimbursement for educational expenses of $17,908 in 2004.

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Option Grants in last Fiscal Year

The following table provides information with respect to the stock option grants made during 2004 to the Named Executive Officers. No stock appreciation rights were granted during the fiscal year ended December 31, 2004 to the Named Executive Officers.

	Individual Grants					
					Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation For Option Term(1)	
Name	Number of Securities Underlying Stock Options Granted(#)	Percent of Total Options Granted to Employees in 2004(%)(2)	Exercise Price Per Share($)(3)	Expiration Date	5%	10%
William W. Smith, Jr.	100,000(4)	11.14%	$ 1.91	07/01/2014	$ 120,119	$ 304,405
William R. Wyand	100,000(4)	11.14%	$ 1.91	07/01/2014	$ 120,119	$ 304,405
Christopher G. Lippincott	50,000(4)	5.57%	$ 1.91	07/01/2014	$ 60,059	$ 152,202
Robert W. Scheussler	100,000(4)	11.14%	$ 1.91	07/01/2014	$ 120,119	$ 304,405
David P. Sperling	100,000(4)	11.14%	$ 1.91	07/01/2014	$ 120,119	$ 304,405

(1) There is no assurance provided to any Named Executive Officer or any other holder of the Company s securities that the actual stock price appreciation over the applicable 10-year option term will be at the assumed 5% and 10% annual rates of compounded stock price appreciation or at any other defined level. Unless the market price of the Common Stock appreciates over the option term, no value will be realized from the option grants made to the Named Executive Officers.

(2) The Company granted options to employees to purchase a total of 897,750 shares of Common Stock during the fiscal year ended December 31, 2004.

(3) The exercise price may be paid in cash or in shares of Common Stock valued at fair market value on the exercise date or through a cashless exercise procedure involving a same-day sale of the purchased shares.

(4) This option will become exercisable for 25% of the option shares upon the optionee s completion of one year of service with the Company measured from the grant date and the remaining option shares in 36 successive equal monthly installments upon the optionee s completion of each additional month of service thereafter.

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Aggregated Option Exercises in Last Fiscal Year and Year End Option Values

The following table sets forth certain information with respect to the Named Executive Officers concerning the exercise of options during the 2004 fiscal year and unexercised options held by them at the end of the 2004 fiscal year. None of the Named Executive Officers held any stock appreciation rights at the end of such year.

AGGREGATED OPTION EXERCISES IN LAST FISCAL YEAR

AND FISCAL YEAR END OPTION VALUES

Name	Shares Acquired on Exercise(#)	Value Realized ($) (1)	Number of Unexercised Options at FY 2004 Year End(#) Exercisable/ Unexercisable	Value of Unexercised In-the-Money Options at FY 2004 Year End($)(2) Exercisable/ Unexercisable
William W. Smith, Jr.	0	$ 0	217,551 / 145,833	1,705,587 / $ $1,103,205
William R. Wyand	193,125	$ 1,337,897	6,042 / 145,833	51,337 / $ $1,103,205
Christopher G. Lippincott	50,000	$ 170,986	21,666 / 72,917	116,834 / $ $551,607
Robert W. Scheussler	97,500	$ 288,480	22,084 / 145,833	18,152 / $ $1,103,205
David P. Sperling	157,500	$ 444,195	24,167 / 145,833	194,767 / $ $1,103,205

(1) Calculated based on the per share market value of our Common Stock on the exercise date minus the exercise price times the number of options exercised.

(2) Calculated based on the market price of $8.95 per share, the closing sale price per share of our Common Stock on December 31, 2004, the last trading day in 2004, minus the exercise price of the option, multiplied by the number of shares subject to the option.

Compensation of Directors

Non-employee members of the Board of Directors receive fees of $2,500 quarterly for Board and committee service, and are reimbursed for their out-of-pocket expenses in connection with service on the Board of Directors.

Each non-employee director will receive an option grant for 10,000 shares in connection with his or her initial appointment to the Board of Directors. Each such option will have an exercise price per share equal to the closing sale price per share of Common Stock on the grant date and a maximum term of 10 years measured from the grant date.

Each option will be immediately exercisable for all the option shares, but any shares purchased under the option will be subject to repurchase by us, at the option exercise price paid per share, in the event the optionee ceases to serve as a member of the Board of Directors prior to vesting in the option shares. The option shares will vest in a series of four successive equal annual installments over the optionee s period of service on the Board of Directors, with the first installment to vest upon his or her completion of one year of serving as a member of the Board of Directors measured from the grant date. The option shares will immediately vest in full upon certain changes in control or ownership or upon the optionee s death or disability while still serving as a member of the Board of Directors. On October 15, 2004, in connection with his election to the Board of Directors, Mr. Gulko received option grants of 10,000 shares at an exercise price of $3.79 per share, the fair market value per share of Common Stock on the date of grant.

At each Annual Meeting of Stockholders, each individual who will continue to serve as a non-employee member of the Board of Directors will receive an additional option grant for 5,000 shares, provided such individual has served on the Board of Directors for at least six months. Each option will have an exercise price per share equal to the closing sale price per share of Common Stock on the date of the Annual Meeting and a maximum term of 10 years measured from such date, subject to earlier termination upon the optionee s cessation of service on the Board

of Directors. The option will be immediately exercisable for all the option shares, but any shares purchased under the option will be subject to repurchase by us, at the option exercise paid per share, should the optionee stop serving as a member of the Board of Directors prior to the completion of one year of service measured from the grant date. On July 2, 2004, in connection with continuing service on the Board of Directors, each of Messrs. Campbell, Keiper and Szabo received option grants of 5,000 shares at an exercise price of $1.91 per share, the fair market value per share of Common Stock on the date of grant.

Employment Contracts, Termination of Employment and Change-in-Control Agreements

None of the Named Executive Officers has an employment agreement with us, and the employment of each of the Named Executive Officers may accordingly be terminated at any time at the discretion of the Board of Directors. However, the Compensation Committee of the Board of Directors, as administrator of the Smith Micro 1995 Stock Option/Stock Issuance Plan, or the 1995 Plan, has the authority to provide for the accelerated vesting of the shares of Common Stock subject to any outstanding options held by the Chief Executive Officer or any other executive officer and any unvested shares actually held by such individual under the 1995 Plan in the event such officer s employment were to be terminated (whether involuntarily or through a forced resignation) within 18 months (or some shorter period of time) following: (i) the acquisition directly or indirectly by any person or related group of persons (other than us or a person that directly or indirectly controls, is controlled by, or is under common control with, us) of beneficial ownership of securities possessing more than fifty percent (50%) of the total combined voting power of our outstanding securities pursuant to a tender or exchange offer made directly to our stockholders which the Board does not recommend such stockholders to accept; (ii) a change in the composition of the Board over a period of 36 consecutive months or less such that a majority of the Board members ceases, by reason of one or more contested elections for Board membership, to be comprised of individuals who either (A) have been Board members continuously since the beginning of such period or (B) have been elected or nominated for election as Board members during such period by at least a majority of the Board members described in clause (A) who were still in office at the time such election or nomination was approved by the Board; (iii) a merger or consolidation in which securities possessing more than fifty percent (50%) of the total combined voting power of our outstanding securities are transferred to a person or persons different from the persons holding those securities immediately prior to such transaction, or (iv) the sale, transfer or other disposition of all or substantially all of our assets in complete liquidation or dissolution.

Compensation Committee Interlocks and Insider Participation

In fiscal 2004, the members of the Company s Compensation Committee were Messrs. Campbell and Keiper, both of whom is a non-employee director of the Company. None of such committee members (i) was, during fiscal 2004, an officer or employee of the Company or any of its subsidiaries, (ii) was formerly an officer of the Company or any of its subsidiaries, or (iii) had any relationship requiring disclosure by the Company pursuant to any paragraph of Item 404 of SEC Regulation S-K, except that Mr. Keiper is a principal beneficial owner of Arrange Technology LLC. In October 2004, the Company entered into a Master Software Services Agreement with Arrange Technology LLC, providing for the development of certain software applications and integration services. During fiscal 2004, a total of $19,000 accrued under the agreement.

In fiscal 2004, (1) no executive officer of the Company served as a member of a board of directors or compensation committee of any entity that has one or more executive officers serving as a member of the Company s Compensation Committee; and (2) no executive officer of the Company served as a member of a compensation committee of any entity that has one or more executive officers serving as a member of the Company s Board of Directors.

Compensation Committee Report on Executive Compensation

It is the responsibility of the Compensation Committee of our Board of Directors to make recommendations to the Board of Directors with respect to the base salary and bonuses to be paid to our executive officers each fiscal year. In addition, the Compensation Committee has the exclusive authority to administer the 1995 Plan with respect to stock option grants and direct stock issuances made there under to such officers and other key employees. The following is a summary of the policies of the Compensation Committee that affect the compensation paid to executive officers, as reflected in the tables and text set forth elsewhere in this Form 10-K/A.

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General Compensation Policy. Under the supervision of the Compensation Committee, we have developed a compensation policy that is designed to attract and retain qualified key executives critical to our success and to provide such executives with performance-based incentives tied to our financial success. One of the Compensation Committee s primary objectives is to have a portion of each officer s compensation contingent upon our performance as well as upon the individual s contribution to that performance. Accordingly, each executive officer s compensation package may be comprised of three fundamental elements: (i) base salary that reflects individual performance and expertise and is designed to be competitive with salary levels in effect at companies of similar size in the industry; (ii) variable performance awards payable in cash or equity and tied to our achievement of certain goals; and (iii) long-term stock-based incentive awards that strengthen the mutuality of interests between the executive officers and our stockholders.

Factors. The principal factors that were considered in establishing the components of each executive officer s compensation package for the 2004 fiscal year are summarized below. However, the Compensation Committee may in its discretion apply different factors, particularly different measures of financial performance, in setting executive compensation for future years.

Base Salary. The Compensation Committee approves salary changes for executive officers in accordance with the above policy. The base salary levels for the executive officers were established for the 2004 fiscal year on the basis of the following factors: personal performance, the estimated salary levels in effect for similar positions at a select group of companies with which we compete for executive talent, and internal comparability considerations. The Compensation Committee, did not, however, rely upon any specific compensation surveys for comparative compensation purposes. Instead, the Compensation Committee made its decisions as to the appropriate market level of base salary for each executive officer on the basis of its understanding of the salary levels in effect for similar positions at those companies with which we compete for executive talent. Base salaries will be reviewed on an annual basis, and adjustments will be made in accordance with the factors indicated above.

Annual Cash Incentive Compensation. Annual cash bonuses are intended to reflect the Compensation Committee s belief that a significant portion of the compensation of each executive officer should be contingent not only on the performance of the Company but also the individual contribution of each executive officer to that performance. The cash bonus is related to the attainment of financial objectives approved by the Board of Directors in the form of our annual operating plan. The ratio of bonus to base salary varies significantly across organization levels and is generally higher for employees with higher base salaries. The Committee also attempts to align bonus payments with the ability of the individual to impact our overall financial performance.

Long-Term Equity Incentive Compensation. We have also implemented the 1995 Plan as a long-term equity incentive program for our executive officers and other key employees. Each option grant under the 1995 Plan is designed to align the interests of the executive officer with those of the stockholders and provide each individual with a significant incentive to manage our company from the perspective of an owner with an equity stake in the business. The number of shares subject to each option grant is based upon the officer s tenure, level of responsibility and relative position with us. The Committee has established certain general guidelines in making option grants to the executive officers in an attempt to target a fixed number of unvested option shares based upon the individual s position with us and his or her existing holdings of unvested options. However, the Compensation Committee does not adhere strictly to these guidelines and will vary the size of the option grant made to each executive officer as it feels the circumstances warrant.

Each option grant will allow the officer to acquire shares of our Common Stock at a fixed price per share (the market price on the grant date) over a specified period of time (up to 10 years). The option normally vests in

periodic installments over a four-year period, contingent upon the executive officer s continued employment with us. Accordingly, the option will provide a return to the executive officer only if he or she remains in our employ, and then only if the market price of our Common Stock appreciates over the option term.

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CEO Compensation. In setting the base salary for William W. Smith, Jr., our President and Chief Executive Officer, the Compensation Committee sought to provide him with a level of salary competitive with the salaries paid to chief executive officers of similarly-sized companies in the industry. There was no intent on the Compensation Committee s part to have this particular component of Mr. Smith s compensation affected to any significant degree by Company s performance factors. The Compensation Committee determines and recommends salary changes for executive officers in accordance with the above policy and then submits its recommendations to the Board of Directors for final approval.

Compliance with Internal Revenue Code Section 162(m). Section 162(m) of the Internal Revenue Code generally disallows a tax deduction to publicly held corporations for compensation exceeding $1.0 million paid to certain of the corporation s executive officers. The limitation applies only to compensation that is not considered to be performance-based. The non-performance based compensation paid to our executive officers for the 2004 fiscal year did not exceed the $1.0 million limit per officer, nor is it expected that the non-performance based compensation to be paid to our executive officers for fiscal 2005 will exceed that limit. Both our current Plan and the proposed 2005 Stock Option / Stock Issuance Plan are structured so that any compensation deemed paid to an executive officer in connection with the exercise of option grants made under either will qualify as performance-based compensation which will not be subject to the $1.0 million limitation. Because it is very unlikely that the cash compensation payable to any of our executive officers in the foreseeable future will approach the $1.0 million limit, the Compensation Committee has decided at this time not to take any other action to limit or restructure the elements of cash compensation payable to our executive officers. The Compensation Committee will reconsider this decision should the individual compensation of any executive officer ever approach the $1.0 million level.

It is the opinion of the Compensation Committee that the executive compensation policies and plans provide the necessary total remuneration program to properly align our performance and the interests of our stockholders through the use of competitive and equitable executive compensation in a balanced and reasonable manner, for both the short and long-term.

COMPENSATION COMMITTEE
Thomas G. Campbell
William C. Keiper

Stock Performance Graph

The following graph and information compares the cumulative total stockholder return on our Common Stock against the cumulative total return of the S&P Midcap 400 Index and the S&P Midcap Applications Software Index (Peer Group) for the same period.

The graph covers the period from January 1, 1999, through December 31, 2004. The graph assumes that $100 was invested in our Common Stock on January 1, 1999, and in each index, and that all dividends were reinvested. No cash dividends have been declared on our Common Stock. Stockholder returns over the indicated period should not be considered indicative of future stockholder returns.

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	Cumulative Total Return					
	12/99	12/00	12/01	12/02	12/03	12/04
SMITH MICRO SOFTWARE, INC.	100.00	32.95	38.18	16.73	72.36	325.45
S & P MIDCAP400	100.00	117.51	116.79	99.84	135.41	157.73
S & P MIDCAP SOFTWARE APPLICATION	100.00	99.20	83.59	51.77	76.92	69.75

Item 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth certain information known to us as of February 21, 2005, with respect to beneficial ownership of our Common Stock by (i) each person (or group of affiliated persons) who is known by us to own beneficially more than five percent (5%) of our outstanding Common Stock, (ii) each director and nominee for director, (iii) our Chief Executive Officer and each other Named Executive Officer and (iv) all current directors and executive officers as a group, together with the approximate percentages of outstanding Common Stock owned by each of them. The following table is based upon information supplied by directors, executive officers, and principal stockholders. Beneficial ownership has been determined in accordance with Rule 13d-3 under the Exchange Act.

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Name and Address of Beneficial Owner[1]	Amount of Common Stock Beneficially Owned[2]	Percentage of Common Stock Beneficially Owned
Officers and Directors		
William W. Smith, Jr. [3]	3,997,999	21.89%
Robert W. Scheussler [4]	31,417	*
David P. Sperling [5]	22,500	*
Thomas G. Campbell [6]	12,500	*
Samuel Gulko [7]	12,000	*
William C. Keiper [8]	5,000	*
Gregory J. Szabo [9]	6,000	*
William R. Wyand [10]	14,375	*
Christopher G. Lippincott [11]	25,833	*
All current directors and executive officers as a group (11 persons)[12]	4,138,874	22.49%
Principal Stockholders[1]		
Rhonda L. Smith [13]	3,345,725	18.52%

* Less than 1%.

(1) Unless otherwise indicated: (i) each named individual s address is 51 Columbia, Aliso Viejo, California 92656 and (ii) the persons named in the table have sole voting and sole investment power with respect to all shares beneficially owned, subject to community property laws where applicable.

(2) Applicable percentage ownership is based on 21,536,918 shares of Common Stock outstanding as of February 21, 2005. Shares of Common Stock subject to options that are currently exercisable or will become exercisable within 60 days after February 21, 2005 are deemed to be outstanding for the purpose of computing the percentage of outstanding Common Stock beneficially owned by the person or group holding such options but are not deemed to be outstanding for the purpose of computing the percentage of Common Stock beneficially owned by any other person or group.

(3) Mr. Smith s beneficial ownership of our Common Stock includes 3,748,115 shares held in the name of The William W. Smith, Jr. Revocable Trust, of which Mr. Smith is the trustee. His beneficial ownership of our Common Stock also includes 225,884 shares issuable upon the exercise of options that are currently exercisable or will become exercisable within 60 days after February 21, 2005.

(4) Mr. Scheussler s beneficial ownership of our Common Stock includes 30,417 shares issuable upon the exercise of options that are currently exercisable or will become exercisable within 60 days after February 21, 2005.

(5) Mr. Sperling s beneficial ownership of our Common Stock consists of 22,500 shares issuable upon the exercise of options that are currently exercisable or will become exercisable within 60 days after February 21, 2005.

(6) Mr. Campbell s beneficial ownership of our Common Stock consists of 12,500 shares issuable upon the exercise of options that are currently exercisable or will become exercisable within 60 days after February 21, 2005.

(7) Mr. Gulko s beneficial ownership of our Common Stock consists of 10,000 shares issuable upon the exercise of options that are currently exercisable or will become exercisable within 60 days after February 21, 2005.

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(8) Mr. Keiper s beneficial ownership of our Common Stock consists of 5,000 shares issuable upon the exercise of options that are currently exercisable or will become exercisable within 60 days after February 21, 2005.

(9) Mr. Szabo s beneficial ownership of our Common Stock includes 5,000 shares issuable upon the exercise of options that are currently exercisable or will become exercisable within 60 days after February 21, 2005.

(10) Mr. Wyand s beneficial ownership of our Common Stock includes 14,375 shares issuable upon the exercise of options that are currently exercisable or will become exercisable within 60 days after February 21, 2005.

(11) Mr. Lippincott s beneficial ownership of our Common Stock includes 25,833 shares issuable upon the exercise of options that are currently exercisable or will become exercisable within 60 days after February 21, 2005.

(12) Includes 362,759 shares of Common Stock subject to stock options that are currently exercisable or will become exercisable within 60 days after February 21, 2005.

(13) Ms. Smith s beneficial ownership of our Common Stock includes 3,316,615 shares held in the name of The Rhonda L. Smith Living Trust U/A/D 09/01/04, of which Ms. Smith is the trustee. Her beneficial ownership of our Common Stock also includes 29,110 shares issuable upon the exercise of options that are currently exercisable.

Securities Authorized for Issuance Under Equity Compensation Plan

The following table provides information as of December 31, 2004 with respect to the shares of common stock that may be issued under our existing equity compensation plan.

	Number of Shares to be Issued Upon Exercise of Outstanding Options	Weighted Average Exercise Price of Outstanding Options	Number of Shares Remaining Available for Future Issuance
	(In thousands, except per share amounts)		
Equity Compensation Plan Approved by Shareholders (1)	1,799	$ 1.58	1,448
Equity Compensation Plan Not Approved by Shareholders	0	$ 0	$ 0
Total	1,799	$ 1.58	1,448

(1) Consists of the 1995 Stock Option/Stock Issuance Plan

Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Certain Relationships and Related Transactions

In October 2004, the Company entered into a Master Software Services Agreement with Arrange Technology LLC, providing for the development of certain software applications and integration services. Mr. William C. Keiper, a member of the Company s Board of Directors, is a principal beneficial owner of Arrange Technology LLC. During fiscal 2004, a total of $19,000 accrued under the agreement.

In September 2004, the Company entered into a severance agreement with Rhonda Smith, a principal stockholder and former officer and director of the Company, pursuant to which the Company agreed to a lifetime payment of $6,000 annually, subject to annual increases of 5%, in connection with her resignation from her

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employment by the Company. The agreement provides that the Company may, at its option, discharge its obligations under the agreement by purchasing a single premium annuity for the benefit of Ms. Smith, the cost of which is estimated at $192,000. The Board approved similar severance arrangements for both William W. Smith, Chief Executive Officer, and Mr. Robert W. Scheussler, Chief Operating Officer, which will become effective upon their respective resignations or retirement from employment by the Company.

The adult son of Ms. Rhonda L. Smith (a principal stockholder), Rodney A. Lippincott, is employed by the company in a non-executive position as a sales manager. During 2002, 2003 2004, respectively, he earned aggregate compensation of $129,666, $148,468 and $167,529. He was granted options for 50,000 shares at an exercise price of $0.24 per share in 2002, and options for 10,000 shares at an exercise price of $1.91 per share in 2004. At December 31, 2004, he held options for the purchase of 54,375 shares of the Company s common stock at an average weighted exercise price of $1.52 per share. Information concerning compensation of Ms. Smith s other adult son, Christopher G. Lippincott, Vice President, Internet and Direct Sales, is set forth in Executive Compensation Summary Compensation Table, at page 30.

Item 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

Principal Accountant Fees and Services

The following is a summary of the fees billed to Smith Micro by Deloitte & Touche LLP for professional services rendered for fiscal years ended December 31, 2004 and 2003.

Fee Category	Fiscal 2004 Fees	Fiscal 2003 Fees
Audit Fees	$ 135,000	$ 119,000
Audit Related Fees	4,000	0
Tax Fees	46,000	32,000
All Other Fees	4,000	5,000
Total Fees	$ 189,000	$ 156,000

Audit Fees: This category consists of fees for the audit of our annual financial statements, review of the financial statements included in our quarterly reports on Form 10-Q and services that are normally provided by the independent registered public accounting firm in connection with statutory and regulatory filings for those fiscal years. This category also includes advice on audit and accounting matters that arose during, or as a result of, the audit or the review of interim financial statements.

Audit-Related Fees: This category consists of assurance and related services by Deloitte & Touche LLP that are reasonably related to the performance of the audit or review of our financial statements and are not reported above under Audit Fees.

Tax Fees: The services for the fees disclosed under this category include tax preparation and compliance and tax planning advice provided by Deloitte & Touche LLP.

All Other Fees: This includes amounts paid to Deloitte & Touche LLP for consulting services related to employee benefits issues in 2004 and training services in connection with new requirements under Sarbanes-Oxley in 2003.

The Audit Committee has determined that all non-audit services provided by Deloitte & Touche LLP is compatible with Deloitte & Touche LLP s audit independence.

Policy on Audit Committee Pre-Approval of Audit and Permissible Non-Audit Services of Independent Registered Public Accounting Firm.

The Audit Committee pre-approves all audit and permissible non-audit services provided by the independent registered public accounting firm. These services may include audit services, audit-related services, and other services. The Audit Committee has adopted a policy for the pre-approval of services provided by the independent registered public accounting firm. Under the policy, pre-approval is generally provided for up to one year and any pre-approval is detailed as to the particular service or category of services and is subject to a specific budget. In addition, the Audit Committee may also pre-approve particular services on a case-by-case basis. For each proposed service, the independent registered public accounting firm is required to provide detailed back-up

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documentation at the time of approval. The Audit Committee may delegate pre-approval authority to one or more of its members. Such a member must report any decisions to the Audit Committee at the next scheduled meeting.

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PART IV

Item 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) (1) Financial Statements

Smith Micro s financial statements appear in a separate section of this Annual Report on Form 10-K/A beginning on the pages referenced below:

	Page
Report of Independent Registered Public Accounting Firm	F 1
Consolidated Balance Sheets as of December 31, 2004 and 2003	F 2
Consolidated Statements of Operations for each of the three years in the period ended December 31, 2004	F 3
Consolidated Statements of Stockholders Equity for each of the three years in the period ended December 31, 2004	F 4
Consolidated Statements of Cash Flows for each of the three years in the period ended December 31, 2004	F 5
Notes to Consolidated Financial Statements for each of the three years in the period ended December 31, 2004	F 6

(2) Financial Statement Schedule

Smith Micro s financial statement schedule appears in a separate section of this Annual Report on Form 10-K/A on the pages referenced below. All other schedules have been omitted as they are not applicable, not required or the information is included in the consolidated financial statements or the notes thereto.

	Page
Schedule II Valuation and Qualifying Accounts for each of the three years in the period ended December 31, 2004.	S-1

(3) Exhibits

Exhibit No.	Title	Method of Filing
3.1	Amended and Restated Certificate of Incorporation of the Registrant.	Incorporated by reference to Exhibit 3.1 to the Registrant s Registration Statement No. 33-95096.
3.1.1	Amendment to the Amended and Restated Certificate of Incorporation of the Registrant.	Incorporated by reference to Exhibit 3.1.1 to the Registrant s Quarterly Report on Form 10-Q for the period ended June 30,2000.
3.2	Amended and Restated Bylaws of the Registrant.	Incorporated by reference to Exhibit 3.2 to the Registrant s Registration Statement No. 33-95096.
4.1	Specimen certificate representing shares of Common Stock of the Registrant.	Incorporated by reference to Exhibit 4.1 to the Registrant s Registration Statement No. 33-95096.

10.1	Form of Indemnification Agreement.	Incorporated by reference to Exhibit 10.1 to the Registrant s Registration Statement No. 33-95096.
10.2*	1995 Stock Option/Stock Issuance Plan as Amended and Restated through February 7, 2001.	Incorporated by reference to the Appendix attached to the Definitive Proxy Statement for the 2001 Annual Meeting of Stockholders filed on April 27, 2001.
10.4	Master Software License and Distribution Agreement (Contract No. 220-00-0134) effective as of December 1, 2000, between Cellco Partnership (d/b/a Verizon Wireless) and the Registrant	Incorporated by reference to Exhibit 10.1 to the Registrant s Quarterly Report on Form 10-Q for the quarter ended June 30, 2003.

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Exhibit No.	Title	Method of Filing
10.4.1	Amendment of Master Software License and Distribution Agreement (Contract No. 220-00-0134)	Incorporated by reference to Exhibit 10.1.1 to the Registrant s Quarterly Report on Form 10-Q for the quarter ended June 30, 2003.
10.4.2	Amendment No. 2 to the Master Software License and Distribution Agreement (Contract No. 220-00-0134)	Incorporated by reference to Exhibit 10.1.2 to the Registrant s Quarterly Report on Form 10-Q for the quarter ended June 30, 2003.
14.1	Code of Ethics	Incorporated by reference to Exhibit 14.1 to the Registrant s Annual Report on Form 10-K for the fiscal year ended December 31, 2003.
14.1.1	Attachment 1 to Code of Ethics	Incorporated by reference to Exhibit 14.1 to the Registrant s Annual Report on Form 10-K for the fiscal year ended December 31, 2003.
21.1	Subsidiaries	Incorporated by reference to Exhibit 21.1 to the Registrant s Annual Report on Form 10-K for the fiscal year ended December 31, 2000.
23.1	Consent of Independent Registered Public Accounting Firm.	Filed herewith
31.1	Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	Filed herewith
31.2	Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	Filed herewith
32.1	Certifications of the Chief Executive Officer and the Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	Filed herewith

* Indicates management contract or compensatory plan or arrangement.

Confidential treatment has been granted with respect to certain confidential portions of this exhibit pursuant to Rule 24b-2 under the Securities Exchange Act of 1934, which confidential portions have been omitted from the exhibit and filed separately with the Securities and Exchange Commission.

(b) Exhibits

The exhibits filed as part of this report are listed above in Item 15(a) (3) of this Form 10-K/A.

(c) Financial Statement Schedule

The Financial Statement Schedule required by Regulation S-X and Item 8 of this Form are listed above in Item 15(a)(2) of this Form 10-K/A.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

Date: April 29, 2005 By: /s/ William W. Smith, Jr.

William W. Smith, Jr.
Chairman of the Board,
President and Chief Executive Officer
(Principal Executive Officer)

Date: April 29, 2005 By: /s/ Robert W. Scheussler

Robert W. Scheussler,
Chief Operating Officer and
Chief Financial Officer
(Principal Financial and Accounting Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ William W. Smith, Jr. William W. Smith, Jr.	Chairman of the Board, President and Chief Executive Officer (Principal Executive Officer)	April 29, 2005
/s/ Robert W. Scheussler Robert W. Scheussler	Senior Vice President, Chief Operating Officer, Chief Financial Officer and Director (Principal Financial and Accounting Officer)	April 29, 2005
/s/ Thomas G. Campbell Thomas G. Campbell	Director	April 29, 2005
/s/ Samuel Gulko Samuel Gulko	Director	April 29, 2005
/s/ William C. Keiper William C. Keiper	Director	April 29, 2005
/s/ Gregory J. Szabo	Director	April 29, 2005

Gregory J. Szabo

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
Smith Micro Software, Inc.:

We have audited the accompanying consolidated balance sheets of Smith Micro Software, Inc. and subsidiaries (the Company) as of December 31, 2004 and 2003, and the related consolidated statements of operations, stockholders equity and cash flows for each of the three years in the period ended December 31, 2004. Our audits also included the financial statement schedule listed in the Index at Item 15(a)(2). These consolidated financial statements and the financial statement schedule are the responsibility of the Company s management. Our responsibility is to express an opinion on these consolidated financial statements and the financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Company s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Smith Micro Software, Inc. and subsidiaries as of December 31, 2004 and 2003, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2004 in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

DELOITTE & TOUCHE LLP
Costa Mesa, California
March 30, 2005

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SMITH MICRO SOFTWARE INC., AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
AS OF DECEMBER 31, 2004 AND 2003

(In thousands, except share and per share data)

	2004	2003
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 8,634	$ 3,722
Accounts receivable, net of allowances for doubtful accounts and other adjustments of $137 (2004) and $33 (2003)	2,024	741
Income tax receivable	35	
Inventories, net	47	22
Prepaid expenses and other current assets	203	204
Total current assets	10,943	4,689
EQUIPMENT AND IMPROVEMENTS, net	113	70
INTANGIBLE ASSETS, net		40
GOODWILL	1,715	1,715
OTHER ASSETS, net	57	73
	$ 12,828	$ 6,587
LIABILITIES AND STOCKHOLDERS EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 939	$ 538
Accrued liabilities	790	459
Total current liabilities	1,729	997
COMMITMENTS AND CONTINGENCIES (Note 6)		
STOCKHOLDERS EQUITY:		
Preferred stock, par value $0.001 per share; 5,000,000 shares authorized; none issued and outstanding		
Common stock, par value $0.001 per share; 30,000,000 shares authorized; 18,011,000 and 17,011,000 shares issued and outstanding	18	17
Additional paid-in capital	27,750	25,687
Accumulated deficit	(16,669)	(20,114)

Net stockholders equity	11,099	5,590
	$ 12,828	$ 6,587

See notes to consolidated financial statements

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SMITH MICRO SOFTWARE INC., AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS
FOR EACH OF THE THREE YEARS
IN THE PERIOD ENDED DECEMBER 31, 2004

(In thousands, except per share data)

	Years ended December 31,		
	2004	**2003**	**2002**
NET REVENUES:			
Products	$ 12,394	$ 6,291	$ 6,029
Services	922	925	1,102
Total Net Revenues	13,316	7,216	7,131
COST OF REVENUES:			
Products	2,530	1,350	1,420
Services	380	321	782
Total Cost of Revenues	2,910	1,671	2,202
GROSS PROFIT	10,406	5,545	4,929
OPERATING EXPENSES:			
Selling and marketing	1,519	1,666	2,175
Research and development	2,556	2,506	2,162
General and administrative	2,868	2,330	2,387
Total operating expenses	6,943	6,502	6,724
OPERATING INCOME (LOSS)	3,463	(957)	(1,795)
INTEREST INCOME	53	37	45
INCOME (LOSS) BEFORE INCOME TAXES	3,516	(920)	(1,750)
INCOME TAX EXPENSE (BENEFIT)	71	3	(1,062)
NET INCOME (LOSS)	$ 3,445	$ (923)	$ (688)

NET INCOME (LOSS) PER SHARE, basic	$ 0.20	$ (0.06)	$ (0.04)
WEIGHTED AVG SHARES OUTSTANDING, basic	17,267	16,511	16,235
NET INCOME (LOSS) PER SHARE, fully diluted	$ 0.19	$ (0.06)	$ (0.04)
WEIGHTED AVG SHARES OUTSTANDING, fully diluted	18,412	16,511	16,235

See notes to consolidated financial statements

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SMITH MICRO SOFTWARE INC., AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY

FOR EACH OF THE THREE YEARS
IN THE PERIOD ENDED DECEMBER 31, 2004

(In thousands)

	Common stock		Additional paid-in	Accumulated	
	Shares	Amount	capital	deficit	Total
BALANCE, January 1, 2002	16,232	$ 16	$ 24,789	$ (18,503)	$ 6,302
Exercise of common stock options	3		3		3
Repurchase and retirement of common stock	(8)		(5)		(5)
Net loss				(688)	(688)
BALANCE, December 31, 2002	16,227	16	24,787	(19,191)	5,612
Exercise of common stock options	808	1	913		914
Repurchase and retirement of common stock	(24)		(13)		(13)
Net loss				(923)	(923)
BALANCE, December 31, 2003	17,011	17	25,687	(20,114)	5,590
Exercise of common stock options	1,000	1	1,995		1,996
Tax benefit related to the exercise of stock options			68		68
Net income				3,445	3,445
BALANCE, December 31, 2004	18,011	$ 18	$ 27,750	$ (16,669)	$ 11,099

See notes to consolidated financial statements

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SMITH MICRO SOFTWARE INC., AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR EACH OF THE THREE YEARS
IN THE PERIOD ENDED DECEMBER 31, 2004

(In thousands)

	Years ended December 31,		
	2004	**2003**	**2002**
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income (loss)	$ 3,445	$ (923)	$ (688)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Depreciation and amortization	146	410	605
Provision for doubtful accounts and other adjustments to accounts receivable	112	132	486
Tax benefit related to the exercise of stock options	68		
Change in operating accounts:			
Accounts receivable	(1,395)	(240)	1,605
Income tax receivable	(35)		
Inventories	(25)	23	250
Prepaid expenses and other assets	(30)	(12)	(31)
Accounts payable and accrued liabilities	732	(157)	(1,801)
Net cash provided by (used in) operating activities	3,018	(767)	426
CASH FLOWS FROM INVESTING ACTIVITIES:			
Capital expenditures	(102)	(39)	(23)
Net cash used in investing activities	(102)	(39)	(23)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from issuance of common stock	1,996	914	3
Cash used in repurchase of common stock		(13)	(5)
Net cash provided by (used in) financing activities	1,996	901	(2)
NET CHANGE IN CASH & CASH EQUIVALENTS	4,912	95	401
CASH AND CASH EQUIVALENTS, beginning of year	3,722	3,627	3,226
CASH AND CASH EQUIVALENTS, end of year	$ 8,634	$ 3,722	$ 3,627

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION -			
Cash paid (received) during the year for income taxes	$ 38	$ 3	$ (1,062)

See notes to consolidated financial statements

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SMITH MICRO SOFTWARE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR EACH OF THE THREE YEARS
IN THE PERIOD ENDED DECEMBER 31, 2004

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Business - Smith Micro Software, Inc. and subsidiaries (the Company) is a diversified developer and marketer of wireless communication software products and services. The Company manufactures, markets and sells value-added wireless telephony products targeted to the original equipment manufacturers (OEM) market, particularly wireless service providers and mobile phone manufacturers as well as direct to the consumer. The Company offers software products for Windows XP, Windows 2000, Windows NT, Windows 98, Windows CE, Pocket PC, Mac, Palm, Unix and Linux operating systems. The Company also offers professional consulting services that help clients implement web-based projects. An extension of the Company s consulting activity includes the offering of fulfillment services for customer web stores. A portion of the Company s sales are made direct to hardware device and personal computer manufacturers under OEM agreements. The Company s eBusiness products enable websites to be created with standard HTML text and provide fully automated payment processing and order accounting.

Basis of Presentation - The accompanying consolidated financial statements reflect the operating results and financial position of Smith Micro Software, Inc. and its wholly owned subsidiaries in accordance with accounting principles generally accepted in the United States of America. All intercompany amounts have been eliminated in consolidation.

Cash and Cash Equivalents - Cash and cash equivalents generally consist of cash, government securities and money market funds. These securities are all held in one financial institution. All have original maturity dates of three months or less.

Accounts Receivable - The Company sells its products worldwide. The Company performs ongoing credit evaluations of its customers and generally does not require collateral. The Company maintains allowances 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 have also been within management s estimates.

Inventories - Inventories consist principally of manuals and CDs 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 estimated forecast of product demand and production requirements.

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.

Long Lived Assets The Company accounts for the impairment and disposition of long-lived assets in accordance with Statement of Financial Accounting Standards (SFAS) No. 144, *Accounting for Impairment or Disposal of Long-Lived Assets*. This statement addresses financial accounting and reporting for the impairment of long-lived assets and for the disposal of long-lived assets. In accordance with SFAS No. 144, long-lived assets to be held are reviewed for events or changes in circumstances, which indicate that their carrying value may not be recoverable. The Company

periodically reviews the carrying value of long-lived assets to determine whether or not an impairment to such value has occurred. The Company has determined that there was no impairment at December 31, 2004.

SMITH MICRO SOFTWARE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR EACH OF THE THREE YEARS
IN THE PERIOD ENDED DECEMBER 31, 2004 (Continued)

Goodwill - The Company adopted SFAS No. 142, *Goodwill and Other Intangible Assets,* effective January 1, 2002 and no impairment was identified. As a result of the adoption, the Company is no longer required to amortize goodwill. In accordance with SFAS No. 142, the Company reviews the recoverability of the carrying value of goodwill at least annually or whenever events or circumstances indicate a potential impairment. The Company s annual impairment testing date is December 31. Recoverability of goodwill is determined by comparing the fair value of the Company s reporting units to the carrying value of the underlying net assets in the reporting units. If the fair value of a reporting unit is determined to be less than the carrying value of its net assets, goodwill is deemed impaired and an impairment loss is recognized to the extent that the carrying value of goodwill exceeds the difference between the fair value of the reporting unit and the fair value of its other assets and liabilities. The Company determined that it did not have any impairment of goodwill at December 31, 2004.

Revenue Recognition - Software revenue is recognized in accordance with the Statement of Position (SOP) 97-2, *Software Revenue Recognition,* as amended, when persuasive evidence of an arrangement exists, delivery has occurred, the price to seller is fixed and determinable, and collection is probable. The Company recognizes revenues from sales of its software to OEM customers or end users as: completed products are shipped and title passes, or from royalties generated as authorized customers duplicate its software, if the other requirements of SOP 97-2 are met. If the requirements of SOP 97-2 are not met at the date of shipment, revenue is not recognized until these elements are known or resolved. Returns from OEM customers are limited to defective goods or goods shipped in error. Historically, OEM customer returns have not been significant.

Prior to 2004, the Company permitted reseller customers to return or exchange product and provided price protection on products unsold by a customer. As a result, revenue from resellers was recognized upon sell-through to the end customer, rather than upon shipment. At the end of 2003, the Company exited the retail channel and no longer sells to distributors. Product sales directly to end users are recognized upon delivery. End users have a thirty day right of return, but such returns have historically been immaterial. The Company also provides technical support to its customers. Such costs have historically been insignificant.

Service revenues include sales of consulting services, web site hosting and fulfillment. Service revenues are recognized as services are provided or as milestones are delivered and accepted by customers.

Software Development Costs - Development costs incurred in the research and development of new software products and enhancements to existing software products are expensed as incurred until technological feasibility has been established. The Company considers technological feasibility to be established when all planning, designing, coding and testing has been completed according to design specifications. After technological feasibility is established, any additional costs are capitalized. Through December 31, 2004, software has been substantially completed concurrently with the establishment of technological feasibility; and, accordingly, no costs have been capitalized to date.

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SMITH MICRO SOFTWARE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR EACH OF THE THREE YEARS
IN THE PERIOD ENDED DECEMBER 31, 2004 (Continued)

Sales Incentives - Pursuant to the consensus of EITF 01-09, *Accounting for Consideration Given by a Vendor to a Customer (Including a Reseller of the Vendor s Product),* effective January 1, 2002, the cost of sales incentives the Company offers without charge to customers that can be used in, or that are exercisable by a customer as a result of, a single exchange transaction is accounted for as a reduction of revenue.

Advertising Expense - Advertising costs are expensed as incurred. Advertising expenses were $47,000, $95,000 and $276,000 for the years ended December 31, 2004, 2003 and 2002, respectively.

Income Taxes - The Company accounts for income taxes under SFAS No. 109, *Accounting for 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. The measurement of the deferred items is based on enacted tax laws. 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, SFAS No. 109 requires an evaluation of the probability of being able to realize the future benefits indicated by such asset. A valuation allowance related to a deferred tax asset is recorded when it is more likely than not that some portion or all of the deferred tax asset will not be realized. During the year ended December 31, 2002, the Company recognized a tax benefit of $1,071,000 related to a carryback of losses previously included in fully reserved net operating loss carryforwards, as a result of a tax law change (Note 5). The related refund was received in September 2002. The federal and state current provision relates to alternative minimum tax liability. The Company has California net operating loss carryforwards that expired during the 2004 tax year in the amount of $933,530.

Stock-Based Compensation - The Company accounts for stock-based awards to employees using the intrinsic value method in accordance with Accounting Principles Board (APB) Opinion No. 25, *Accounting for Stock Issued to Employees* and related interpretations. SFAS No. 123*, Accounting for Stock-Based Compensation,* requires the disclosure of pro forma net income (loss) and income (loss) per share had the Company adopted the fair value method as of the beginning of fiscal 1995. Under SFAS No. 123, the fair value of stock-based awards to employees is calculated through the use of option pricing models, even though such models were developed to estimate the fair value of freely tradable, fully transferable options without vesting restrictions, which significantly differ from the Company s stock option awards. These models also require subjective assumptions, including future stock price volatility and expected time to exercise, which greatly affect the calculated values.

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SMITH MICRO SOFTWARE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR EACH OF THE THREE YEARS
IN THE PERIOD ENDED DECEMBER 31, 2004 (Continued)

The Company s calculations were made using the Black-Scholes option pricing model with the following weighted average assumptions: expected life, 48 months following grant date; stock volatility, 127%, 125% and 133% for grants issued in 2004, 2003 and 2002, respectively; risk-free interest rates of 3.47%, 2.63% and 2.99% for 2004, 2003 and 2002, respectively; and no dividends during the expected term. The Company s calculations are based on a single-option valuation approach, and forfeitures or cancellations are recognized as they occur. If the computed fair values of the 2004, 2003 and 2002 awards had been amortized to expense over the vesting period of the awards, pro forma net income (loss) would have been as follows:

	Year Ended December 31,		
(in thousands, except per share data)	**2004**	**2003**	**2002**
Net income (loss):			
Net income (loss), as reported	$ 3,445	$ (923)	$ (688)
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(308)	(286)	(240)
Pro forma net income (loss)	$ 3,137	$ (1,209)	$ (928)
Income (loss) per Common Share			
As reported, Basic	$ 0.20	$ (0.06)	$ (0.04)
As reported, Diluted	$ 0.19	$ (0.06)	$ (0.04)
Pro forma, Basic	$ 0.18	$ (0.07)	$ (0.06)
Pro forma, Diluted	$ 0.17	$ (0.07)	$ (0.06)

Net Income (Loss) per Share - Pursuant to SFAS No. 128, *Earnings per Share,* the Company is required to provide dual presentation of basic and diluted earnings (loss) per share (EPS). Basic EPS amounts are based upon the weighted average number of common shares outstanding. Diluted EPS amounts are based upon the weighted average number of common and potential common shares outstanding. Potential common shares include stock options using the treasury stock method. Potential common shares are excluded from the calculation of diluted EPS in loss years, as the impact is antidilutive. Potential common shares of 955,000 and 444,000 have been excluded from diluted weighted average common shares for the years ended December 31, 2003 and 2002, respectively.

Fulfillment Services - The Company currently holds consigned inventory from a customer, which is used to fulfill orders. As the Company does not hold title to the inventory, it is not recorded in the accompanying consolidated balance sheets. In addition, the Company receives cash for fulfillment orders, which is paid out to the fulfillment customer on a monthly basis. Such cash and the related payable are recorded on a net basis as the amounts are held for the benefit of this fulfillment customer.

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SMITH MICRO SOFTWARE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR EACH OF THE THREE YEARS
IN THE PERIOD ENDED DECEMBER 31, 2004 (Continued)

Use of Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions 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 years. Actual results could differ from those estimates.

Comprehensive Income(Loss) - Comprehensive income, as defined, includes all changes in equity (net assets) during a period from non-owner sources. For each of the years ended December 31, 2004, 2003 and 2002, there was no difference between net income (loss) and comprehensive income (loss).

Fair Value of Financial Instruments The Company s financial instruments consist of cash, cash equivalents and trade receivables and payables. The carrying amounts of these instruments approximate fair value because of their short-term maturities.

New Accounting Pronouncements - In December 2004, the FASB issued SFAS No. 123 (revised 2004), *Share-Based Payment*, which replaces SFAS No. 123, *Accounting for Stock-Based Compensation* and supersedes APB No. 25, *Accounting for Stock Issued to Employees*. SFAS No. 123R requires all share-based payments to employees, including grants of employee stock options, to be recognized in the financial statements based on their fair values, beginning with the first interim or annual period after June 15, 2005, with early adoption encouraged. In addition, SFAS No. 123R will cause unrecognized expense (based on the amounts in our pro forma footnote disclosure) related to options vesting after the date of initial adoption to be recognized as a charge to results of operations over the remaining vesting period. The Company is required to adopt SFAS No. 123R in the third quarter of 2005, beginning July 1, 2005. Under SFAS No. 123R, the Company will determine the appropriate fair value model to be used for valuing share-based payments, the amortization method for compensation cost and the transition method to be used at the date of adoption. The transition alternatives include prospective and retroactive adoption methods. Under the retroactive methods, prior periods may be restated either as of the beginning of the year of adoption or for all periods presented. The prospective method requires that compensation expense be recorded for all unvested stock options and share awards at the beginning of the first quarter of adoption of SFAS No. 123R, while the retroactive methods would record compensation expense for all unvested stock options and share awards beginning with the first period restated. The Company is evaluating the requirements of SFAS No. 123R and expects that the adoption of SFAS No. 123R will have a material impact on its consolidated results of operations and earnings per share. The Company has not determined the method of adoption or the effect of adopting SFAS No. 123R.

In March 2004, the EITF reached a consensus on Issue No. 03-1, *The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments*. EITF 03-1 provides new guidelines for the evaluation and determination of whether a loss on certain investments is other-than-temporary and requires certain additional disclosures pertaining to unrealized investment losses in a company s financial statements. The effective date of the evaluation and measurement criteria of Issue No. 03-1 have been delayed pending issuance of additional implementation guidance by the FASB. The additional disclosure requirements, however, remain effective for annual periods ending after December 15, 2004. Management continues to monitor the FASB s progress and does not currently expect the adoption of the evaluation and measurement criteria, once issued to have a material impact on the Company s consolidated results of operations or financial position.

Reclassifications - Certain reclassifications have been made to the prior years consolidated financial statements to conform to the current year presentation.

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SMITH MICRO SOFTWARE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR EACH OF THE THREE YEARS
IN THE PERIOD ENDED DECEMBER 31, 2004 (Continued)

2. EQUIPMENT AND IMPROVEMENTS

Equipment and improvements consist of the following (in thousands):

	December 31,	
	2004	**2003**
Machinery and equipment	$ 745	$ 753
Leasehold improvements	315	304
Office furniture and fixtures	107	111
	1,167	1,168
Less accumulated depreciation and amortization	(1,054)	(1,098)
	$ 113	$ 70

3. GOODWILL AND OTHER INTANGIBLE ASSETS

The following table sets forth the acquired intangible assets by major asset class:

	Useful	December 31, 2004			December 31, 2003		
	Life (Years)	Gross	Accumulated Amortization	Net Book Value	Gross	Accumulated Amortization	Net Book Value
(in thousands)							
Amortizing:							
Purchased and Licensed Technology	3	$ 2,260	$ (2,260)	$	$ 2,260	$ (2,220)	$ 40

Aggregate amortization expense on intangible assets was approximately $40,000, $184,000 and $284,000 for the years ended December 31, 2004, 2003 and 2002, respectively.

The carrying amount of the Company s goodwill was $1,715,000 as of December 31, 2004 and 2003. The Company s reporting units are equivalent to its operating segments. At December 31, 2004 and 2003, the amount of goodwill allocated to the products segment is $1,380,000 and the amount of goodwill allocated to the services segment is $335,000.

4. ACCRUED LIABILITIES

Accrued liabilities consist of the following (in thousands):

	December 31,	
	2004	**2003**
Salaries and benefits	$ 783	$ 432
Royalties	1	18
Other	6	9
	$ 790	$ 459

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SMITH MICRO SOFTWARE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR EACH OF THE THREE YEARS
IN THE PERIOD ENDED DECEMBER 31, 2004 (Continued)

5. INCOME TAXES

A summary of the income tax expense (benefit) is as follows (in thousands):

	Year ended December 31,		
	2004	2003	2002
Current:			
Federal	$ 68	$	$ (1,071)
State	3	3	3
Foreign			6
	71	3	(1,062)
Deferred:			
Federal	1,025	(324)	507
State	427	(22)	(93)
Change in valuation allowance	(1,452)	346	(414)
	0	0	0
	$ 71	$ 3	$ (1,062)

A reconciliation of the provision (benefit) for income taxes to the amount of income tax expense (benefit) that would result from applying the federal statutory rate (35%) to the income (loss) before income taxes is as follows:

	December 31,		
	2004	2003	2002
Federal statutory rate	35%	(35)%	(35)%
State tax, net of federal benefit			
Nondeductible expense related to acquired intangibles		(2)	1
Other	(1)	2	1
Federal benefit for NOL carryback law change			(61)
Change in valuation allowance	(32)	35	33
	2%	0%	(61)%

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SMITH MICRO SOFTWARE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR EACH OF THE THREE YEARS
IN THE PERIOD ENDED DECEMBER 31, 2004 (Continued)

The major components of the Company s deferred tax assets and liabilities are as follows (in thousands):

	December 31,	
	2004	2003
Various reserves	$ 91	$ 60
Nondeductible accruals	112	68
State taxes	(523)	(539)
Prepaid expenses	(71)	(71)
Credit carryforwards	1,320	1,280
Net operating loss carryforwards	7,652	7,468
Amortization	258	295
Fixed assets	36	56
Subtotal	8,875	8,617
Valuation allowance	(8,875)	(8,617)
	$ 0	$ 0

The Company has federal and state net operating loss carryforwards of approximately $18,888,000 and $14,068,000, respectively, at December 31, 2004. These federal and state net operating loss carryforwards will begin to expire in 2021 and 2005, respectively. During the year ended December 31, 2004 the Company had California net operating loss carryforwards in the amount of $933,530 expire. During the year ended December 31, 2002, the Company carried back its December 31, 2001 federal net operating loss of $4,181,000 to the year ended December 31, 1996 resulting in a refund of $1,071,000. The carryback became allowable under the provisions of the *Job Creation and Workers Assistance Act of 2002,* which extended the carryback period to five years for tax years ending in 2001 and 2002. Net operating losses, for federal purposes, were allowed to be carried back for two years prior to this enactment. In addition, the Company has federal and state tax credit carryforwards of approximately $1,104,000 and $216,000, respectively, at December 31, 2004.

As of December 31, 2004, a valuation allowance of approximately $8,875,000 has been provided based upon the Company s assessment that it is more likely than not that sufficient taxable income will not be generated to realize the tax benefits of these temporary differences.

The increases in the valuation allowance for 2004 and 2003 includes $1,710,000 and $729,000, respectively, related to the increases in the Company s Net Operating Loss Carryforwards as a result of tax deductions derived from the exercise of stock options. Cumulatively, as of December 31, 2004, approximately $3,351,000 of the valuation allowance was attributable to such potential tax benefit of stock option transactions that will be credited directly to additional paid in capital, if realized.

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SMITH MICRO SOFTWARE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR EACH OF THE THREE YEARS
IN THE PERIOD ENDED DECEMBER 31, 2004 (Continued)

6. COMMITMENTS AND CONTINGENCIES

Leases - The Company has non-cancelable operating leases for its building facility in Aliso Viejo, California and Lee s Summit, Missouri, which expire in May 2009 and June 2005, respectively. Future minimum rental commitments consist of the following (in thousands):

Year ending December 31:	
2005	$ 388
2006	380
2007	380
2008	380
2009	158
Total	$ 1,686

Total rent expense was $480,000, $590,000 and $593,000 for the years ended December 31, 2004, 2003 and 2002, respectively.

Litigation From time to time the Company is subject to litigation in the normal course of business, none of which management believes will likely have a material adverse effect on the Company s consolidated financial condition or results of operations.

Other Contingent Contractual Obligations During its normal course of business, the Company has made certain indemnities, commitments and guarantees under which it may be required to make payments in relation to certain transactions. These include: intellectual property indemnities to the Company s customers and licensees in connection with the use, sale and/or license of Company 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 of the Company; 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. In addition, the Company has made contractual commitments to employees providing for severance payments upon the occurrence of certain prescribed events. The Company 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 the Company could be obligated to make. The Company has not recorded any liability for these indemnities, commitments and guarantees in the accompanying consolidated balance sheets.

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SMITH MICRO SOFTWARE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR EACH OF THE THREE YEARS
IN THE PERIOD ENDED DECEMBER 31, 2004 (Continued)

7. SEGMENT INFORMATION

The Company currently operates in two business segments: products and services. In addition, revenues are classified into two markets, Wireless and OEM sales, and Internet and Direct sales. Our Internet market includes Internet based software products as well as consulting, fulfillment and hosting revenue.

The Company does not separately allocate operating expenses to these segments, nor does it allocate specific assets to these segments. Therefore, segment information reported includes only revenues and cost of revenues.

The following table shows the net revenues and cost of revenues generated by each segment:

	Year Ended December 31,					
	2004		2003		2002	
	Products	Services	Products	Services	Products	Services
Wireless & OEM	$ 11,424	$	$ 4,711	$	$ 4,555	$
Internet & Direct	970	922	1,580	925	1,474	1,102
Total Revenues	12,394	922	6,291	925	6,029	1,102
Cost of revenues	2,530	380	1,350	321	1,420	782
Gross Profit	$ 9,864	$ 542	$ 4,941	$ 604	$ 4,609	$ 320

Sales to individual customers and their affiliates, which amounted to more than 10% of the Company s net revenues included one OEM customer at 68.4% of revenues in 2004, three OEM customers at 27.0%, 10.7% and 10.2% of revenues in 2003 and two OEM customers at 19.0% and 10.7% of revenues in 2002. Accounts receivable from these customers were $1.7 million at December 31, 2004, $477,000, $55,000 and $0 at December 31, 2003 and $516,000 and $0 at December 31, 2002. A decision by a significant customer to substantially decrease or delay purchases from the Company or the Company s inability to collect receivables from these customers could have a material adverse effect on the Company s consolidated financial condition and results of operations.

The Company also has export sales representing 5.2%, 14.8% and 15.1% of its net revenues for the years ended December 31, 2004, 2003 and 2002, respectively. All export sales have been denominated in U.S. dollars.

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SMITH MICRO SOFTWARE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR EACH OF THE THREE YEARS
IN THE PERIOD ENDED DECEMBER 31, 2004 (Continued)

8. PROFIT SHARING

The Company offers its employees a 401(k) plan, in which the Company matches the employee contribution at a rate of 20%, subject to a vesting schedule. Total employer contributions amounted to $54,000, $45,000 and $45,000 for the years ended December 31, 2004, 2003 and 2002, respectively.

9. STOCK-BASED COMPENSATION

In 1995, the Company adopted the 1995 Stock Option/Stock Issuance Plan (the Plan). The Plan, as amended, provides for issuance of, or options to be granted for the purchase of, an aggregate of 5,624,000 shares of common stock. Under the terms of the Plan, incentive and nonqualified options may be granted at an exercise price not less than 100% and 85%, respectively, of the fair market value on the grant date, with terms of up to 10 years, and with vesting to be determined by the Board of Directors.

Stock option activity under the Plan is as follows:

	Number of options	Weighted average exercise price
OUTSTANDING, January 1, 2002 (777,000 options, exercisable at weighted average exercise price of $3.01)	1,737,000	$ 2.55
Granted (weighted average fair value of $0.33)	1,176,000	0.38
Exercised	(3,000)	1.01
Canceled	(145,000)	1.35
OUTSTANDING, December 31, 2002 (1,535,000 options, exercisable at weighted average exercise price of $2.15)	2,765,000	1.46
Granted (weighted average fair value of $2.22)	38,000	2.46
Exercised	(808,000)	1.13
Canceled	(84,000)	1.43
OUTSTANDING, December 31, 2003 (1,140,000 options, exercisable at weighted average exercise price of $2.43)	1,911,000	1.62
Granted (weighted average fair value of $1.70)	922,000	1.95
Exercised	(1,000,000)	2.00
Canceled	(34,000)	1.74
OUTSTANDING, December 31, 2004	1,799,000	1.58

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SMITH MICRO SOFTWARE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR EACH OF THE THREE YEARS
IN THE PERIOD ENDED DECEMBER 31, 2004 (Continued)

Additional information regarding options outstanding as of December 31, 2004 is as follows:

	Options outstanding			Options exercisable	
Range of exercise prices	**Number outstanding**	**Weighted average remaining contractual life (years)**	**Weighted average exercise price**	**Number exercisable**	**Weighted average exercise price**
$0.10 - $ 0.90	566,000	7.8	$ 0.28	141,000	$ 0.38
$0.91 - $ 1.80	213,000	6.7	$ 1.05	202,000	$ 1.06
$1.81 - $ 2.70	883,000	9.5	$ 1.91	5,000	$ 1.88
$2.71 - $ 7.10	84,000	5.3	$ 3.45	78,000	$ 3.41
$7.11 - $14.00	53,000	0.8	$ 8.99	53,000	$ 8.99
	1,799,000	8.2	$ 1.58	479,000	$ 2.12

At December 31, 2004, 1,448,000 shares were available for future grants under the Stock Option Plan.

10. RELATED PARTY TRANSACTIONS

In October 2004, the Company entered into a Master Software Services Agreement with Arrange Technology LLC, providing for the development of certain software applications and integration services. A member of the Company s Board of Directors is a principal beneficial owner of Arrange Technology LLC. During fiscal 2004, $19,000 was expensed under the terms of the agreement, of which $7,100 is included in accounts payable in the consolidated balance sheet at December 31, 2004.

In September 2004, the Company entered into a severance agreement with a principal stockholder and former officer and director of the Company. The Company has discharged its obligation under the agreement by purchasing a single premium annuity in the amount of $192,000 which is included in general and administrative expenses in the consolidated statement of operations for the year ended December 31, 2004.

11. SUBSEQUENT EVENT

On February 18, 2005, the Company entered into a Common Stock Purchase Agreement for the private placement of 3,500,000 shares of the Company s common stock, $0.001 par value, at a price of $6.40 per share, resulting in aggregate gross cash proceeds to the Company of $22,400,000 and approximate net cash proceeds to the Company of $21,056,000. The transaction closed simultaneously with the execution of the Purchase Agreement on February 18, 2005.

C.E. Unterberg, Towbin LLC, the placement agent for the transaction, received a cash fee equal to 6% of the aggregate gross proceeds of the Private Placement.

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SMITH MICRO SOFTWARE, INC. AND SUBSIDIARIES

SCHEDULE II VALUATION AND QUALIFYING ACCOUNTS
FOR EACH OF THE THREE YEARS
IN THE PERIOD ENDED DECEMBER 31, 2004

(In thousands)

	Balance at beginning of period	Additions charged to costs and expenses	Deductions	Balance at end of period
Allowance for doubtful accounts and other adjustments (1):				
2004	$ 33	$ 112	$ (8)	$ 137
2003	565	132	(664)	33
2002	544	486	(454)	565

(1) Other adjustments relate principally to sales returns.

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EXHIBIT INDEX

Exhibit No.	Title	Method of Filing
3.1	Amended and Restated Certificate of Incorporation of the Registrant.	Incorporated by reference to Exhibit 3.1 to the Registrant s Registration Statement No. 33-95096.
3.1.1	Amendment to the Amended and Restated Certificate of Incorporation of the Registrant.	Incorporated by reference to Exhibit 3.1.1 to the Registrant s Quarterly Report on Form 10-Q for the period ended June 30,2000.
3.2	Amended and Restated Bylaws of the Registrant.	Incorporated by reference to Exhibit 3.2 to the Registrant s Registration Statement No. 33-95096.
4.1	Specimen certificate representing shares of Common Stock of the Registrant.	Incorporated by reference to Exhibit 4.1 to the Registrant s Registration Statement No. 33-95096.
10.1	Form of Indemnification Agreement.	Incorporated by reference to Exhibit 10.1 to the Registrant s Registration Statement No. 33-95096.
10.2*	1995 Stock Option/Stock Issuance Plan as Amended and Restated through February 7, 2001.	Incorporated by reference to the Appendix attached to the Definitive Proxy Statement for the 2001 Annual Meeting of Stockholders filed on April 27, 2001.
10.4	Master Software License and Distribution Agreement (Contract No. 220-00-0134) effective as of December 1, 2000, between Cellco Partnership (d/b/a Verizon Wireless) and the Registrant	Incorporated by reference to Exhibit 10.1 to the Registrant s Quarterly Report on Form 10-Q for the quarter ended June 30, 2003.
10.4.1	Amendment of Master Software License and Distribution Agreement (Contract No. 220-00-0134)	Incorporated by reference to Exhibit 10.1.1 to the Registrant s Quarterly Report on Form 10-Q for the quarter ended June 30, 2003.
10.4.2	Amendment No. 2 to the Master Software License and Distribution Agreement (Contract No. 220-00-0134)	Incorporated by reference to Exhibit 10.1.2 to the Registrant s Quarterly Report on Form 10-Q for the quarter ended June 30, 2003.
14.1	Code of Ethics	Incorporated by reference to Exhibit 14.1 to the Registrant s Annual Report on Form 10-K for the fiscal year ended December 31, 2003.
14.1.1	Attachment 1 to Code of Ethics	Incorporated by reference to Exhibit 14.1 to the Registrant s Annual Report on Form 10-K for the fiscal year ended December 31, 2003.
21.1	Subsidiaries	Incorporated by reference to Exhibit 21.1 to the Registrant s Annual Report on Form 10-K for the

		fiscal year ended December 31, 2000.
23.1	Consent of Independent Registered Public Accounting Firm.	Filed herewith
31.1	Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	Filed herewith

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Exhibit No.	Title	Method of Filing
31.2	Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	Filed herewith
32.1	Certifications of the Chief Executive Officer and the Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	Filed herewith

* Indicates management contract or compensatory plan or arrangement.

Confidential treatment has been granted with respect to certain confidential portions of this exhibit pursuant to Rule 24b-2 under the Securities Exchange Act of 1934, which confidential portions have been omitted from the exhibit and filed separately with the Securities and Exchange Commission.