

SMG Industries Inc.  
Form 10-Q  
November 09, 2018

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**Form 10-Q**

(Mark One)

QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2018

OR

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

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

Commission File Number 000-54391

periods beginning after December

**SMG INDUSTRIES, INC.**

(Exact name of registrant as specified in its charter)

**Delaware** **51-0662991**  
(State or other jurisdiction of incorporation or organization) (IRS Employer Identification No.)

**710 N. Post Oak Road, Suite 400**  
**Houston, Texas** **77024**  
(Address of Principal Executive Offices) (Zip Code)

**(713) 821-3153**

(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).  Yes  No

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

Large accelerated filer  Accelerated filer

Non-accelerated filer  Smaller reporting company

Emerging growth company

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If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 7(a)(2)(B) of the Securities Act. "

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

The number of shares of Common Stock, par value \$0.001 per share, outstanding as of November 9, 2018 was 11,346,690.

**SMG INDUSTRIES INC.**

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**PART I—FINANCIAL INFORMATION****Item 1. Financial Statements.****SMG INDUSTRIES INC.****(FORMERLY: SMG INDIUM RESOURCES LTD.)****CONSOLIDATED BALANCE SHEETS****(unaudited)**

	September 30, 2018	December 31, 2017
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 251,208	\$ 85,570
Accounts receivable, net of allowance for doubtful accounts of \$12,500 and \$10,695	645,540	441,359
Inventory	148,495	142,053
Assets held for sale	42,300	42,300
Prepaid expenses and other current assets	74,779	25,352
<b>Total current assets</b>	<b>1,162,322</b>	<b>736,634</b>
Property, equipment and rental assets, net of accumulated depreciation of \$ 272,484 and \$300,155	1,026,575	118,779
Other assets	32,541	-
Intangible assets, net of accumulated amortization \$6,275	143,725	-
<b>Total assets</b>	<b>\$ 2,365,163</b>	<b>\$ 855,413</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)</b>		
Current liabilities:		
Accounts payable	\$ 577,860	\$ 395,423
Accounts payable - related party	21,000	95,585
Accrued expenses and other liabilities	148,272	69,578
Secured line of credit	488,912	353,975
Current portion of note payable - related party	69,694	-
Current portion of unsecured notes payable	96,851	-
Current portion of secured notes payable, net	256,182	264,615
Current portion of capital lease liability	56,441	-

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Total current liabilities	1,715,212	1,179,176
Long term liabilities:		
Convertible note payable, net	150,417	-
Note payable - related party, net of current portion	63,936	-
Notes payable - secured, net of current portion	231,105	258,361
Capital lease liability, net of current portion	51,002	-
Total liabilities	2,211,672	1,437,537
Commitments and contingencies		
Stockholders' equity (deficit)		
Preferred stock - \$0.001 par value; authorized 1,000,000 shares as of September 30, 2018 and December 31, 2017; issued and outstanding none at September 30, 2018 and December 31, 2017	-	-
Common stock - \$0.001 par value; authorized 25,000,000 shares as of September 30, 2018 and December 31, 2017; issued and outstanding 11,316,690 and 8,865,190 at September 30, 2018 and December 31, 2017	11,317	8,865
Additional paid in capital	1,084,289	(56,940 )
Accumulated deficit	(942,115 )	(534,049 )
Total stockholders' equity (deficit)	153,491	(582,124 )
Total liabilities and stockholders' equity (deficit)	\$ 2,365,163	\$ 855,413

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

**SMG INDUSTRIES INC.****(FORMERLY: SMG INDIUM RESOURCES LTD.)****CONSOLIDATED STATEMENTS OF OPERATIONS****For the three and nine months ended September 30, 2018 and 2017****(unaudited)**

	Three Months Ended September 30, 2018	Three Months Ended September 30, 2017	Nine Months Ended September 30, 2018	Nine Months Ended September 30, 2017
REVENUES	\$ 1,026,949	\$ 620,084	\$ 3,192,432	\$ 1,802,486
COST OF REVENUES	582,922	234,374	1,742,431	953,836
GROSS PROFIT	444,027	385,710	1,450,001	848,650
OPERATING EXPENSES:				
Selling, general and administrative	667,277	774,366	1,682,259	1,113,934
Total operating expenses	667,277	774,366	1,682,259	1,113,934
LOSS FROM OPERATIONS	(223,250	) (388,656	) (232,258	) (265,284
OTHER INCOME (EXPENSE)				
Gain (loss) on settlement of liabilities	(2,549	) -	9,291	-
Gain (loss) on sale of assets	14,000	-	14,000	-
Interest expense, net	(67,895	) (23,970	) (199,099	) (77,132
NET LOSS	\$ (279,694	) \$ (412,626	) \$ (408,066	) \$ (342,416
Net Income Per Share				
Basic	\$ (0.03	) \$ (0.19	) \$ (0.04	) \$ (0.21
Diluted	\$ (0.03	) \$ (0.19	) \$ (0.04	) \$ (0.21
Weighted average shares outstanding				
Basic	10,336,470	2,176,200	9,986,415	1,665,192
Diluted	10,336,470	2,176,200	9,986,415	1,665,192

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



**SMG INDUSTRIES INC.****(FORMERLY: SMG INDIUM RESOURCES LTD.)****CONSOLIDATED STATEMENTS OF CASH FLOWS****For the nine months ended September 30, 2018 and 2017****(unaudited)**

	<b>2018</b>	<b>2017</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income (loss)	\$(408,066)	\$(342,416)
Adjustments to reconcile net income to net cash used in operating activities:		
Share based payments	42,012	211,321
Depreciation and amortization	66,933	57,154
Amortization of deferred financing costs	117,972	39,481
Gain on settlement of liabilities	(9,291 )	-
Bad debt expense (recovery)	10,407	3,285
Impairment expense	-	24,666
Gain on disposal of equipment	(13,386)	-
Changes in:		
Accounts receivable	(214,588)	(206,395)
Inventory	(6,442 )	(104,018)
Prepaid expenses and other current assets	26,504	7,009
Other assets	(32,541 )	
Accounts payable	207,911	333,648
Accounts payable related party	(45,585 )	
Accrued expenses and other liabilities	78,694	(53,949 )
Net cash provided by (used in) operating activities	(179,466)	(30,214 )
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Cash received in reverse acquisition	-	21,164
Proceeds from the sale of property and equipment	14,000	-
Cash paid for purchase of property and equipment	(95,869 )	-
Net cash used in investing activities	(81,869 )	21,164
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from secured line of credit, net	134,937	91,927
Proceeds from notes payable	211,243	151,175
Payments on notes payable	(367,572)	(194,257)
Proceeds on notes payable, related party	43,100	-
Payments on notes payable, related party	(67,504 )	-

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Proceeds on convertible notes payable	250,000	-
Payments on capital lease liability	(24,275 )	-
Payments on MG Cleaners acquisition - related party	(29,000 )	-
Proceeds from member contributions	-	110,081
Payments for member distributions	-	(192,507)
Proceeds from sale of member interest	-	3,170
Proceeds from sales of common stock, net	276,044	115,000
Net cash provided by (used in) financing activities	426,973	84,589
NET CHANGE IN CASH AND CASH EQUIVALENTS	165,638	75,539
CASH AND CASH EQUIVALENTS, beginning of period	85,570	22,461
CASH AND CASH EQUIVALENTS, end of period	\$251,208	\$98,000
Supplemental disclosures:		
Cash paid for income taxes	\$-	\$-
Cash paid for interest	\$79,146	\$43,243
Noncash investing and financing activities		
Purchase of intangible assets with note payable, related party	\$150,000	\$-
Purchase of fixed asset with notes payable	\$41,481	\$-
Capital lease additions	\$131,718	\$-
Prepaid expenses financed with notes payable	\$75,931	\$-
Expenses paid by related party	\$8,034	\$-
Stock issued for accounts payable	\$5,000	\$-
Common shares issued for purchase of fixed assets	\$700,000	\$5,000
Beneficial conversion feature on convertible notes payable	\$100,000	\$-
Debt discount from issuance of common stock warrants	\$17,476	\$-
Payments on notes payable from secured line of credit proceeds	\$-	\$96,512
Payments on accrued liabilities from secured line of credit proceeds	\$-	\$75,729
Recapitalization of MG Cleaners, LLC	\$-	\$310
Reclassification of assets held for sale	\$-	\$45,000

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

**SMG INDUSTRIES, INC.**

**(FORMERLY: SMG INDIUM RESOURCES LTD.)**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(unaudited)**

**NOTE 1 — BACKGROUND AND BASIS OF PRESENTATION**

SMG Industries Inc. (the “Company” or “SMG”) is a corporation established pursuant to the laws of the State of Delaware on January 7, 2008. On September 19, 2017 SMG entered into an Agreement and Plan of Share Exchange with MG Cleaners LLC. On January 30, 2018 the Company changed its name from SMG Indium Resources Ltd. to the current name of SMG Industries Inc.

SMG acquired one hundred percent of the issued and outstanding membership interests of MG Cleaners LLC pursuant to which MG Cleaners LLC became our wholly-owned subsidiary. In connection with the acquisition, we issued 4,578,276 shares and agreed to pay \$300,000 in cash to the Managing MG Member, Stephen Christian, payable with \$250,000 at closing and the remaining \$50,000 paid upon the completion of the Company’s sale of a minimum of \$500,000 of its securities in a private offering to investors. The \$50,000 liability is recorded as an Accounts Payable – Related Party on the balance sheet.

The merger was accounted for as a reverse acquisition with MG Cleaners LLC being treated as the accounting acquirer. As such, the historical information for all periods presented prior to the merger date relate to MG Cleaners LLC. Subsequent to the merger date, the information relates to the consolidated entities of SMG with its subsidiary MG Cleaners LLC.

The Company is an emerging growth oilfield service business focused on the drilling market segment in the domestic United States pursuant to which we offer the following products and services: (i) product sales for the oilfield industry including degreasers, surfactants and detergents focused oilfield cleaning, industrial cleaning, fleet and equipment cleaning; (ii) equipment sales for the oilfield industry including centrifugal pumps and industrial pressure washers; (iii) parts sales for our installed base on equipment, including water guns, hoses and fittings; (iv) service crews for the oilfield industry related to drilling rig wash and on location equipment repair, and (v) rentals of bottom hole assembly tools including stabilizers and crossovers rented by directional drillers for their drilling applications.

On March 6, 2018 the Company filed an Information Statement with the Securities and Exchange Commission stating that it had obtained the written consent of a majority of stockholders as of the record date January 30, 2018, to change the name of the company to “SMG Industries, Inc.” and to adopt a new incentive stock option plan with 2,000,000 shares authorized under the plan, subject to the Company’s Board and any other required approvals. The name change to SMG Industries Inc. went effective April 2, 2018.

The accompanying unaudited interim financial statements of SMG Industries Inc. (“we”, “our”, “SMG” or the “Company”) have been prepared in accordance with accounting principles generally accepted in the United States of America and should be read in conjunction with the audited financial statements and notes thereto for the years ended December 31, 2017 and 2016 which are included on the Company’s Form 10-K filed on April 2, 2018. In the opinion of management, all adjustments, consisting of normal recurring adjustments, necessary for a fair presentation of financial position and the results of operations for the interim periods presented have been reflected herein. The results of operations for the interim periods are not necessarily indicative of the results to be expected for the full year. Notes to the financial statements which would substantially duplicate the disclosures contained in the audited financial statements for years ended December 31, 2017 and 2016 have been omitted.

## **NOTE 2 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

### *Impairment of Long-Lived Assets*

The Company’s long-lived assets, including intangibles, are reviewed for impairment whenever events or changes in circumstances indicate that the historical-cost carrying value of an asset may no longer be appropriate. The Company assesses recoverability of the asset by comparing the undiscounted future net cash flows expected to result from the asset to its carrying value. If the carrying value exceeds the undiscounted future net cash flows of the asset, an impairment loss is measured and recognized. An impairment loss is measured as the difference between the net book value and the fair value of the long-lived asset.

Long-lived assets were evaluated for impairment and no impairment losses were incurred during the nine months ended September 30, 2018 and 2017, respectively.

***Basic and Diluted Net Loss per Share***

The Company presents both basic and diluted net loss per share on the face of the statements of operations. Basic net loss per share is computed by dividing net loss by the weighted average number of shares of common stock outstanding during the period. Diluted per share calculations give effect to all potentially dilutive shares of common stock outstanding during the period, including stock options and warrants, and using the treasury-stock method. If anti-dilutive, the effect of potentially dilutive shares of common stock is ignored. For the nine months ended September 30, 2018 and 2017, 1,165,000 and 370,000 of convertible notes, stock options and warrants were considered for their dilutive effects, respectively.

<b>Basic and Diluted Income (Loss)</b>	September 30, 2018	September 30, 2017
Net Income (Loss)	\$ (408,066	) \$ (342,416
Basic and Dilutive Shares:		
Weighted average basic shares outstanding	9,986,415	1,665,192
Net dilutive stock options	-	-
Dilutive shares	9,986,415	1,665,192

***Reclassification***

Certain reclassifications have been made to the prior year financial statements to conform to the current year presentation.

***Recently issued accounting pronouncements***

Effective January 1, 2018, the Company adopted the provisions of ASU 2017-01 – “Business Combinations (Topic 805): Clarifying the Definition of a Business” (“ASU 2017-01”). ASU 2017-01 provides revised guidance to determine when an acquisition meets the definition of a business or alternatively should be accounted for as an asset acquisition. ASU 2017-01 requires that, when substantially all of the fair value of an acquisition is concentrated in a single identifiable asset or a group of similar identifiable assets, the asset or group of similar identifiable assets does not meet the definition of a business and therefore is required to be accounted for as an asset acquisition. Transaction costs will continue to be capitalized for asset acquisitions and expensed as incurred for business combinations. ASU 2017-01 will result in most, if not all, of the Company’s post January 1, 2018 acquisitions being accounted for as asset acquisitions because substantially all of the fair value of the gross assets the Company acquires are concentrated in a single asset or group of similar identifiable assets. For asset acquisitions that are “owner occupied” (meaning that the

seller either is the tenant or controls the tenant) the purchase price, including capitalized acquisition costs, will be allocated to land and building based on their relative fair values with no value allocated to intangible assets or liabilities. For asset acquisitions where there is a lease in place but not “owner occupied” the Company will allocate the purchase price to tangible assets and any intangible assets acquired or liabilities assumed based on their relative fair values.

*Compensation—Stock Compensation:* On June 20, 2018, the FASB issued ASU No. 2018-07, *Compensation—Stock Compensation (Topic 718) - Improvements to Nonemployee Share-Based Payment Accounting*, which aligns the accounting for share-based payment awards issued to employees and nonemployees. Under ASU No. 2018-07, the existing employee guidance will apply to nonemployee share-based transactions (as long as the transaction is not effectively a form of financing), with the exception of specific guidance related to the attribution of compensation cost. The cost of nonemployee awards will continue to be recorded as if the grantor had paid cash for the goods or services. In addition, the contractual term will be able to be used in lieu of an expected term in the option-pricing model for nonemployee awards. The Company elected to early adopt this standard in the second quarter of 2018. The adoption had no impact on the Company’s historic financial statements.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842) (ASU 2016-02)*. Under ASU No. 2016-2, an entity will be required to recognize right-of-use assets and lease liabilities on its balance sheet and disclose key information about leasing arrangements. ASU No. 2016-02 offers specific accounting guidance for a lessee, a lessor and sale and leaseback transactions. Lessees and lessors are required to disclose qualitative and quantitative information about leasing arrangements to enable a user of the financial statements to assess the amount, timing and uncertainty of cash flows arising from leases. For public companies, ASU No. 2016-02 is effective for annual reporting periods beginning after December 15, 2018, including interim reporting periods within that reporting period, and requires a modified retrospective adoption, with early adoption permitted. The Company is currently evaluating the provisions of the guidance and assessing its impact on the Company’s consolidated financial statements and disclosure.

The Financial Accounting Standards Board, or FASB, has issued Accounting Standards Update No. 2014-09, Revenue from contracts with Customers (Topic 606), or ASU 606. ASU 606 provides guidance outlining a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers in an amount that supersedes most current revenue recognition guidance. This guidance requires us to recognize revenue when we transfer promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. We are required to adopt ASU 606 at the beginning of our first quarter of fiscal 2018. The new guidance requires enhanced disclosures, including revenue recognition policies to identify performance obligations to customers and significant judgments in measurement and recognition. We implemented the new standard using the modified retrospective approach effective January 1, 2018. The adoption of this guidance did not have an impact on our consolidated financial statements within any accounting period presented.

#### *Disaggregation of revenue*

The Company disaggregates revenue between services and products revenue. All revenues are currently in the southern region of the United States.

	<b>Three Months Ended September 30, 2018</b>	<b>Three Months Ended September 30, 2017</b>	<b>Nine Months Ended September 30, 2018</b>	<b>Nine Months Ended September 30, 2017</b>
Service revenue	\$450,376	\$ 171,926	\$1,513,958	\$432,092
Product revenue	576,573	448,158	1,678,474	1,370,394
Total revenue	\$1,026,949	\$ 620,084	\$3,192,432	\$1,802,486

#### **NOTE 3 – GOING CONCERN**

The Company considered its going concern disclosure requirements in accordance with ASC 240-40-50. The Company concluded that its negative working capital and negative cash flows from operating are conditions that raised substantial doubt about the Company's ability to continue as a going concern. Without a successful plan in place from management these conditions could negatively impact the Company's ability to meet its financial obligations over the next year. In response, the Company has implemented a plan to alleviate such substantial doubt as follows. The Company will continue to generate additional revenue (and improve cash flows from operations) partly related to the Company's expansion into a new region during 2017 and 2018 and partly related to the Company wide sales

initiatives already implemented. In addition, there were several one-time expenses in 2017 related to expansion to the new region and related to the merger transaction completed in September 2017. As a result, substantial doubt about the Company's ability to continue as a going concern is alleviated.

**NOTE 4 - INVENTORY**

Inventory consisted of the following components at September 30, 2018 and December 31, 2017:

	September 30, 2018	December 31, 2017
Raw materials and supplies	\$ 38,750	\$ 25,863
Finished and purchased products	109,745	116,190
Total inventory	\$ 148,495	\$ 142,053



**NOTE 5 – LONG-LIVED ASSETS*****Property and equipment***

Property and equipment at September 30, 2018 and December 31, 2017 consisted of the following:

	September 30, 2018	December 31, 2017
Equipment	\$ 361,030	\$ 236,461
Rental equipment	700,000	-
Vehicles	200,876	165,867
Furniture, fixtures and other	37,153	16,607
	1,299,059	418,934
Less: accumulated depreciation	(272,484 )	(300,155 )
	\$ 1,026,575	\$ 118,779

Depreciation expense for the nine months ended September 30, 2018 and 2017 was \$60,658 and \$57,154, respectively.

***Intangible assets***

Intangible assets as of September 30, 2018 are all related to the acquisition of the RigHands™ assets discussed in Note 11. The estimated useful lives of the acquired assets is 15 years which will result in an annual amortization of \$10,000.

Intangible assets at September 30, 2018 and December 31, 2017 consisted of the following:

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September 30, 2018    December 31, 2017

RigHands (Trademark & Formula)	\$ 150,000	\$-
	150,000	-
Less: accumulated depreciation	(6,275	) -
	\$ 143,725	\$-

Amortization expense for the nine months ended September 30, 2018 and 2017 was \$6,275 and \$0, respectively.

**NOTE 6 – ACCRUED EXPENSES AND OTHER LIABILITIES**

Accrued expenses as of September 30, 2018 and December 31, 2017 included the following:

	September 30, 2018	December 31, 2017
Payroll and payroll taxes payable	\$ 86,655	\$ 24,854
Sales tax payable	51,904	7,325
Interest payable	1,708	2,273
Inventory purchases payable	-	23,440
Other	8,005	11,686
<b>Total Accrued Expenses</b>	<b>\$ 148,272</b>	<b>\$ 69,578</b>

**NOTE 7 – NOTES PAYABLE**

Notes payable included the following as of September 30, 2018 and December 31, 2017:

	September 30, 2018	December 31, 2017
Notes payable:		
Secured note payable issued on October 15, 2010 and refinanced in January 2015 for purchase of all membership interest, bearing interest of 6% per year and due in monthly installments ending September 25, 2022	\$ 194,725	\$ 228,947
Secured note payable issued August 14, 2017, bearing interest of 7.25% per year, due in monthly installments ending August 1, 2021	54,211	63,752
Secured finance facility issued February 2, 2017, bearing effective interest of 6%, due monthly installments ending August 20, 2020	30,013	41,777
Secured funding advance agreement issued December 18, 2017, bearing effective interest of 29.8%, due in daily installments ending October 2018, net of deferred financing costs of \$0 and \$55,729, respectively	-	188,500
Secured note payable issued January 2, 2018, bearing interest of 6.29% per year, due in monthly installments ending January 2023	37,388	-

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Secured funding advance agreement issued June 27, 2018, bearing effective interest of 20%, due in daily installments ending April 2019, net of deferred financing costs of \$104,599	170,950	-
	487,287	522,976
Less current maturities	(256,182 )	(264,615 )
Long term debt, net of current maturities	\$ 231,105	\$ 258,361

*Secured*

On October 15, 2010, the former managing member of MG Cleaners purchased MG Cleaners from the previous membership interest owners. In connection with that transaction, a \$450,000 seller note was issued to the sellers.

The note bears an interest rate of 8% and principal and interest payments are made monthly. The remaining principal balance of \$307,391 was refinanced by the note holder in January 2015, bearing an interest rate of 6.00%, with principal and interest payments due monthly. The note is secured by the land and building originally occupied by SMG, and said property is no longer occupied. The balance of this note at September 30, 2018 and December 31, 2017 was \$194,725 and \$228,947, respectively.

On August 14, 2017, we refinanced a note payable for \$66,348. The unsecured note bears an interest rate of 7.25% per annum, has 47 monthly payments of \$1,400, with a balloon payment of \$12,086 at maturity on August 1, 2021. The refinanced amount is identical to the remaining principal balance under the previous loan, thus no gain or loss has been recognized.

On February 2, 2017, we refinanced two truck notes existing with a community bank for one new note of \$53,610. The term was principal and interest payments monthly over 42 months with an interest rate of 6%. The note is secured by certain trucks and equipment of the Company. The refinanced amount is identical to the remaining principal balance under the previous loan.

On January 2, 2018, we financed a truck with a note to a bank. The \$41,481 note has an interest rate of 6.29% and payments of principal and interest are paid monthly. The note is secured by the truck purchased. This note matures in January 2023.

*Funding Advance Agreements – included with secured notes*

On December 18, 2017, we received \$195,000 in return for an assignment and transfer to a specialty finance company of a specified percentage of the proceeds of each collection of future receipts received by us, collectively “Future Receipts” until the finance company has received the Purchased Amount of \$278,000. This transaction is accounted for as a short term secured loan, with deferred financing costs of \$83,000 recognized on the date of incurrence.

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On June 27, 2018, our company re-financed and paid off the above December 18, 2017 note. This was accounted for as an extinguishment of the old note. During the nine months ended September 30, 2018, \$80,233 of debt discount was amortized to interest expense related to the old instrument. The new facility had an original principal balance of \$347,500. In conjunction with the new note we received \$139,243 of proceeds, applied \$103,257 towards the payoff of the old instrument and recorded deferred financing cost of \$105,000 as a debt discount. Payments of principal and interest are paid daily. This note matures in April 2019. During the nine months ended September 30, 2018, \$31,045 of debt discount was amortized to interest expense.

Future maturities of the above secured notes payable are as follows:

2018	\$96,086
2019	181,174
2020	78,911
2021	81,522
2022	48,764
2023	830
	\$487,287

*Notes Payable - Unsecured*

	September 30, 2018	December 31, 2017
Notes payable:		
Financed insurance premium, Note Payable issued on June 8, 2018, bearing interest of 6.5% per year and due in monthly installments ending April 1, 2019	\$ 43,050	\$ -
Unsecured note payable with a shareholder who controls approximately 7.5% of votes. Note issued on August 10, 2018 for \$40,000, due December 30, 2018 and 10% interest per year, balance of payable is due on demand	65,000	-
	108,050	-
Less, discount	(11,199 )	-
	96,851	-
Less current maturities	(96,851 )	-
Long term debt, net of current maturities	\$ -	\$ -

*Notes Payable (Related Party)*

On February 12, 2018, the Company's wholly-owned subsidiary, MG Cleaners LLC ("MG") entered into an Intellectual Property Sale Agreement ("**Agreement**") with Stephen Christian, MG's President, for the purchase of RigHands™ an industrial strength hand cleaner product line. RigHands™ is a trademarked branded product which is focused on the oilfield and industrial markets. MG issued a promissory note to Mr. Christian for the purchase price in the amount of \$150,000. The note bears interest at the rate of 5% per year and is payable in 36 equal monthly installments of \$4,496. As of September 30, 2018, \$113,346 remains outstanding with \$49,410 included as a current liability.

During the nine months ended September 30, 2018, Stephen Christian advanced \$43,100 to the Company, was repaid \$30,850 by the Company, and paid \$8,034 of expense on behalf of the Company. As of September 30, 2018, \$20,284 remains outstanding with no specific repayment terms or stated interest rate.

*Capital Lease Liability*

During the nine months ended September 30, 2018 the Company entered into a capital lease arrangement to purchase various equipment to be used in operations. Title to the equipment will be transferred to the Company at the completion of the lease payments. The Company purchased \$146,354 of equipment payable through May 2020. A down payment of \$20,607 was due at inception followed by 23 monthly payments of \$5,972 and a final payment of \$13,172. As of September 30, 2018, \$107,443 remains outstanding with \$56,441 included as a current liability.

*Accounts Receivable Financing Facility (Secured Line of Credit)*

On May 11, 2017, SMG Industries, Inc., formerly SMG Indium Resources Ltd., (the “Borrower”) entered into a \$1 million revolving accounts receivable financing facility with Crestmark Bank. The financing facility provides for the Borrower to have access to the lesser of (i) \$1 million or (ii) 85% of Net Amount of Eligible Receivables (as defined in the financing agreement). The financing facility is paid for by the assignment of the Borrower’s accounts receivable to Crestmark Bank and is secured by the Borrower’s assets. The financing facility has an interest rate of 7.25% in excess of the prime rate reported by the Wall Street Journal per annum, with a floor minimum rate of 11.5%. There were no loan origination or closing fees and we paid \$1,330 to Crestmark to reimburse them for documentation, legal and audit fees. Interest and maintenance fees will be calculated on the higher of the average monthly loan balance from the prior month or a minimum average loan balance of \$200,000. The financing facility is for an initial term of two-years and will renew on a year to year basis, unless terminated in accordance with the financing agreement. If the facility is terminated prior to the first anniversary, Borrower is obligated to pay Crestmark Bank a fee of \$20,000 and if terminated after the first anniversary and prior to the second anniversary then Borrower shall pay a fee of \$5,000. After the second anniversary of the financing facility, no exit fee is due. Crestmark has a senior security interest in the Borrower’s assets. The balance of this line of credit was \$488,912 and \$353,975 as of September 30, 2018 and December 31, 2017, respectively.



As part of our arrangement with Crestmark Bank our customers pay accounts receivable directly to a lock-box. Crestmark Bank is then paid back for prior advances on the Company's Eligible Receivables. During the nine months ended September 30, 2018, the Company received total cash proceeds of \$2,919,038 and repaid \$2,837,610 of the Line of Credit via Crestmark Bank withholding amount collected in our lock-box. In addition, Crestmark withheld \$53,509 to pay for interest and fees. Net proceeds received during the nine months ended September 30, 2018 on this facility were \$134,937.

#### *Convertible Notes Payable*

On September 28, 2018, the Company entered into a secured note purchase agreement with an individual accredited investor for the purchase and sale of a convertible promissory note ("Convertible Note") in the principal amount of \$250,000. The Convertible Note is convertible at any time after the date of issuance into shares of the Company's common stock at a conversion price of \$0.50 per share. Interest on the Note shall be paid to the investor at a rate of 8.5% per annum, paid on a quarterly basis, and the maturity date of the Convertible Note is two years after the issuance date. The Convertible Note is secured by all of the assets of the Company, subject to prior liens and security interests. The Company evaluated the Convertible Note and determined is a conventional convertible instrument. As a result, a beneficial conversion feature was calculated as \$100,000 at the time of issuance and recorded as a discount. During the nine months ended September 30, 2018, \$417 of the discount was amortized.

#### **NOTE 8 – STOCKHOLDERS' EQUITY (DEFICIT)**

During the nine months ended September 30, 2018, the Company issued 1,390,000 common shares for proceeds of \$278,000 from accredited investors. Expenses of \$1,956 were incurred related to raising these funds are recorded as a cost of capital.

During the nine months ended September 30, 2018, the Company issued 11,500 common shares in settlement of accounts payable of \$5,000 resulting in a loss on settlement of \$3,149.

During the nine months ended September 30, 2018, the Company issued a total of 50,000 common shares to two consultants for services. The fair value of the shares of \$39,500 will be recognized over a one-year service period ending July 2019. During the nine months ended September 30, 2018 \$8,229 of expense was recognized.

On September 28, 2018, in connection with an asset purchase agreement the Company issued an aggregate of 1,000,000 shares of its common stock to the sellers. The assets consist of approximately 850 downhole oil tools which include stabilizers, crossovers, drilling jars, roller reamers and bit subs, including both non-mag and steel units. The Company plans to rent these assets to customers. The transaction was valued at \$700,000 based on the fair value of the common shares on the date of issuance and will be depreciated over the estimated asset life of ten years.

**NOTE 9 – STOCK OPTIONS AND WARRANTS**

Summary stock option information is as follows:

	Aggregate Number	Aggregate Exercise Price	Exercise Price Range	Weighted Average Exercise Price
Outstanding, December 31, 2017	510,000	\$ 261,700	\$.24-3.29	\$ 0.51
Granted	150,000	114,500	\$.75-.79	\$ 0.76
Exercised	-	-	-	-
Cancelled, forfeited or expired	(20,000 )	(55,850 )	\$2.45-3.29	\$ 2.79
Outstanding, September 30, 2018	640,000	\$ 320,350	\$.24-3.29	\$ 0.50
Exercisable, September 30, 2018	373,336	\$ 175,352	\$.24-2.18	\$ 0.47

In November 2017 the Company issued 150,000 stock options with an exercise price of \$0.37 that vest in three equal tranches on in November 2018, 2019 & 2020. Option expense of \$41,840 will be recorded over the vesting term.

In May 2018 the Company issued 100,000 stock warrant with an exercise price of \$0.75 that vest in twelve equal monthly tranches following issuance. The warrants expire five years after issuance. Warrant expense of \$51,567 will be recorded over the vesting term.

In July 2018, the Company granted 50,000 stock options to a consultant with a five-year term and an exercise price of \$0.79. The options vest annually over a three-year period with the first one-third vesting July 10, 2019.

The Company valued the options issued during the nine months ended September 30, 2018 using the Black-Scholes model with the following key assumptions ranging from: Stock price, \$0.56 - \$0.75, Exercise price, \$0.75 - \$0.79, Term 5 years, Volatility 158% - 159%, Discount rate, 2.8% - 2.9%. During the nine months ended September 30, 2018, \$33,781 of expenses was recorded related to the above options and warrants.

The weighted average remaining contractual life is approximately 3.3 years for stock options outstanding on September 30, 2018. At September 30, 2018 and December 31, 2017, there was \$97,500 and \$232,500, respectively, in intrinsic value of outstanding stock options.

Summary stock warrant information is as follows:

	Aggregate Number	Aggregate Exercise Price	Exercise Price Range	Weighted Average Exercise Price
Outstanding, December 31, 2017	-	\$ -	-	-
Granted	25,000	18,750	\$ 0.75	\$ 0.75
Exercised	-	-	-	-
Cancelled, forfeited or expired	-	-	-	-
Outstanding, September 30, 2018	25,000	\$ 18,750	\$ 0.75	\$ 0.75
Exercisable, September 30, 2018	25,000	\$ 18,750	\$ 0.75	\$ 0.75

In September 2018, the Company granted 25,000 stock warrants to a debt holder with a five-year term and an exercise price of \$0.75. The warrants are fully vested at the time of issuance.

The Company valued the options issued during the nine months ended September 30, 2018 using the Black-Scholes model with the following key assumptions ranging from: Stock price, \$0.74, Exercise price, \$0.75, Term 5 years, Volatility 169%, Discount rate, 2.8% . During the nine months ended September 30, 2018, the fair value of \$17,476 was recorded as a note payable discount and will be amortized over the life of the note payable.

The weighted average remaining contractual life is approximately 4.8 years for stock options outstanding on September 30, 2018. At September 30, 2018 and December 31, 2017, there was \$0 and \$0, respectively, in intrinsic value of outstanding stock warrants.

## **NOTE 10 – COMMITMENTS AND CONTINGENCIES**

### *Litigation*

From time to time, SMG may be subject to routine litigation, claims, or disputes in the ordinary course of business. In the opinion of management; no pending or known threatened claims, actions or proceedings against SMG are expected to have a material adverse effect on SMG's financial position, results of operations or cash flows. SMG cannot predict with certainty, however, the outcome or effect of any of the litigation or investigatory matters specifically described above or any other pending litigation or claims. There can be no assurance as to the ultimate outcome of any lawsuits and investigations.

### *Leases*

Effective July 15, 2017, we leased a facility in Midland, Texas for \$3,000 per month for approximately 2,400 square feet of space and a shared yard with several acres of storage area. The Midland lease was for a period of 3 years and expired on July 15, 2020. This lease was cancelled with mutual consent effective January 2018.

On January 22, 2018, MG Cleaners, the Company's subsidiary entered into a two-year lease for a 6,500 square foot building on approximately 1.5 acres in Odessa, Texas providing for three lease extensions totaling six additional years. The initial rent is \$6,500 per month and increases to \$8,500 per month at the seventh month of the lease. After the first-year anniversary, the Lessee may cancel the lease with 30 days' notice to Lessor. Lease extensions are at the discretion of the Lessee and have increases. The Company is responsible for the repair, maintenance, and insurance of the facility.

On June 1, 2018, MG Cleaners, the Company's subsidiary entered into an operating lease for a new location in Alice, Texas. The lease is a term of six months commencing on June 1, 2018 with monthly payments due of \$2,500. A deposit of \$1,250 was paid with the commencement of the lease.

On June 18, 2018 the Company entered into an operating lease for corporate office space in Houston, Texas. The lease is a term of three years commencing on August 1, 2018 with monthly payments due of \$2,620. A deposit was due in July 2018 for \$5,240.

In July 2018, the Company entered into an agreement to purchase a residential property in Odessa, Texas. The contract is subject to the Company securing financing for the purchase. Related to this property the Company entered into a lease for a 90-day period with total lease payments of \$9,000 and a \$5,000 deposit both of which were paid at the commencement of this term. The Company is currently using the property on a month to month basis with total cost of \$3,000 per month.

Rent expense for the nine months ended September 30, 2018 and 2017 for these leases amounted to \$114,010 and \$15,887, respectively.

Future minimum lease payments in accordance with the above leases is \$53,860, \$169,440, 60,940 and \$7,860 for the fiscal years ending December 31, 2018, 2019, 2020 and 2021, respectively.

#### **NOTE 11 – RELATED PARTY TRANSACTIONS**

On February 12, 2018, the Company's wholly-owned subsidiary, MG Cleaners LLC ("MG") entered into an Intellectual Property Sale Agreement ("Agreement") with Stephen Christian, MG's President, for the purchase of RigHands™ an industrial strength hand cleaner product line. RigHands™ is a trademark branded product which is focused on the oilfield and industrial markets. MG issued a promissory note to Mr. Christian for the purchase price in the amount of

\$150,000. In connection with the Agreement, Mr. Christian agreed that he shall promptly, from time to time, fully inform and disclose to MG in writing all inventions, copyrightable material, designs, improvements and discoveries of any kind which Mr. Christian now has made, conceived or developed (including prior to the date of this Agreement), or which Mr. Christian may later make, conceive or develop, during the period of Mr. Christian's employment with MG, which pertain to or relate to MG's business or any of the work or business carried on by MG. In addition to the foregoing, the Agreement sets forth that all Inventions shall be the sole and exclusive property of MG, whether or not fixed in a tangible medium of expression. Mr. Christian also assigned all rights in all Inventions and in all related patents, copyrights and trademarks, trade secrets and other proprietary rights therein to MG. Mr. Christian further agreed that any copyrightable material shall be deemed to be "works made for hire" and that MG shall be deemed the author of such works under the United States Copyright Act, provided that in the event and to the extent such works are determined not to constitute "works made for hire", Mr. Christian has irrevocably assigned and transferred to MG all right, title and interest in such works.

On September 19, 2017, in connection with the acquisition, we issued 4,578,276 shares and agreed to pay \$300,000 in cash to the Managing MG Member, Stephen Christian, payable with \$250,000 at closing and the remaining \$50,000 paid upon the completion of the Company's sale of a minimum of \$500,000 of its securities in a private offering to investors. During the nine months ended September 30, 2018, \$29,000 was repaid leaving, \$21,000 as still due. The amounts are included in Accounts Payable related party.

On October 31, 2017, and made effective September 20, 2017, the Company entered into an employment agreement with Stephen Christian, the former Managing Member, and current President, of our subsidiary MG Cleaners LLC. The term is for three years with a monthly salary of \$8,333 for the first six months of the effective date and \$10,000 a month thereafter. Other terms include payment of Mr. Christian's health care insurance, use of a company truck and other customary benefits. Termination without cause, as defined in the agreement, grants Mr. Christian six months' severance pay.

On October 31, 2017, and made effective October 1, 2017, the Company entered into an employment agreement with Matthew Flemming, our Chief Executive Officer. The term is for three years with a monthly salary of \$15,000 for the period. The terms of the agreement also include providing health care, auto allowance of \$750 per month if a car is not provided by the Company, and other customary benefits. Termination without cause, as defined in the agreement, grants Mr. Flemming six months severance pay.

During the nine months ended September 30, 2018, Stephen Christian advanced \$43,100 to the Company, was repaid \$30,850 by the Company, and paid \$8,034 of expense on behalf of the Company. As of September 30, 2018, \$20,284 remains outstanding with no specific repayment terms or stated interest rate.

**NOTE 12 – SUBSEQUENT EVENTS**

Subsequent to September 30, 2018, the Company issued 30,000 shares of common stock in exchange for consulting services to be provided over a one-year period of time.

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

### **Cautionary Note Regarding Forward-Looking Statements**

*Unless otherwise indicated, the terms “SMG Industries,” “SMG,” the “Company,” “we,” “us,” and “our” refer to SMG Industries Inc., and our wholly-owned subsidiary MG Cleaners LLC. In this Quarterly Report on Form 10-Q, we may make certain forward-looking statements, including statements regarding our plans, strategies, objectives, expectations, intentions and resources that are made pursuant to the safe-harbor provisions of the Private Securities Litigation Reform Act of 1995.*

*The statements contained in this Quarterly Report on Form 10-Q that are not historical fact are forward-looking statements (as such term is defined in the Private Securities Litigation Reform Act of 1995), within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, and Section 27A of the Securities Act of 1933, as amended. Forward-looking statements may be identified by the use of forward-looking terminology such as “should,” “could,” “may,” “will,” “expect,” “believe,” “estimate,” “anticipate,” “intends,” “continue,” or similar terms or variations of those terms or the negative of those terms. These statements appear in a number of places in this Form 10-Q and include statements regarding the intent, belief or current expectations of SMG Industries Inc. Forward-looking statements are merely our current predictions of future events. Investors are cautioned that any such forward-looking statements are inherently uncertain, are not guaranties of future performance and involve risks and uncertainties. Actual results may differ materially from our predictions. There are a number of factors that could negatively affect our business and the value of our securities, including, but not limited to, fluctuations in the market price of our common stock; changes in our plans, strategies and intentions; changes in market valuations associated with our cash flows and operating results; the impact of significant acquisitions, dispositions and other similar transactions; our ability to attract and retain key employees; changes in financial estimates or recommendations by securities analysts; asset impairments; decreased liquidity in the capital markets; and changes in interest rates. Such factors could materially affect our Company's future operating results and could cause actual events to differ materially from those described in forward-looking statements relating to our Company. Although we have sought to identify the most significant risks to our business, we cannot predict whether, or to what extent, any of such risks may be realized, nor is there any assurance that we have identified all possible issues that we might face. We assume no obligation to update our forward-looking statements to reflect new information or developments. We urge readers to carefully review and consider the various disclosures we make in this report and our other reports filed with the Securities and Exchange Commission (“SEC”) that attempt to advise interested parties of the risks, uncertainties and other factors that may affect our business including the risk factors disclosed in our Annual Report on Form 10-K for the year ended December 31, 2017.*

### **Overview**



We were incorporated under the laws of the State of Delaware on January 7, 2008. From inception through December 31, 2014, our primary business purpose was to stockpile indium, a specialty metal that is used as a raw material in a wide variety of consumer electronics manufacturing applications. As of December 31, 2014, we sold all of the indium from our stockpile. As a result, at such time we were no longer in the business of purchasing and selling indium. In December 2015, our Board of Directors approved a cash distribution to our stockholders in the amount of \$1.75 per share (or approximately \$3.05 million). The distribution was classified as a return of capital for tax purposes. The aggregate cash distribution was recorded against additional paid in capital for accounting purposes. During the third quarter of 2015, our Board of Directors approved a program to repurchase up to \$650,000 worth of our shares of common stock. In connection therewith, we repurchased 139,070 shares of our common stock in September 2015 for approximately \$200,000, or \$1.40 per share. After completion of the share repurchase program and immediately prior to the Acquisition, we had 1,744,569 shares issued and outstanding.

On September 19, 2017, we entered into an exchange agreement with all of the members of MG Cleaners, LLC (“MG”) pursuant to which we acquired one hundred percent of the issued and outstanding membership interests of MG (“MG Membership Interests”) pursuant to which MG became our wholly-owned subsidiary. In connection with the acquisition, we issued 4,578,276 shares and agreed to pay \$300,000 in cash (\$250,000 in cash at closing) to the MG Members.

On September 27, 2018, we entered into an asset purchase and sale agreement for the acquisition of approximately 850 downhole oil tools (“Assets”). In connection with the acquisition of the Assets, we issued an aggregate of 1,000,000 shares of our common stock to the sellers. The Assets consist of approximately 850 bottom hole assembly oil tools which include stabilizers, crossovers, drilling jars, roller reamers and bit subs, including both non-mag and steel units, commonly rented to directional drilling companies.

As a result of our acquisition of MG Cleaners LLC, we are now an emerging growth oilfield service business focused on the drilling market segment in the domestic United States pursuant to which we offer the following products and services: (i) product sales for the oilfield industry including degreasers, surfactants and detergents focused oilfield cleaning, industrial cleaning, fleet and equipment cleaning; (ii) equipment sales for the oilfield industry including centrifugal pumps and industrial pressure washers; (iii) parts sales for our installed base on equipment, including water guns, hoses and fittings; (iv) service crews for the oilfield industry related to drilling rig wash and on location equipment repair, and (v) rentals of bottom hole assembly tools including stabilizers and crossovers rented by directional drillers for their drilling applications.

### ***Recent Accounting Pronouncements***

Effective January 1, 2018, the Company adopted the provisions of ASU 2017-01 – “Business Combinations (Topic 805): Clarifying the Definition of a Business” (“ASU 2017-01”). ASU 2017-01 provides revised guidance to determine when an acquisition meets the definition of a business or alternatively should be accounted for as an asset acquisition. ASU 2017-01 requires that, when substantially all of the fair value of an acquisition is concentrated in a single identifiable asset or a group of similar identifiable assets, the asset or group of similar identifiable assets does not meet the definition of a business and therefore is required to be accounted for as an asset acquisition. Transaction costs will continue to be capitalized for asset acquisitions and expensed as incurred for business combinations. ASU 2017-01 will result in most, if not all, of the Company’s post January 1, 2018 acquisitions being accounted for as asset acquisitions because substantially all of the fair value of the gross assets the Company acquires are concentrated in a single asset or group of similar identifiable assets. For asset acquisitions that are “owner occupied” (meaning that the seller either is the tenant or controls the tenant) the purchase price, including capitalized acquisition costs, will be allocated to land and building based on their relative fair values with no value allocated to intangible assets or liabilities. For asset acquisitions where there is a lease in place but not “owner occupied” the Company will allocate the purchase price to tangible assets and any intangible assets acquired or liabilities assumed based on their relative fair values.

The Financial Accounting Standards Board, or FASB, has issued Accounting Standards Update No. 2014-09, Revenue from contracts with Customers (Topic 606), or ASU 606. ASU 606 provides guidance outlining a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers in an amount that supersedes most current revenue recognition guidance. This guidance requires us to recognize revenue when we transfer promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. We are required to adopt ASU 606 at the beginning of our first quarter of fiscal 2018. The new guidance requires enhanced disclosures, including revenue recognition policies to identify performance obligations to customers and significant judgments in measurement and recognition. We have implemented the new standard using the modified retrospective approach effective January 1, 2018. The adoption of this guidance did not have a material impact on our consolidated financial statements within any accounting period presented.

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842) (ASU 2016-02). Under ASU No. 2016-2, an entity will be required to recognize right-of-use assets and lease liabilities on its balance sheet and disclose key information about leasing arrangements. ASU No. 2016-02 offers specific accounting guidance for a lessee, a lessor and sale and leaseback transactions. Lessees and lessors are required to disclose qualitative and quantitative information about leasing arrangements to enable a user of the financial statements to assess the amount, timing and uncertainty of cash flows arising from leases. For public companies, ASU No. 2016-02 is effective for annual reporting periods beginning after December 15, 2018, including interim reporting periods within that reporting period, and requires a modified retrospective adoption, with early adoption permitted. The Company is currently evaluating the provisions of the guidance and assessing its impact on the Company's consolidated financial statements and disclosure.

### *Critical Accounting Policies and Estimates*

The preparation for financial statements and related disclosures in conformity with United States generally accepted accounting principles (U.S. GAAP) requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. For a description of our significant accounting policies, see the Company's audited financial statements for the year ended December 31, 2017, included in the Company's Form 10-K as filed with the SEC on April 2, 2018. Of these policies, the following are considered critical to an understanding of the Company's condensed financial statements as they require the application of the most difficult, subjective and complex judgments: (1) Use of Estimates, (2) Share-Based Payment Arrangements, and (3) Income Taxes. Management will base its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances. Actual results could differ from these estimates under different assumptions or conditions.

## Results of Operations

### *Three Months Ended September 30, 2018 Compared to Three Months Ended September 30, 2017*

Our sales for the three months ended September 30, 2018 were \$1,026,949, an increase of \$406,865, or 65%, from \$620,084 for the three months ended September 30, 2017. The increase in revenue for the three months ended September 30, 2018 is primarily attributable to an increased in customer activity driven by an increase in the drilling rig count in the geographic area we serve, additional services that we have added including a rental fleet of equipment and our rig supply service as well as adding new customers. This increase in drilling rig count and customer activity, added services and new customers generated a higher volume of product sales, equipment and parts sales, rentals and rig wash service revenues during the 2018 period.

During the three months ended September 30, 2018, cost of sales increased as a percentage of sales to 56.7% of revenues, or \$582,922, compared to 37.8% of revenues or \$234,374, for the comparable 2017 period. The increase in cost of sales as a percentage of revenues is primarily the result of higher direct costs in cost of sales, including higher wages from added service crews in West Texas, wage inflation with direct personnel, increased rent expense for labor force, increased freight, shipping and fuel expenses along with increased depreciation expense from added equipment with our rental fleet.

For the three months ended September 30, 2018, selling, general and administrative expenses decreased to \$667,277, a decrease of \$107,089, from \$774,366 for the three months ended September 30, 2017. This decrease in selling, general and administrative expenses in the third quarter of 2018 was primarily due to the one-time expenses associated with our acquisition of MG Cleaners in the third quarter of 2017. This decrease in selling, general and administrative expenses in the third quarter of 2018 was partially offset by higher costs associated with being a public reporting company including accounting and legal fees, higher wages from added managerial and service crew personnel in West Texas and our new facility in South Texas, increased insurance and travel expense.

Other expense, net was \$56,444, an increase of \$32,474 for the three months ended September 30, 2018 compared to the same period in 2017. The increase in other expense during the three months ended September 30, 2018 resulted from higher interest expense with our revolving line of credit, funding advance agreements and notes payable, compared to the three months ended September 30, 2017.

During the three months ended September 30, 2018 we incurred a net loss of \$279,694, or \$0.03 per basic and diluted earnings per share. For the three months ended September 30, 2017 we incurred a net loss of \$412,626 or \$0.19 per basic and diluted earnings per share. The decrease in our net loss in the quarter ended September 30, 2018 resulted

from increased revenues, lower selling, general and administrative expenses and the absence of one-time acquisition charges related to our acquisition of MG Cleaners in the year ago comparable period. The basic weighted average number of shares of common stock outstanding was 10,336,470 and 2,176,200 for the three months ended September 30, 2018 and 2017, respectively.

***Nine Months Ended September 30, 2018 Compared to Nine Months Ended September 30, 2017***

Our sales for the nine months ended September 30, 2018 were \$3,192,432, an increase of \$1,389,946, or 77%, from \$1,802,486 for the nine months ended September 30, 2017. The increase in revenue for the nine months ended September 30, 2018 is primarily attributable to increased customer activity driven by an increase in the drilling rig count in the geographic area we serve, additional services that we have added including a rental fleet of equipment and our rig supply service as well as adding new customers. This increase in drilling rig count and customer activity, added services and new customers generated a higher volume of product sales, equipment and parts sales, rentals and rig wash service revenues during the 2018 period.

During the nine months ended September 30, 2018, cost of sales increased as a percentage of sales to 54.5% of revenues or \$1,742,431, compared to 52.9% of revenues or \$953,836 for the comparable 2017 period. The slight increase in cost of sales as a percentage of revenues is primarily the result of higher costs within cost of sales including higher wages from added service crews in West Texas, wage inflation with direct personnel, increased rent expense for labor force, increased freight, shipping and fuel expenses along with increased depreciation expense from added equipment with our rental fleet, partially offset by a more favorable sales mix driven by higher product sales, part sales, rentals and service revenues.

For the nine months ended September 30, 2018, selling, general and administrative expenses increased to \$1,682,259, an increase of \$568,325, from \$1,113,934 for the nine months ended September 30, 2017. This increase in selling, general and administrative expenses in 2018 was primarily due to higher costs associated with being a public reporting company including accounting and legal fees, higher wages from added managerial and service crew personnel in West Texas and our new facility in South Texas, increased insurance and travel expense.

Other expense, net was \$175,808, an increase of \$98,676 for the nine months ended September 30, 2018 compared to the same period in 2017. The increase in other expense during the nine months ended September 30, 2018 resulted from higher interest expense with our revolving line of credit, funding advance agreements and notes payable, compared to the nine months ended September 30, 2017.

During the nine months ended September 30, 2018 we incurred a net loss of \$408,066, or \$.04 per basic and diluted earnings per share. For the nine months ended September 30, 2017 we realized net loss of \$342,416 or \$0.21 per basic and diluted earnings per share. The increase in net loss during the nine month period ended September 30, 2018 resulted from revenues that generated lower gross margins as a percentage of sales, higher selling, general and administrative expenses associated with becoming a publicly reporting entity and wage increases including from West Texas and South Texas facilities expansion, increased insurance expense and higher interest expense. The basic weighted average number of shares of common stock outstanding was 9,986,415 and 1,665,192 for the nine months ended September 30, 2018 and 2017, respectively.

### ***Liquidity and Capital Resources***

As of September 30, 2018, our total assets were \$2,365,163, comprised of \$251,208 in cash, \$645,540 in accounts receivable, \$148,495 in inventory, \$42,300 in assets held for sale, other prepaid expenses of \$74,779, \$1,026,575 in net property and equipment, and \$176,266 in other assets and Intangible assets, net of \$6,275. This is an increase in total assets of \$1,509,750 over the total assets at December 31, 2017 of \$855,413. As of September 30, 2018, we have a working capital deficit of \$552,890, compared to a working capital deficit of \$442,542 at December 30, 2017.

During the nine months ended September 30, 2018, we had cash used in operating activities of \$179,466 compared to \$30,214 of cash used in operating activities for the nine months ended September 30, 2017. The net cash used in operating activities for the nine months ended September 30, 2018 consists primarily of our net loss and changes in accounts receivable, account payable, related party and other current assets, partially offset by increases to amortization of deferred financing costs, accounts payable, depreciation and share based payments. During the nine months ended September 30, 2017, we had cash used in operating activities of \$30,214, primarily the result of our net loss and changes in accounts receivable, inventory and accrued expenses, partially offset by changes in accounts payable, share based payments and depreciation and amortization.

During the nine months ended September 30, 2018, we had net cash used in investing activities of \$81,869 from cash paid for the purchase of equipment during the period offset by proceeds from the sale of equipment. There was \$21,164 in net cash provided by investing activities in the comparable 2017 period resulting from cash received from the September 2017 reverse acquisition.

Net cash provided by financing activities was \$426,973 for the nine months ended September 30, 2018, compared to net cash provided by financing activities of \$84,589 for the nine months ended September 30, 2017. Our net cash provided by financing activities for the nine months ended September 30, 2018 resulted primarily from the proceeds from sales of our common stock of \$276,044, the proceeds from issuance of convertible notes payable of \$250,000, proceeds from the issuance of notes payable of \$211,243 and the net proceeds from our line of credit of \$134,937, which was partially offset by payments on notes payable of \$367,572 and payments for MG Cleaners acquisition payable related party of \$29,000 and payments for capital lease liabilities of \$24,275.

Our net increase in cash for the nine months ended September 30, 2018 was \$165,638, as compared to a net cash increase of \$75,539 in the nine months ended September 30, 2017.

At September 30, 2018 and December 31, 2017, we had cash and cash equivalents of \$251,208 and \$85,570, respectively. Based on the company's current revenue and gross margin, along with anticipated industry trends and continued sales growth rates, we believe cash flow will improve in the fourth quarter of 2018.

Our cash flows from operations and our available capital, including the line of credit of \$1 million established in May 2017, are presently sufficient to sustain our current level of operations for the next twelve months. Although we do not believe we will need to raise additional funds in order to meet the expenditures required for operating our business through November 9, 2019, we may need to raise additional capital if we encounter unforeseen costs or if cash is needed for any corporate initiatives such as acquisitions of products or other companies. Although, currently we are not a party to any binding agreement with respect to potential investments in, or acquisitions of businesses, we may enter into these types of arrangements in the future, which could also require us to seek additional equity or debt financing. Additional funds may not be available on terms favorable to us or at all.

Historically, we have funded our capital expenditures internally through cash flow, leasing and financing arrangements. We intend to continue to fund future capital expenditures through cash flow, as well as through capital available to us pursuant to our line of credit, capital from the sale of our equity securities and through commercial leasing and financial programs.

On May 31, 2017, MG Cleaners entered into a \$1 million revolving accounts receivable financing facility with Crestmark Bank. The financial facility provides for MG to have access to the lesser of (i) \$1 million or (ii) 85% of the net amount of eligible receivables (as defined in the financing agreement). The financing facility is paid for by the assignment of MG's accounts receivable to Crestmark Bank and is secured by MG's assets. The financing facility has an interest rate of 7.25% in excess of the prime rate reported by the Wall Street Journal per annum, with a floor minimum rate of 11.5%. Interest and maintenance fees will be calculated on the higher of the average monthly loan balance from the prior month or a minimum average loan balance of \$200,000. The financing facility is for an initial term of two-years and will renew on a year to year basis, unless terminated in accordance with the terms of the financing facility. Crestmark has been granted a senior security interest in all of MG's assets and the Company has agreed to guaranty all amounts due under the facility upon an event of default, however, the guaranty does not restrict the Company's ability to incur debt in connection with financing its operations.

Pursuant to the terms of the financing facility, MG is not allowed to incur additional indebtedness, to create liens or other encumbrances, or to sell or otherwise dispose of MG's assets, without the prior written consent of Crestmark. The Crestmark facility does not restrict the Company's ability to finance its operations through the sale of its equity securities.

On September 27, 2018, the Company issued a secured convertible note to an accredited investor for \$250,000 for working capital. The terms of the convertible note are an 8 ½ percent per annum interest rate, payable quarterly in



cash, two year note maturity, convertible any time during the two year period the note is outstanding at a fixed conversion price of \$0.50 per share. The security interest is a general interest subordinate to the Company's existing secured debt and line of credit.

On June 30, 2018 MG received \$250,000 in return for an assignment and transfer to Libertas Funding LLC of a specified percentage of the proceeds of each future sale made by MG, collectively "Future Receipts" until Libertas has received the purchased amount of \$347,500. Pursuant to the terms of the Libertas agreement, MG cannot sell any portion of its future sales that have previously been sold to Libertas, however, it does not restrict the Company's ability to incur any additional debt, or sell its equity securities, in connection with financing its operations. The final payment to Libertas will be made in April 2019, at which point the Libertas agreement shall terminate by its terms. In connection with this transaction, the remaining amounts due to Libertas at June 30, 2018 pursuant to the December 18, 2017 transaction with Libertas described below, were repaid in full.

On December 18, 2017 MG received \$195,000 in return for an assignment and transfer to Libertas Funding LLC of a specified percentage of the proceeds of each future sale made by MG, collectively "Future Receipts" until Libertas has received the purchased amount of \$278,000. Pursuant to the terms of the Libertas agreement, MG cannot sell any portion of its future sales that have previously been sold to Libertas, however, it does not restrict the Company's ability to incur any additional debt, or sell its equity securities, in connection with financing its operations.

On August 14, 2017 MG refinanced one of its notes with a community bank for \$66,348. The unsecured note bears an interest rate of 7.25% per annum, has 47 monthly payments of \$1,400, with a balloon payment of \$12,086 at maturity on August 1, 2021. This note does not restrict the Company's ability to incur any additional indebtedness, or the sale of its equity securities, in connection with financing its operations.

### **Off-Balance-Sheet Transactions**

We are not party to any off-balance-sheet transactions.

### **Contractual Commitments**

None

### **Item 3. Qualitative and Quantitative Disclosures about Market Risk.**

We are a smaller reporting company and, therefore, we are not required to provide information required by this item.

### **Item 4. Controls and Procedures.**

*Evaluation of Disclosure Controls and Procedures:* Our management carried out an evaluation of the effectiveness and design and operation of our disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) under the Securities and Exchange Act of 1934, as amended (the Exchange Act). Based on that evaluation, our Chief Executive Officer and interim Chief Financial Officer has concluded that, at September 30, 2018, such disclosure controls and procedures were not effective.

Disclosure controls and procedures are controls and other procedures that are designed to ensure that information required to be disclosed in our reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that the information required to be disclosed in our reports filed or submitted under the Exchange Act is accumulated and communicated to management including our Chief Executive Officer and Interim Chief Financial Officer, or persons performing similar functions, as appropriate, to allow timely decisions regarding required disclosure.

*Limitations on the Effectiveness of Controls:* Our disclosure controls and procedures are designed to provide reasonable, not absolute, assurance that the objectives of our disclosure control system are met. Because of inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues, if any, within a company have been detected. Our Chief Executive Officer and Interim Chief Financial Officer has concluded, based on his evaluation as of the end of the period covered by this Quarterly Report that our disclosure controls and procedures were not sufficiently effective to provide reasonable assurance that the objectives of our disclosure control system were met.

***Changes in Internal Control over Financial Reporting***

There have been no changes in our internal controls over financial reporting that occurred during the nine months period ended September 30, 2018 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## **PART II – OTHER INFORMATION**

### **Item 1. Legal Proceedings.**

None.

### **Item 1A. Risk Factors.**

We are a smaller reporting company and, therefore, we are not required to provide information required by this item.

### **Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.**

During the three month period ended September 30, 2018, the Company issued a convertible promissory note (“Note”) in the principal amount of \$250,000 to an individual accredited investor. The Note is convertible at anytime after the date of issuance into shares of the Company’s common stock at a conversion price of \$.50 per share. The Note was issued to the investor in a private transaction in reliance upon exemptions from registration pursuant to Section 4(2) of the Securities Act and the rules and regulations promulgated thereunder. Proceeds from the sales of our convertible promissory note were used for working capital and general corporate purposes.

### **Item 3. Defaults upon Senior Securities.**

None.

### **Item 4. Mine Safety Disclosures.**

Not applicable.

### **Item 5. Other Information.**

None.

**Item 6. Exhibits.**

**Exhibit No. Description of Document**

<u>31.1*</u>	<u>Certification of Chief Executive Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934.</u>
<u>31.2*</u>	<u>Certification of Chief Financial Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934.</u>
<u>32.1*</u>	<u>Certification pursuant to Section 1350 of Chapter 63 of Title 18 of the United States Code (18 U.S.C. §1350).</u>
<u>32.2*</u>	<u>Certification pursuant to Section 1350 of Chapter 63 of Title 18 of the United States Code (18 U.S.C. §1350).</u>
101.ins	XBRL Instance Document
101.sch	XBRL Taxonomy Extension Schema Document
101.cal	XBRL Taxonomy Calculation Linkbase Document
101.def	XBRL Taxonomy Definition Linkbase Document
101.lab	XBRL Taxonomy Label Linkbase Document
101.pre	XBRL Taxonomy Presentation Linkbase Document

\* A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

**SIGNATURES**

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

**SMG Industries Inc.**  
(Registrant)

November 9, 2018 /s/ Matthew C. Flemming  
Date **Matthew C. Flemming**  
**Chief Executive Officer and Interim Chief Financial Officer**  
(Principal Executive Officer and Principal Financial Officer)