

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

FORM 10-Q

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

For the quarterly period ended September 30, 2019

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

For the transition period from _____ to _____

Commission file number: 001-37862

PHUNWARE, INC.

(Exact name of registrant as specified in its charter)

Delaware

26-4413774

(State or other jurisdiction of
incorporation or organization)

(I.R.S. Employer
Identification Number)

7800 Shoal Creek Blvd

Suite 230-S

Austin

TX

78757

(Address of principal executive offices)

(Zip Code)

Registrant's telephone number, including area code: **512-693-4199**

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, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input checked="" type="checkbox"/>
		Emerging growth company	<input checked="" type="checkbox"/>

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class:	Trading Symbol(s)	Name of Each Exchange on Which Registered:
Common Stock, par value \$0.0001 per share	PHUN	The NASDAQ Capital Market
Warrants to purchase one share of Common Stock	PHUNW	The NASDAQ Capital Market

As of November 11, 2019, 39,124,023 shares of common stock, par value \$0.0001 per share, were issued and outstanding.

EXPLANATORY NOTE

On December 26, 2018, Stellar Acquisition III, Inc., a Republic of the Marshall Islands corporation incorporated in December 2015 (“Stellar”), deregistered as a corporation in the Republic of the Marshall Islands and domesticated as a corporation incorporated under the laws of the State of Delaware upon the filing with and acceptance by the Secretary of State of Delaware of the certificate of domestication in accordance with Section 388 of the Delaware General Corporation Law (the “Domestication”). Upon the effectiveness of the Domestication, Stellar became a Delaware corporation and, upon the consummation of the Business Combination (as defined below), Stellar changed its corporate name to “Phunware, Inc.” (the “Successor” or the “Company”) and all outstanding securities of Stellar were deemed to constitute outstanding securities of the Successor. Also on December 26, 2018, STLR Merger Subsidiary Inc., a wholly-owned subsidiary of Stellar (“Merger Sub”), merged with and into Phunware, Inc. (“Phunware”), a corporation incorporated in Delaware in February 2009, with Phunware surviving the merger (the “Merger”) and becoming a wholly-owned subsidiary of the Successor (the “Business Combination” or “Reverse Merger and Recapitalization”). Upon the consummation of the Business Combination, Phunware changed its corporate name to “Phunware OpCo, Inc.” As of the open of trading on December 28, 2018, the common stock and warrants of the registrant began trading on the Nasdaq Capital Market as “PHUN” and “PHUNW,” respectively.

In connection with the consummation of the Business Combination, on December 26, 2018, the board of directors of the Successor approved a change of its fiscal year end from November 30 to a calendar year ending December 31, effective immediately. Accordingly, the new fiscal year will begin on January 1 and end on December 31.

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Report includes forward-looking statements. All statements other than statements of historical facts contained in this Report, including statements regarding our future results of operations and financial position, business strategy and plans, and our objectives for future operations, are forward-looking statements. The words “anticipate,” “believe,” “continue,” “could,” “estimate,” “expect,” “intend,” “may,” “might,” “plan,” “possible,” “potential,” “predict,” “project,” “should,” “will,” “would” and similar expressions that convey uncertainty of future events or outcomes are intended to identify forward-looking statements, but the absence of these words does not mean that a statement is not forward-looking.

The forward-looking statements contained in this Report are based on our current expectations and beliefs concerning future developments and their potential effects on us. Future developments affecting us may not be those that we have anticipated. These forward-looking statements involve a number of risks, uncertainties (some of which are beyond our control) and other assumptions that may cause actual results or performance to be materially different from those expressed or implied by these forward-looking statements. These risks and uncertainties include, but are not limited to, those factors described under the heading “Risk Factors.” Should one or more of these risks or uncertainties materialize, or should any of our assumptions prove incorrect, actual results may vary in material respects from those projected in these forward-looking statements. We undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as may be required under applicable securities laws. These risks and others described under “Risk Factors” may not be exhaustive.

By their nature, forward-looking statements involve risks and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future. We caution you that forward-looking statements are not guarantees of future performance and that our actual results of operations, financial condition and liquidity, and developments in the industry in which we operate may differ materially from those made in or suggested by the forward-looking statements contained in this Report. In addition, even if our results of operations, financial condition and liquidity, and developments in the industry in which we operate are consistent with the forward-looking statements contained in this Report, those results or developments may not be indicative of results or developments in subsequent periods.

PART I—FINANCIAL INFORMATION

Item 1. Financial Statements

Phunware, Inc.
Condensed Consolidated Balance Sheet
(In thousands, except per share information)

	September 30, 2019 <i>(Unaudited)</i>	December 31, 2018
Assets		
Current assets:		
Cash	\$ 68	\$ 844
Accounts receivable, net	3,241	3,606
Prepaid expenses and other current assets	637	272
Total current assets	3,946	4,722
Property and equipment, net	38	66
Goodwill	25,786	25,821
Intangible assets, net	315	521
Deferred tax asset – long term	64	64
Restricted cash	—	5,500
Other assets	276	187
Total assets	\$ 30,425	\$ 36,881
Liabilities, redeemable convertible preferred stock, and stockholders' equity		
Current liabilities:		
Accounts payable	\$ 9,563	\$ 9,890
Accrued expenses	3,978	3,028
Deferred revenue	3,168	2,629
PhunCoin deposits	1,202	—
Factored receivables payable	1,546	2,434
Short term notes payable - related party	—	1,993
Total current liabilities	19,457	19,974
Convertible note payable (see Note 5)	250	—
Deferred tax liability	64	64
Deferred revenue	4,167	5,622
Deferred rent	6	17
Total liabilities	23,944	25,677
Commitments and contingencies (see Note 6)	—	—
Redeemable convertible preferred stock, \$0.0001 par value (see Note 8)	—	5,377
Stockholders' equity		
Common stock, \$0.0001 par value (see Note 9)	4	3
Additional paid in capital	126,651	118,062
Accumulated other comprehensive loss	(454)	(418)
Accumulated deficit	(119,720)	(111,820)
Total stockholders' equity	6,481	5,827
Total liabilities, redeemable convertible preferred stock, and stockholders' equity	\$ 30,425	\$ 36,881

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

Phunware, Inc.
Condensed Consolidated Statements of Operations and Comprehensive Loss
(In thousands, except per share information)
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Net revenues	\$ 5,637	\$ 5,215	\$ 16,462	\$ 24,380
Cost of revenues	2,418	2,707	7,757	8,643
Gross profit	3,219	2,508	8,705	15,737
Operating expenses:				
Sales and marketing	705	1,241	2,094	4,573
General and administrative	3,754	2,937	11,699	10,744
Research and development	1,052	1,671	3,438	5,689
Total operating expenses	5,511	5,849	17,231	21,006
Operating loss	(2,292)	(3,341)	(8,526)	(5,269)
Other income (expense):				
Interest expense	(145)	(148)	(484)	(533)
Fair value adjustment for warrant liabilities	—	—	—	(54)
Impairment of digital currencies	—	—	—	(334)
Other income (expense)	11	(31)	28	(22)
Total other expense	(134)	(179)	(456)	(943)
Loss before taxes	(2,426)	(3,520)	(8,982)	(6,212)
Income tax expense	—	—	(5)	—
Net loss	(2,426)	(3,520)	(8,987)	(6,212)
Other comprehensive loss				
Cumulative translation adjustment	(33)	(16)	(36)	(43)
Comprehensive loss	\$ (2,459)	\$ (3,536)	\$ (9,023)	\$ (6,255)
Net loss per share, basic and diluted	\$ (0.06)	\$ (0.14)	\$ (0.25)	\$ (0.24)
Weighted-average shares used to compute net loss per share, basic and diluted	39,027	25,885	36,034	25,411

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

Phunware, Inc.
Condensed Consolidated Statements of Changes in Convertible Preferred Stock and Stockholders' Equity
(In thousands)
(Unaudited)

	Preferred Stock		Common Stock		Additional Paid-in Capital	Accumulated Deficit	Other Comprehensive Loss	Total Stockholders' Equity
	Shares	Amount	Shares	Amount				
Balance - June 30, 2019	—	—	38,902	\$ 4	\$ 125,854	\$ (117,294)	\$ (421)	\$ 8,143
Exercise of stock options, net of vesting of restricted shares	—	—	179	—	113	—	—	113
Vesting of restricted stock units	—	—	23	—	—	—	—	—
Stock-based compensation expense	—	—	—	—	684	—	—	684
Cumulative translation adjustment	—	—	—	—	—	—	(33)	(33)
Net loss	—	—	—	—	—	(2,426)	—	(2,426)
Balance - September 30, 2019	—	—	39,104	\$ 4	\$ 126,651	\$ (119,720)	\$ (454)	\$ 6,481
Balance - December 31, 2018	6	5,377	27,253	\$ 3	\$ 118,062	\$ (111,820)	\$ (418)	\$ 5,827
Exercise of stock options, net of vesting of restricted shares	—	—	298	—	165	—	—	165
Vesting of restricted stock units	—	—	23	—	—	—	—	—
Exercise of common stock warrants for cash	—	—	617	—	6,184	—	—	6,184
Exercise of common stock warrants pursuant to cashless provisions	—	—	10,913	1	(1)	—	—	—
Series A convertible preferred stock redeemed for cash	(6)	(5,377)	—	—	(863)	—	—	(863)
Waiver of sponsor promissory note originally issued in conjunction with Reverse Merger and Recapitalization	—	—	—	—	1,993	—	—	1,993
Stock-based compensation expense	—	—	—	—	1,111	—	—	1,111
Cumulative-effect adjustment resulting from the adoption of ASU 2014-09 (Note 2)	—	—	—	—	—	1,087	—	1,087
Cumulative translation adjustment	—	—	—	—	—	—	(36)	(36)
Net loss	—	—	—	—	—	(8,987)	—	(8,987)
Balance - September 30, 2019	—	—	39,104	\$ 4	\$ 126,651	\$ (119,720)	\$ (454)	\$ 6,481

	Preferred Stock		Common Stock		Additional Paid-in Capital	Accumulated Deficit	Other Comprehensive Loss	Total Stockholders' Equity
	Shares	Amount	Shares	Amount				
Balance - June 30, 2018	—	—	25,871	\$ 3	\$ 120,177	\$ (104,709)	\$ (374)	\$ 15,097
Exercise of stock options, net of vesting of restricted shares	—	—	22	—	11	—	—	11
Common stock issuance costs	—	—	—	—	(10)	—	—	(10)
Stock-based compensation expense	—	—	—	—	74	—	—	74
Cumulative translation adjustment	—	—	—	—	—	—	(16)	(16)
Net loss	—	—	—	—	—	(3,520)	—	(3,520)
Balance - September 30, 2018	—	—	25,893	\$ 3	\$ 120,252	\$ (108,229)	\$ (390)	\$ 11,636
Balance - December 31, 2017	—	—	24,559	\$ 3	\$ 110,265	\$ (102,017)	\$ (347)	\$ 7,904
Exercise of stock options, net of vesting of restricted shares	—	—	248	—	138	—	—	138
Issuance of common stock, net of issuance costs	—	—	1,086	—	9,564	—	—	9,564
Stock-based compensation expense	—	—	—	—	285	—	—	285
Cumulative translation adjustment	—	—	—	—	—	—	(43)	(43)
Net loss	—	—	—	—	—	(6,212)	—	(6,212)
Balance - September 30, 2018	—	—	25,893	\$ 3	\$ 120,252	\$ (108,229)	\$ (390)	\$ 11,636

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

Phunware, Inc.
Condensed Consolidated Statements of Cash Flows
(In thousands)
(Unaudited)

	Nine Months Ended September 30,	
	2019	2018
Operating activities		
Net loss	\$ (8,987)	\$ (6,212)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	46	48
Loss on sale of digital currencies	4	21
Bad debt expense	79	135
Amortization of acquired intangibles	205	293
Change in fair value of warrants	—	54
Impairment of digital currencies	—	334
Stock-based compensation	1,111	285
Changes in operating assets and liabilities:		
Accounts receivable	291	1,914
Prepaid expenses and other assets	(86)	166
Accounts payable	(327)	3,391
Accrued expenses	973	(6,322)
Warrant liability	—	450
Deferred revenue	792	(57)
Net cash used in operating activities	(5,899)	(5,500)
Investing activities		
Proceeds received from sale of digital currencies	88	913
Payments for note receivable	—	(462)
Capital expenditures	(18)	—
Net cash provided by investing activities	70	451
Financing activities		
Proceeds from convertible note	250	—
Proceeds from PhunCoin deposits	212	—
Net (repayments) proceeds from factoring agreement	(888)	255
Proceeds from common stock subscriptions, net of issuance costs	—	5,448
Proceeds from warrant exercises	6,092	—
Proceeds from exercise of options to purchase common stock	165	139
Series A convertible preferred stock redemptions and dividend payments	(6,240)	—
Deferred financing costs	—	(939)
Net cash (used in) provided by financing activities	(409)	4,903
Effect of exchange rate on cash and restricted cash	(38)	(40)
Net decrease in cash and restricted cash	(6,276)	(186)
Cash and restricted cash at the beginning of the period	6,344	308
Cash and restricted cash at the end of the period	\$ 68	\$ 122
Supplemental disclosure of cash flow information		
Interest paid	\$ 510	\$ 534
Common stock issuances from subscription payable, net of fair value convertible stock warrants issued	\$ —	\$ 9,604

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

Phunware, Inc
Notes to Unaudited Condensed Consolidated Financial Statements
(In thousands, except share and per share information)
(unaudited)

1. The Company and Basis of Presentation

The Company

Phunware, Inc. (the “Company”) is a provider of Multiscreen as a Service (MaaS) solutions, an integrated customer engagement platform that enables organizations to develop customized, immersive, branded mobile applications. The Company sells its services in vertical markets, including health care, retail, hospitality, transportation, sports, and entertainment. The Company enables brands to engage, manage, and monetize their anytime-anywhere mobile users. The Company’s MaaS technology is available in software development kit form for organizations developing their own application, via customized development services, and prepackaged solutions. Through its integrated mobile advertising platform of publishers and developers, the Company also maximizes mobile monetization through an advertising product suite including real-time bidding, publisher mediation and yield optimization, cross-platform ad creation, and dynamic ad serving. Founded in 2009, the Company is a Delaware corporation headquartered in Austin, Texas.

Business Combination

On February 27, 2018, Phunware entered into an Agreement and Plan of Merger, as amended (collectively, the “Merger Agreement”) with Stellar Acquisition III, Inc. (“Stellar”). On December 26, 2018, the Company consummated the transaction contemplated by the Merger Agreement (the “Reverse Merger and Recapitalization”). In connection with the closing of the Reverse Merger and Recapitalization, the registrant changed its name from Stellar Acquisition III, Inc. to Phunware, Inc. (“Successor”). Furthermore, the holders of Phunware’s preferred stock converted all of their issued and outstanding shares of preferred stock into shares of Phunware common stock at a conversion ratio of one share of common stock for each share of preferred stock (the “Preferred Stock Exchange”). Subject to the terms and conditions set forth in the Merger Agreement, at the effective time of the Reverse Merger and Recapitalization (the “Effective Time”): (i) all shares of Phunware common stock and preferred stock (the “Phunware Stock”) issued and outstanding immediately prior to the Effective Time (after giving effect to the Preferred Stock Exchange) converted into the right to receive the Stockholder Merger Consideration (as defined below); (ii) each outstanding warrant to acquire shares of Phunware Stock was cancelled, retired and terminated in exchange for the right to receive from the Successor a new warrant for shares of Successor common stock with its price and number of shares equitably adjusted based on the conversion of the shares of Phunware Stock into the Stockholder Merger Consideration, but with terms otherwise the same as the Phunware warrant (each, a “Replacement Warrant”); and (iii) each outstanding option to acquire Phunware Stock (whether vested or unvested) was assumed by the Successor and automatically converted into an option to acquire shares of Successor common stock, with its price and number of shares equitably adjusted based on the conversion of the shares of Phunware Stock into the Stockholder Merger Consideration (each, an “Assumed Option”). The shares of Successor common stock and the Transferred Sponsor Warrants (as defined in Amendment No. 5 to the Registration Statement on Form S-4 filed with the Securities and Exchange Commission (“SEC”) on November 13, 2018) transferred to Phunware stockholders are collectively referred to as “Stockholder Merger Consideration”. The per share Merger Consideration paid to Phunware Stockholders was 0.459 shares of Successor stock for each share of Phunware Stock.

Unless otherwise noted, the financial statements, footnotes, and basic and dilutive net loss per share presented give retroactive effect of the Reverse Merger and Recapitalization.

Basis of Presentation

The condensed consolidated financial statements have been prepared in conformity with generally accepted accounting principles in the United States (“U.S. GAAP”) and include the Company’s accounts and those of its wholly owned subsidiaries. All intercompany transactions and balances have been eliminated in consolidation.

The balance sheet at December 31, 2018 was derived from the Company’s audited consolidated financial statements, but these interim condensed consolidated financial statements do not include all the annual disclosures required by U.S. GAAP. These interim condensed consolidated financial statements should be read in conjunction with the Company’s audited consolidated financial statements and the notes thereto for the year ended December 31, 2018, which are referenced herein. The accompanying interim condensed consolidated financial statements as of September 30, 2019 and for the three and nine months ended September 30, 2019 and 2018, are unaudited. The unaudited interim condensed consolidated financial statements have been prepared on a basis consistent with the audited financial statements, pursuant to the rules and regulations of the SEC for

interim financial statements. Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. GAAP have been condensed or omitted pursuant to such rules and regulations. In the opinion of management, the financial statements reflect all adjustments (consisting of normal recurring adjustments) considered necessary to fairly state the Company's financial position as of September 30, 2019 and the results of operations for the three and nine months ended September 30, 2019 and 2018, and cash flows for the nine months ended September 30, 2019 and 2018. The results for the three and nine months ended September 30, 2019 are not necessarily indicative of the results to be expected for the year ending December 31, 2019 or for any future interim period.

Going Concern

Accounting Standards Codification ("ASC") Topic 205-40, Presentation of Financial Statements - Going Concern (ASC 205-40) requires management to assess the Company's ability to continue as a going concern for one year after the date the financial statements are issued. Under ASC 205-40, management has the responsibility to evaluate whether conditions and/or events raise substantial doubt about the Company's ability to meet future financial obligations as they become due within one year after the date the financial statements are issued. As required by this standard, management's evaluation shall initially not take into consideration the potential mitigating effects of management's plans that have not been fully implemented as of the date the financial statements are issued.

The Company has a history of operating losses and negative operating cash flows. Although the Company continues to focus on growing its revenues, it expects these trends to continue into the foreseeable future.

The Company's assessment included the preparation of a detailed cash forecast that included all projected cash inflows and outflows. Future plans may include utilizing existing credit lines and/or obtaining new credit lines, expanding credit lines, issuing additional equity securities, including the exercise of warrants, issuing notes payable, convertible notes payable or other debt instruments and reducing overhead expenses. Despite a history of successfully implementing similar plans to alleviate the adverse financial conditions, these sources of working capital are not currently assured, and consequently do not sufficiently mitigate the risks and uncertainties disclosed above. There can be no assurance that the Company will be able to obtain additional funding on satisfactory terms or at all. In addition, no assurance can be given that any such financing, if obtained, will be adequate to meet the Company's capital needs and support its growth. If additional funding cannot be obtained on a timely basis and on satisfactory terms, its operations would be materially negatively impacted. The Company has concluded there is substantial doubt about its ability to continue as a going concern through one year from the issuance date of these financial statements.

The accompanying condensed consolidated financial statements have been prepared on a going-concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. The accompanying condensed consolidated financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classification of liabilities that may result from uncertainty related to the Company's ability to continue as a going concern.

2. Summary of Significant Accounting Policies

There have been no changes in significant accounting policies as described in our Annual Report on Form 10-K filed with the SEC on March 20, 2019 for the year ended December 31, 2018, other than those described below.

Changes in Accounting Policies

On January 1, 2019, we adopted Financial Accounting Standards Board ("FASB") Accounting Standards Update ("ASU") No. 2014-09, *Revenue from Contracts with Customers*, as amended ("ASU 2014-09" or "ASC 606"), and have revised certain related accounting policies in connection with revenue recognition and deferred costs, as follows:

Revenue Recognition

Revenue is recognized upon transfer of control of promised products or services in an amount that reflects the consideration we expect to receive in exchange for those products or services. The Company enters into contracts that can include various combinations of products and services, which are generally capable of being distinct, distinct within the context of the contract, and accounted for as separate performance obligations.

Our contracts with customers often include promises to transfer multiple products and services to a customer. Determining whether products and services are considered distinct performance obligations that should be accounted for separately versus

together may require significant judgment. Judgment is required to determine whether a software license is considered distinct and accounted for separately, or not distinct and accounted for together with the software support and services and recognized over time.

Platform Subscriptions and Services Revenue

The Company derives subscription revenue from software license fees, which comprise subscription fees from customers licensing the Company's Software Development Kits (SDKs), which includes accessing the MaaS platform and/or MaaS platform data; application development service revenue from the development of customer applications, or apps, which are built and delivered to customers; and support fees. The Company's contract terms generally range from 6 to 60 months.

Subscription revenue from SDK licenses gives the customer the right to access the Company's MaaS platform. In accordance with ASC 606, a 'right to access' license is recognized over the license period.

Application development revenue is derived from development services around designing and building new applications or enhancing existing applications. The Company recognizes application development revenue upon the transfer of control of the completed application or application development services.

Support and maintenance revenue is comprised of support fees for customer applications, software updates, and technical support for application development services for a support term. Support revenue is recognized ratably over the support term.

When a customer contract consists of licensing, application development and support and maintenance, the Company considers these separate performance obligations, which would require an allocation of consideration.

From time to time, the Company also provides professional services by outsourcing employees to customers on a time and materials basis. Revenues from these arrangements are recognized as the services are performed. The Company bills professional service customers on the last day of the month in which the services are performed.

Application Transaction Revenue

The Company also generates revenue by charging advertisers to deliver advertisements (ads) to users of mobile connected devices. Depending on the specific terms of each advertising contract, the Company generally recognizes revenue based on the activity of mobile users viewing these ads. Fees from advertisers are commonly based on the number of ads delivered or views, clicks, or actions by users on mobile advertisements delivered, and the Company recognizes revenue at the time the user views, clicks, or otherwise acts on the ad. The Company sells ads through several offerings: cost per thousand impressions, on which advertisers are charged for each ad delivered to 1,000 consumers; cost per click, on which advertisers are charged for each ad clicked or touched on by a user; and cost per action, on which advertisers are charged each time a consumer takes a specified action, such as downloading an app. In addition, the Company generates application transaction revenue thru in-app purchases from an application on our platform.

In the normal course of business, the Company acts as an intermediary in executing transactions with third parties. The determination of whether revenue should be reported on a gross or net basis is based on an assessment of whether the Company is acting as the principal or an agent in its transactions with advertisers. Control is a determining factor in assessing principal versus agent relation. The determination of whether the Company is acting as a principal or an agent in a transaction involves judgment and is based on an evaluation of the terms of each arrangement. ASC 606 provides indicators of when an entity controls specified goods or services and is therefore acting as a principal. Based on the indicators of control, the Company has determined that it is the principal in all advertising arrangements because it is responsible for fulfilling the promise to provide the specified advertisements to advertising agencies or companies; establishing the selling prices of the advertisements sold; and credit risk with its advertising traffic providers. Accordingly, the Company acts as the principal in all advertising arrangements and therefore reports revenue earned and costs incurred related to these transactions on a gross basis.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make certain 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 revenue and expenses during the reporting period. Actual results could differ from those estimates. Items subject to the use of estimates include revenue recognition for contract completion, useful lives of long-lived assets including intangibles, valuation of intangible assets acquired in business combinations, reserves and certain accrued liabilities, determination of the provision for income taxes, and fair value of equity instruments.

Loss per Common Share

Basic loss per share is computed by dividing net loss by the weighted-average number of shares of common stock outstanding during the period. Restricted shares subject to repurchase provisions relating to early exercises under the Company's 2009 Equity Incentive Plan were excluded from basic shares outstanding. Diluted earnings per share is computed by giving effect to all potential shares of common stock, including those related to the Company's outstanding warrants and options, to the extent dilutive. For all periods presented, these shares were excluded from the calculation of diluted loss per share of common stock because their inclusion would have been anti-dilutive. As a result, diluted loss per common share is the same as basic loss per common share for those periods.

Fair Value of Financial Instruments

Authoritative guidance on fair value measurements defines fair value, establishes a consistent framework for measuring fair value, and expands disclosures for each major asset and liability category measured at fair value on either a recurring or non-recurring basis. Fair value is an exit price representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. As a basis for considering such assumptions, the authoritative guidance establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value as follows:

Level 1 — Observable inputs such as quoted prices in active markets.

Level 2 — Inputs, other than the quoted prices in active markets, that are observable either directly or indirectly.

Level 3 — Unobservable inputs in which there is little or no market data, which require the reporting entity to develop its own assumptions.

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

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

Concentrations of Credit Risk

The Company's financial instruments that are exposed to concentrations of credit risk consist primarily of cash and trade accounts receivable. Although the Company limits its exposure to credit loss by depositing its cash with established financial institutions that management believes have good credit ratings and represent minimal risk of loss of principal, its deposits, at times, may exceed federally insured limits. Collateral is not required for accounts receivable, and the Company believes the carrying value approximates fair value.

The following table sets forth the Company's concentration of revenue sources as a percentage of total net revenues.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Fox Networks Group	55 %	60 %	58 %	39 %
Fetch Media, Ltd.	— %	— %	— %	26 %

The following table sets forth the Company's concentration of accounts receivable, net of specific allowances for doubtful accounts.

	September 30, 2019	December 31, 2018
Fox Networks Group	50 %	66 %
Parkview Health	10 %	— %

The Company completed its contractual obligations under its statement of work with Fox Networks Group ("Fox") as of September 30, 2019. While the underlying master services agreement with Fox (setting forth general terms and conditions) remains in place, the Company does not have any active statements of work with Fox.

Cash, Cash Equivalents, and Restricted Cash

The Company considers all investments with a maturity of three months or less from the date of acquisition to be cash equivalents. The Company had cash equivalents as of September 30, 2019 and December 31, 2018.

As a result of the Series A Financing (defined and discussed further below), the Company had \$5,500 in restricted cash as of December 31, 2018. The Company did not have any restricted cash as of September 30, 2019.

Accounts Receivable and Reserves

Accounts receivable are presented net of allowances. The Company considers receivables past due based on the contractual payment terms. The Company makes judgments as to its ability to collect outstanding receivables and records a bad debt allowance for receivables when collection becomes doubtful. The allowances are based upon historical loss patterns, current and prior trends in its aged receivables, credit memo activity, and specific circumstances of individual receivable balances.

Accounts receivable consisted of the following:

	September 30, 2019	December 31, 2018
Accounts receivable	\$ 6,457	\$ 6,882
Less allowances for doubtful accounts	(3,216)	(3,276)
Balance	<u>\$ 3,241</u>	<u>\$ 3,606</u>

Allowance for doubtful accounts related to the Company's litigation with Uber was \$,089 as of September 30, 2019 and December 31, 2018. (See Note 6 for more discussion on the Uber litigation.)

Long-Lived Assets

In accordance with authoritative guidance, the Company periodically re-evaluates the original assumptions and rationale utilized in the establishment of the carrying value and estimated lives of all of its long-lived assets, including property and equipment. The determinants used for this evaluation include management's estimate of the asset's ability to generate positive income from operations and positive cash flow in future periods as well as the strategic significance of the asset to the Company's business objective. The Company did not recognize any impairment losses during the three and nine months ended September 30, 2019 or 2018, respectively.

Deferred Revenue

The Company's deferred revenue balance consisted of the following:

	September 30, 2019	December 31, 2018
Current deferred revenue		
Platform subscriptions and services revenue	\$ 3,076	\$ 1,506
Application transaction revenue	92	133
PhunCoin deposits	—	990
Total current deferred revenue	<u>\$ 3,168</u>	<u>\$ 2,629</u>
Non-current deferred revenue		
Platform subscriptions and services revenue	\$ 4,167	\$ 5,622
Total non-current deferred revenue	<u>\$ 4,167</u>	<u>\$ 5,622</u>
Total deferred revenue	<u>\$ 7,335</u>	<u>\$ 8,251</u>

Deferred revenue consists of customer billings or payments received in advance of the recognition of revenue under the arrangements with customers. The Company recognizes deferred revenue as revenue only when revenue recognition criteria are met. During the three months ended September 30, 2019, the Company recognized revenue of \$1,321 that was included in its deferred revenue balance as of June 30, 2019. During the nine months ended September 30, 2019, the Company recognized revenue of \$2,863 that was included in its deferred revenue balance as of December 31, 2018. Remaining performance obligations were \$7,956 as of September 30, 2019, of which the Company expects to recognize 41% as revenue over the next 12 months and the remainder thereafter.

During the second quarter of 2019, Phunware announced the launch of a separate token, Phun, in addition to its current token, PhunCoin. As a result of this expanded dual token structure, the Company believes the economic substance and business characteristics of all previously issued PhunCoin Rights changed such that PhunCoin would be the investment vehicle in the Company's blockchain-enabled data exchange. As a result, the Company has reclassified all PhunCoin deposits from deferred revenue to a separate line item, "PhunCoin deposits," on its condensed consolidated balance sheet as of September 30, 2019.

Emerging Growth Company

Section 102(b)(1) of the JOBS Act exempts emerging growth companies from being required to comply with new or revised financial accounting standards until private companies are required to comply with the new or revised financial accounting standards. The JOBS Act provides that a company can elect to opt out of the extended transition period and comply with the requirements that apply to non-emerging growth companies but any such an election to opt out is irrevocable. The Company has elected not to opt out of such extended transition period which means that when a standard is issued or revised and it has different application dates for public or private companies, the Company, as an emerging growth company, can adopt the new or revised standard at the time private companies adopt the new or revised standard.

Recently Adopted Accounting Policies

In May 2014, the FASB and the International Accounting Standards Board jointly issued Accounting Standards Update ("ASU") No. 2014-09 *Revenue from Contracts with Customers*, which is a comprehensive new revenue recognition standard that will supersede nearly all existing revenue recognition guidance under U.S. GAAP and International Financial Reporting Standards. The standard's core principle is that a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. In doing so, companies will need to use more judgment and make more estimates than under current authoritative guidance. These may include identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price, and allocating the transaction price to each separate performance obligation.

The Company elected to take advantage of the extended transition period provided in Securities Act Section 7(a)(2)(B) for complying with new or revised accounting standards. As a result, we adopted the ASU and related guidance as of January 1, 2019 using the modified retrospective method.

The most significant impact of the standard relates to the elimination of the requirement to have vendor specific objective evidence, or VSOE, of fair value to separate and recognize revenue for products and services in a contract. The elimination of the VSOE requirement causes a significant change to the timing of revenue recognition for multiple-element arrangements with our MaaS subscriptions, application development services and related support and maintenance on the development services that lacked VSOE of fair value. Under ASC 606, we recognize the application development services at the time of delivery to our customer and recognize the license subscription and support services ratably over the term of the subscription agreements. Under the previous standards, we recognized all revenue from those arrangements ratably over the term of the subscription or support agreements. Due to the complexity of our revenue contracts, the actual revenue recognition treatment required under the new standard depends on contract-specific terms and in some instances may vary from recognition at the time of delivery. The timing of revenue recognized from professional services, support and maintenance and hardware remains substantially unchanged.

In addition, Accounting Standards Codification Subtopic 340-40, *Other Assets and Deferred Costs - Contracts with Customers*, or ASC 340, requires us to recognize an asset for the incremental costs of obtaining a contract with a customer if our sales incentive programs meet the requirements for capitalization. Previously we recorded these incremental costs of obtaining a contract as commission expense when we booked a sales transaction; whereas under ASC 340, we record an asset for the incremental cost to obtain a contract and recognize the cost over the period commensurate with revenue recognition.

When implementing ASC 606, the Company applied the practical expedient to reflect the aggregate effect of all contracts that were not completed as of January 1, 2019 when identifying satisfied and unsatisfied performance obligations, determining the transaction price, and allocating the transaction price to the satisfied and unsatisfied performance obligations.

The following table sets forth the cumulative impact of the adoption of the new revenue standard for select condensed consolidated balance sheet line items:

	Balance at December 31, 2018	Adjustments due to ASU 2014-09	Balance at January 1, 2019
Assets:			
Prepaid expenses and other current assets	\$ 272	\$ 369	\$ 641
Liabilities:			
Deferred revenue short-term	\$ 2,629	\$ (465)	\$ 2,164
Deferred revenue long-term	\$ 5,622	\$ (253)	\$ 5,369
Stockholders' deficit:			
Accumulated deficit	\$ (111,820)	\$ 1,087	\$ (110,733)

The following tables summarize the significant impacts of adopting ASC 606 on our financial statements as of and for the three and nine months ended September 30, 2019:

Condensed Consolidated Balance Sheet

	September 30, 2019		
	As reported	Impact of Adoption	Balances Without Adoption of ASC 606
Assets:			
Prepaid expenses and other current assets	\$ 637	\$ (365)	\$ 272
Liabilities:			
Deferred revenue short-term	\$ 3,168	\$ 218	\$ 3,386
Deferred revenue long-term	\$ 4,167	\$ 154	\$ 4,321
Stockholders' deficit:			
Accumulated deficit	\$ (119,720)	\$ (737)	\$ (120,457)

Condensed Consolidated Statement of Operations

	Three Months Ended September 30, 2019		
	As reported	Impact of Adoption	Amounts Without Adoption of ASC 606
Net revenue	\$ 5,637	\$ 55	\$ 5,692
Sales and marketing	\$ 705	\$ (9)	\$ 696
Net loss	\$ (2,426)	\$ 64	\$ (2,362)
Net loss per share, basic and diluted	\$ (0.06)	\$ —	\$ (0.06)

Nine Months Ended September 30, 2019

	As reported	Impact of Adoption	Amounts Without Adoption of ASC 606
Net revenue	\$ 16,462	\$ 346	\$ 16,808
Sales and marketing	\$ 2,094	\$ (4)	\$ 2,090
Net loss	\$ (8,987)	\$ 350	\$ (8,637)
Net loss per share, basic and diluted	\$ (0.25)	\$ 0.01	\$ (0.24)

In connection with our adoption of ASC 606 on January 1, 2019, there was an increase to the Company's deferred income tax liabilities and an offsetting reduction in the valuation allowance recorded against deferred tax assets. No income tax impact was recorded to retained earnings upon adoption as a result of the full valuation allowance on United States deferred tax assets. During the three and nine months ended September 30, 2019, there is no income tax expense or benefit recorded as a result of the adoption of the ASC 606.

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash* ("ASU 2016-18), which provides amendments to current guidance to address the classification and presentation of changes in restricted cash in the statement of cash flows. We adopted ASU 2016-18 effective January 1, 2019 on a retrospective basis. The adoption of this guidance changed the presentation of restricted cash on the Company's condensed consolidated statement of cash flows for the nine months ended September 30, 2019. There was no impact to the Company's condensed consolidated statement of cash flows for the nine months ended September 30, 2018.

In August 2018, the SEC adopted the final rule under SEC Release No. 33-10532, "Disclosure Update and Simplification," amending certain disclosure requirements that were redundant, duplicative, overlapping, outdated or superseded. In addition, the amendments expanded the disclosure requirements on the analysis of stockholders' equity for interim financial statements. Under the amendments, an analysis of changes in each caption of stockholders' equity presented in the balance sheet must be provided in a note or separate statement. The analysis should present a reconciliation of the beginning balance to the ending balance of each period for which a statement of comprehensive income is required to be filed. This final rule was effective on November 5, 2018. The Company adopted this disclosure beginning with its quarterly report on Form 10-Q for the quarter ended March 31, 2019.

Recent Accounting Pronouncements Not Yet Adopted

In February 2016, the FASB issued ASU No. 2016-02, *Leases* (Topic 842). The core principle of Topic 842 is that a lessee should recognize the assets and liabilities that arise from leases. For operating leases, a lessee is required to recognize a right-of-use asset and a lease liability, initially measured at the present value of the lease payments, in the statement of financial position. For leases with a term of 12 months or less, a lessee is permitted to make an accounting policy election by class of underlying asset not to recognize lease assets and lease liabilities. Under current U.S. GAAP, the Company recognizes rent expense on a straight-line basis for all operating leases, taking into account fixed accelerations, as well as reasonably assured renewal periods. The accounting applied by a lessor is largely unchanged from that applied under previous generally accepted accounting principles. This ASU is effective for the Company for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. Earlier application is permitted. In transition, lessees and lessors are required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach. As a result of this new standard, we expect to record a lease commitment liability and corresponding right-of-use asset for our leases designated as operating leases in Note 6, "Commitments and Contingencies" and Note 13, "Subsequent Events," upon adoption. The Company does not expect the new statement to materially impact our results of operations and does not plan on recasting prior periods.

In January 2017, the FASB issued ASU 2017-01 Business Combinations (Topic 805): Clarifying the Definition of a Business. ASU 2017-01 provides a new framework for entities to determine whether a set of assets and activities (together referred to as "a set") is a business. The amendments in the ASU will assist entities when they evaluate whether transactions should be accounted for as acquisitions (or disposals) either of businesses or of assets. This distinction is important since there are significant differences between the accounting for business combinations and the accounting for acquisitions of assets. Public business entities should apply the amendments to Topic 805 to annual periods beginning after December 15, 2017, including interim periods within those periods. All other entities should apply the amendments to annual periods beginning after December 15, 2018, and interim periods within annual periods beginning after December 15, 2019. As the Company is an

emerging growth company, it has elected to defer implementation. The Company does not believe there will be a material impact to the consolidated financial statements upon adoption.

In January 2017, the FASB issued ASU 2017-04 Intangibles—Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment. ASU 2017-04 simplifies how all entities assess goodwill for impairment by eliminating Step 2 from the goodwill impairment test. As amended, the goodwill impairment test will consist of one step; comparing the fair value of a reporting unit with its carrying amount. An entity should recognize a goodwill impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value. Public business entities that are SEC filers should adopt the amendments in this ASU for their annual or any interim goodwill impairment tests in fiscal years beginning after December 15, 2019. A public business entity that is not an SEC filer should adopt the amendments in this Update for its annual or any interim goodwill impairment tests in fiscal years beginning after December 15, 2020. All other entities, including not-for-profit entities, that are adopting the amendments in this Update should do so for their annual or any interim goodwill impairment tests in fiscal years beginning after December 15, 2021. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The Company does not anticipate the adoption of ASU 2017-04 will have a material impact on our consolidated financial statements.

In August 2018, the FASB issued ASU 2018-13—Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement. ASU 2018-13 improves the effectiveness of disclosures about fair value measurements required under ASC 820. ASU 2018-13 is effective for all entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. The amendments on changes in unrealized gains and losses, the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements, and the narrative description of measurement uncertainty should be applied prospectively for only the most recent interim or annual period presented in the initial fiscal year of adoption. All other amendments should be applied retrospectively to all periods presented upon their effective date. Early adoption is permitted upon issuance of this Update. An entity is permitted to early adopt any removed or modified disclosures upon issuance of this Update and delay adoption of the additional disclosures until their effective date. The Company does not believe the adoption of ASU 2018-13 will have a material effect on our financial statements and their disclosures.

3. Reverse Merger

On February 27, 2018, Phunware entered into an Agreement and Plan of Merger, as amended (collectively, the "Merger Agreement") with Stellar Acquisition III, Inc. ("Stellar"). On December 26, 2018, the Company consummated the transaction contemplated by the Merger Agreement (the "Reverse Merger and Recapitalization"). In connection with the closing of the Reverse Merger and Recapitalization, the registrant changed its name from Stellar Acquisition III, Inc. to Phunware, Inc. ("Successor"). Furthermore, the holders of Phunware's preferred stock converted all of their issued and outstanding shares of preferred stock into shares of Phunware common stock at a conversion ratio of one share of common stock for each share of preferred stock (the "Preferred Stock Exchange"). Subject to the terms and conditions set forth in the Merger Agreement, at the effective time of the Reverse Merger and Recapitalization (the "Effective Time"): (i) all shares of Phunware common stock and preferred stock (the "Phunware Stock") issued and outstanding immediately prior to the Effective Time (after giving effect to the Preferred Stock Exchange) converted into the right to receive the Stockholder Merger Consideration (as defined below); (ii) each outstanding warrant to acquire shares of Phunware Stock was cancelled, retired and terminated in exchange for the right to receive from the Successor a new warrant for shares of Successor common stock with its price and number of shares equitably adjusted based on the conversion of the shares of Phunware Stock into the Stockholder Merger Consideration, but with terms otherwise the same as the Phunware warrant (each, a "Replacement Warrant"); and (iii) each outstanding option to acquire Phunware Stock (whether vested or unvested) was assumed by the Successor and automatically converted into an option to acquire shares of Successor common stock, with its price and number of shares equitably adjusted based on the conversion of the shares of Phunware Stock into the Stockholder Merger Consideration (each, an "Assumed Option"). The shares of Successor common stock and the Transferred Sponsor Warrants transferred to Phunware stockholders are collectively referred to as "Stockholder Merger Consideration". The aggregate merger consideration paid pursuant to the Merger Agreement to Phunware stockholders amounted to approximately \$301 million plus adjustments for cash on-hand as of the date of Closing. The merger consideration paid to Phunware stockholders was paid in the form of shares of Successor common stock. In addition, each holder of Phunware common and convertible preferred stock was entitled to elect to receive such holder's pro rata share of up to an aggregate of 3,985,244 warrants (the "Transfer Sponsor Warrants") to purchase shares of Successor common stock that were held by certain shareholders of Stellar. The Transfer Sponsor Warrants have the same terms as the Private Placement Warrants described in more detail in Note 9 below. The per share Merger Consideration paid to Phunware Stockholders was 0.459 shares of Successor stock for each share of Phunware Stock.

As consideration for the Transfer Sponsor Warrants transferred to Phunware shareholders, a promissory note was issued to the Sponsors (the "Transfer Sponsor Warrant Note"). The amount of the note was approximately \$1,993, which represented \$0.50

per warrant transferred to former stockholders of Phunware. The Transfer Sponsor Warrant Note bore no interest and was to mature on December 26, 2019. Shareholders of Phunware forfeited 187,188 shares to receive 3,985,244 Transfer Sponsor Warrants. On January 15, 2019, the Transfer Sponsor Warrant Note was waived and forgiven by the noteholders.

The Company issued 2,211,572 Private Placement Warrants to the Sponsors as repayment in full for certain promissory notes (not the Transfer Sponsor Warrant Note) at the closing of the Reverse Merger and Recapitalization. In connection with the consummation of the Reverse Merger and Recapitalization, certain holders of shares of Stellar common stock sold in its initial public offering (“Public Shares”) exercised their right to redeem their Public Shares for cash. As a result of these redemptions, the cash proceeds to the Company as a result of the Reverse Merger and Recapitalization was \$0.4 million before transaction costs.

In addition, 6,000 shares for aggregate cash proceeds of \$6.0 million from the Series A 8% convertible preferred stock financing (“Series A Financing”) were issued in conjunction with the Reverse Merger and Recapitalization. In connection with the Series A Financing, certain Stellar shareholders transferred an aggregate of 250,000 shares of Stellar common stock and 250,000 warrants to purchase shares of Stellar common stock to the Series A Financing investor, and 81,391 shares to certain service providers. See Note 8 for additional discussion on the Series A Financing.

The Sponsors are Astra Maritime Inc. and Dominion Investments Inc., affiliated with the Company’s Chairman of the board of directors and Magellan Investments Corp. and Firmus Investments Inc., affiliated with a member of our board of directors.

4. Factoring Agreement

On June 15, 2016 the Company entered into a factoring agreement with CSNK Working Capital Finance Corp. (d/b/a Bay View Funding) (“Bay View”) whereby it sells select accounts receivable with recourse.

Under the terms of the agreement, Bay View may make advances to the Company of amounts representing up to 80% of the net amount of eligible accounts receivable. The factor facility is collateralized by a general security agreement over all the Company’s personal property and interests. Fees paid to Bay View for factored receivables are 1.80% for the first 30 days and 0.65% for every ten days thereafter, to a maximum of 90 days total outstanding. The Company bears the risk of credit loss on the receivables. These receivables are accounted for as a secured borrowing arrangement and not as a sale of financial assets.

The Company’s factor expense is recorded as interest expense in the condensed consolidated statement of operations and comprehensive loss. Factor expense totaled \$40 and \$472 for the three and nine months ended September 30, 2019, respectively, and \$147 and \$528 for the three and nine months ended September 30, 2018, respectively.

The amount of factored receivables outstanding was \$1,546 and \$2,434 as of September 30, 2019 and December 31, 2018, respectively. There was \$1,454 and \$566 available for future advances as of September 30, 2019 and December 31, 2018, respectively.

5. Convertible Notes

During the second quarter of 2019, the Company’s board of directors authorized the issuance of \$20 million of convertible promissory notes (the “Convertible Notes”), which may be paid by investors in the form of cash or, in the Company’s sole discretion, cryptocurrency, such as Bitcoin or Ethereum. The Convertible Notes will be sold in reliance on an exemption from registration provided by Section 4(a)(2) of the Securities Act of 1933, as amended (the “Securities Act”), and Rule 506 of Regulation D promulgated thereunder.

The Convertible Notes bear ordinary interest at a rate of 7% per annum. Interest under the Convertible Notes is payable quarterly beginning on September 30, 2019, and interest and principal under the Convertible Notes is payable monthly beginning on June 30, 2021. However, at the holder’s election, interest payments may be deferred until the earlier of (i) repayment in full of all remaining unpaid principal, and (ii) conversion. The Convertible Notes mature on June 3, 2024.

The Convertible Notes are convertible into shares of the Company’s common stock at a price of \$1.50 per share. Each Note will convert voluntarily upon a holder’s election, or automatically upon the closing sale price of the Company’s common stock equals or exceeds \$17.25 per share for 20 out of 30 consecutive trading days, if a registration statement is then in effect covering the disposition of the converted shares.

On June 3, 2019, the Company entered into a Note Purchase Agreement with an investor for the sale of a Note. The sale of this Note constituted an initial closing on June 3, 2019, and the Company issued a Note in the principal amount of \$250. The Company may hold subsequent closings until June 2, 2020. The Company may not issue Convertible Notes under the Purchase

Agreement in excess of \$20 million, in the aggregate, unless otherwise agreed by the holders of a majority in interest of the principal outstanding under the Convertible Notes.

The Convertible Note has a balance outstanding of \$250 as of September 30, 2019. Interest expense related to the Note for the three and nine months ended September 30, 2019, and interest payable under the Note as of September 30, 2019 is immaterial.

6. Commitments and Contingencies

Leases

The Company has operating office space leases in Austin, Texas; Irvine, California; San Diego, California; and Miami, Florida. Rent expense under operating leases totaled \$188 and \$519 for the three and nine months ended September 30, 2019, respectively, and \$74 and \$479 for the three and nine months ended September 30, 2018, respectively.

On July 16, 2019, the Company entered into a lease agreement with BRE CA Office Owner, LLC for new office space in Irvine, California, for the lease of approximately 8,687 rentable square feet located at 16845 Von Karman Avenue (the "Lease"). The Lease commences on November 1, 2019, and terminates on March 31, 2025, subject to one five-year renewal option. Under the Lease, the Company will pay monthly rent of approximately \$354 per year for the first year, with such rent increasing by a specified amount every year thereafter. The Lease also obligates the Company to pay its proportionate share of certain cost increases incurred by the landlord. The Company may receive certain abatements subject to the terms and conditions of the Lease. The Company was also obligated to pay a security deposit of approximately \$118.

On August 20, 2019, the Company entered into a lease amendment with Seamless Shoal Creek, LLC to extend its current lease in Austin, Texas (the "Amendment"). The Amendment commences on April 1, 2020, and terminates on March 31, 2022, with no renewal options. Under the Amendment, the Company will pay monthly rent of approximately \$223 and \$231 per year for the first year and second year, respectively. The Amendment also obligates the Company to pay its proportionate share of certain cost increases incurred by the landlord.

Future minimum annual lease payments as of September 30, 2019 under the Company's operating leases are set forth as follows:

Future minimum lease obligations years ended December 31,	Lease Obligations
2019 (Remainder)	\$ 137
2020	660
2021	685
2022	529
2023	420
Thereafter	504
Total	\$ 2,935

Litigation

On September 26, 2017, we filed a breach of contract complaint against Uber Technologies, Inc. seeking approximately \$3 million (plus interest) for unpaid invoices for advertising campaign services provided for Uber in the first quarter of 2017. The case, captioned Phunware, Inc. v. Uber Technologies, Inc., Case No. CGC-17-561546 was filed in the Superior Court of the State of California County of San Francisco. On November 13, 2017, Uber generally denied the allegations in our complaint and also filed a cross-complaint against us and Fetch - the advertising agency Uber retained to run its mobile advertising campaign for the period 2014 through the first quarter of 2017 (the "Fetch Campaign"), asserting numerous fraud and contract-based claims. All the claims stem from Uber's allegation that Fetch and/or we (and/or other-as-yet-unidentified ad networks and publishers) are liable for the Fetch Campaign, under which Uber allegedly overpaid Fetch and mobile advertising providers due to allegedly fraudulent attribution for installments of the Uber application. Uber did not allege any specific dollar amount that it is seeking in damages against either of the named cross-defendants (Fetch and Phunware). We filed a motion to dismiss the cross-complaint, which was heard on February 7, 2018. The motion was granted in part and denied in part by the Court. On April 16, 2018, the action was designated complex, and the matter was assigned for all purposes to Judge Wiss of the Superior Court of California, San Francisco County (Department 305). In March 2019, Uber and Fetch settled Uber's claims against Fetch on terms that have not been disclosed to Phunware at this time. On May 7, 2019, we retained new counsel. In June 2019, the Court set a new trial date of April 20, 2020. Discovery is continuing. On June 26, 2019, the case was reassigned for all purposes to Judge Jackson of the Superior Court of California, San Francisco County (Department 613). On

July 12, 2019, Uber filed its First Amended Cross-Complaint, naming new individual cross-defendants (Phunware Chief Executive Officer Alan S. Knitowski, and former Phunware employees D. Stasiuk, M. Borotsik, and A. Cook) accused of civil RICO violations and civil conspiracy to violate RICO, in addition to fraud, negligence, and unfair competition-based claims, and adding a fraud-based claim against Phunware. Uber's First Amended Cross-Complaint alleges that cross-defendants fraudulently obtained approximately \$17 million from Uber, and claims treble damages, general and punitive damages, and attorneys' fees and costs. We maintain that our claims against Uber are meritorious and that Uber's claims against us are not. However, we make no predictions on the likelihood of success of prevailing on our contract action against Uber or on the likelihood of defeating Uber's claims against us.

From time to time, the Company is and may become involved in various legal proceedings in the ordinary course of business. The outcomes of our legal proceedings are inherently unpredictable, subject to significant uncertainties, and could be material to our operating results and cash flows for a particular reporting period. In addition, for the matters disclosed above that do not include an estimate of the amount of loss or range of losses, such an estimate is not possible, and we may be unable to estimate the possible loss or range of losses that could potentially result from the application of non-monetary remedies.

7. PhunCoin & PhunToken

PhunCoin

In June 2018, PhunCoin, Inc., the Company's wholly-owned subsidiary, launched an offering pursuant to Rule 506(c) of Regulation D (the "Reg D Offering") as promulgated under the Securities Act of rights (the "Rights") to acquire a security token denominated as "PhunCoin". In addition, in 2019, we commenced an offering of Rights pursuant to Regulation CF (the "Reg CF Offering").

PhunCoin, Inc. accepts payment in the form of cash and digital currencies for purchases of the Rights. PhunCoin, Inc. plans to sell between \$0 million and \$100 million of the Rights, which will entitle the Rights holders to receive between approximately 8 billion and 30.5 billion of PhunCoin. The amount of PhunCoin to be issued to the purchaser is equal to the dollar amount paid by the purchaser divided by the price of PhunCoin at the time of issuance of the PhunCoin during the Token Generation Event (as defined below) before taking into consideration an applicable discount rate, which is based on the time of the purchase (early purchasers will receive a larger discount rate).

As of September 30, 2019, the Company has received aggregate cash proceeds from the Reg D Offering and Reg CF Offering of \$1.2 million, pursuant to which the holders of the Rights will receive an aggregate of approximately 577.9 million PhunCoin if the Token Generation Event occurs. The Reg CF Offering closed May 1, 2019, while the Reg D Offering is ongoing.

The rights, privileges, and obligations of Rights holders are set forth as follows:

Issuance of PhunCoin

PhunCoin is expected to be issued to Rights holders the earlier of (i) the launch (the "Token Generation Event") of PhunCoin, Inc.'s blockchain technology enabled data exchange (the "Token Ecosystem"), or (ii) the date PhunCoin, Inc. determines that it has the ability to enforce resale restrictions with respect to PhunCoin pursuant to applicable federal securities laws. Proceeds from the Rights offering are generally not refundable if the Token Generation Event is not consummated; however, the Company believes PhunCoin, Inc. has a contractual obligation to use good faith efforts to issue PhunCoin to Rights holders under the Token Rights Agreement.

The Company currently anticipates that PhunCoin will be issued to the holders of the Rights in 2020. Holders of the Rights may be issued PhunCoin even if the Token Ecosystem is not yet operational. PhunCoin will have no usefulness until the Token Ecosystem is operational because PhunCoin is expected to only be useable on the Token Ecosystem.

There can be no assurance as to when (or if) the Company will be able to successfully launch the Token Ecosystem. The Company is currently developing multiple aspects of the Token Ecosystem and expects that a review (beta) period will likely conclude in the first half of 2020. The final software readiness date of the Token Ecosystem may be adjusted based on user feedback provided in the review (beta) period and thus a specific launch date is difficult to determine at this time, as it is based on many external factors outside of our control.

Termination of the Token Rights Agreement

Termination of the Token Rights Agreement occurs on the earlier of (i) PhunCoin being issued to the Rights holder pursuant to the provisions noted above, (ii) the payment, or setting aside of payment with respect to a dissolution event (as described below), or (iii) twelve months from the date of the Token Rights Agreement with the Rights holder, which PhunCoin, Inc. may extend at its sole discretion if a Token Generation Event has not occurred. Upon termination of the Token Rights Agreement, PhunCoin, Inc. has no further obligation to the Rights holder. PhunCoin, Inc. has extended the termination date of the Token Rights Agreement.

Dissolution Event

A dissolution event occurs if there has been (i) a voluntary termination of PhunCoin, Inc.'s operations, (ii) a general assignment for the benefit of PhunCoin, Inc.'s creditors, (iii) a change of U.S. laws that makes the use or issuance of PhunCoin or the Token Generation Event impractical or unfeasible, or (iv) any other liquidation, dissolution or winding up of PhunCoin, Inc.

In the event a dissolution event occurs prior to the termination of the Token Rights Agreement, if there are any remaining proceeds from the Rights offering that have not been utilized by PhunCoin, Inc. in its operations or for the development of the PhunCoin Ecosystem, such remaining proceeds would be distributed pro rata to purchasers in the Rights offering following any distributions to holders of PhunCoin, Inc.'s capital stock or debt, if any.

No Voting Rights or Profit Share

Rights holders (and eventual PhunCoin holders) have no voting rights and are not entitled to share in the profits or residual interest of Phunware, PhunCoin, Inc. or any subsidiaries of the Company. However, PhunCoin holders will be provided fractional interests in the Token Ecosystem, including ongoing monthly PhunCoin dividends to PhunCoin holders, based on their respective pro rata ownership percentage of PhunCoin, totaling 2.5% of the monthly credits purchased by Phunware customers.

PhunToken ("Phun")

During the second quarter of 2019, Phunware announced the launch of a separate token, Phun, which is meant to act as a medium of exchange within the Token Ecosystem. Phun will be issued through a separate, wholly-owned subsidiary, Phun Token International, available initially only to persons outside of the United States and Canada. Consumers may receive Phun for actively engaging in marketing campaigns; developers and publishers may receive Phun for utilizing Phunware's loyalty software development kit in order to better engage, manage and monetize their consumers; and brands will gain access to more relevant, verifiable data by accessing Phunware's data exchange and using Phun for their own loyalty programs. As of September 30, 2019, the Company has not sold any Phun.

8. Series A Convertible Preferred Stock

In connection with the consummation of the Reverse Merger and Recapitalization, Phunware issued 6,000 shares to a single investor for aggregate cash proceeds of \$6.0 million from the Series A 8% convertible preferred stock financing ("Series A Financing") with stated value of \$1,000 per share. The Company deposited \$5.5 million of the \$6 million proceeds into a restricted escrow account in accordance with the securities purchase agreement entered into with the investor.

The shares were mandatorily redeemable in cash at the following schedule: (i) 104% of the aggregate value of three thousand (3,000) shares on the 30 day anniversary of the issuance; (ii) 104% of the aggregate value of two thousand five hundred (2,500) shares on the 60th anniversary of the original issue; and (iii) 104% of the aggregate value of five hundred (500) shares of the 90th anniversary of the original issue.

The Preferred Stock was also convertible into shares of the Company's common stock at the option of the holder at a price of \$1.50 per share, subject to adjustments for stock dividends, stock splits and other recapitalization type events and antidilutive events which would include subsequent issuances of equity or equity linked securities at prices more favorable than the conversion price of these preferred shares. Generally, the Preferred Stock does not have voting rights. The holder did not convert any of the Series A convertible preferred stock prior to the redemption dates.

On the 30-day, 60-day, and 90-day anniversaries of the issuance, the holder redeemed an aggregate of 6,000 shares of the Series A convertible preferred stock for total proceeds of \$6,240, representing \$6,000 original issue price and \$240 of dividends. Of the proceeds paid to the holder, \$5.5 million was paid from the restricted cash account, and \$740 from the Company's operating account.

In the event of liquidation, dissolution or winding up of the Company the Preferred Stock would be entitled to receive assets ahead of the Company's common stockholders. Total preferred stock authorized to be issued as of September 30, 2019 was 100,000,000, with a par value of \$0.0001 per share. There were 0 and 6,000 shares of preferred stock outstanding as of September 30, 2019 and December 31, 2018, respectively.

9. Stockholders' Equity

Common Stock

Total common stock authorized to be issued as of September 30, 2019 was 1,000,000,000, with a par value of \$0.0001 per share. At September 30, 2019 and December 31, 2018, there were 39,118,103 and 27,294,164 shares outstanding, inclusive of 13,091 and 40,707 restricted shares subject to repurchase for unvested shares related to early option exercises under the Company's stock equity plans, respectively.

During fiscal year 2018, the Company completed several closings of stock financings resulting in the issuance of 1,085,096 shares for aggregate cash proceeds of \$9,565, net of issuance costs.

During 2019, the Company issued an aggregate of 11,530,442 shares of common stock related to various cash and cashless (net) exercises of warrants for common stock. Cash exercises for warrants for 617,296 shares of common stock resulted in aggregate gross proceeds of approximately \$6,184, of which \$6,092 was received in cash, \$92 was received in digital currencies. Furthermore, there were 13,975,359 warrants exercised under cashless (net) provisions resulting in the issuance of 10,913,146 shares of common stock. See further discussion regarding details of the Company's various warrants below.

Dividends

Dividends are paid on a when-and-if-declared basis. The Company has not declared any dividends through September 30, 2019.

Warrants

A summary of the Company's warrant activity by warrant type is as follows:

Warrant Type	Cash Exercise Price per share	Warrants/UPO's Outstanding December 31, 2018	Warrants issued for UPO exercises	Warrants/UPO's Exercised		Warrants Outstanding September 30, 2019
				Cash	Cashless	
Common stock warrant (Series D-1)	\$ 5.54	14,866	—	—	—	14,866
Common stock warrants (Series F)	\$ 9.22	1,085,059	—	(400,740)	(306,917)	377,402
Public Warrants (PHUNW)	\$ 11.50	6,900,610	—	—	(5,139,319)	1,761,291
Private Placement Warrants	\$ 11.50	10,182,060	—	(216,556)	(8,307,123)	1,658,381
Unit Purchase Options (UPOs)	\$ 11.50	130,000	—	—	(130,000)	—
Unit Purchase Option Warrants	\$ 11.50		116,172	—	(92,000)	24,172
Total		18,312,595	116,172	(617,296)	(13,975,359)	3,836,112

In 2012, the Company issued a warrant to purchase an aggregate of 14,866 shares of the Company's common stock with an exercise price of \$5.54 per share to a banking institution with which the Company previously had a revolving line of credit. The term of the warrant is the earlier of (i) the tenth anniversary of the date of issuance, (ii) the closing of the initial registered public offering of the Company's common stock, or (iii) the closing of an acquisition (as defined in the warrant) where the consideration consisting of cash or publicly traded securities payable in connection with the acquisition for each share is at least three (3) times the exercise price. The Reverse Merger and Recapitalization did not trigger an expiration of the warrant pursuant to term (ii) or (iii) above. The warrant is fully vested.

In 2018, but prior to the Reverse Merger and Recapitalization, the Company issued warrants to purchase an aggregate of 1,085,059 shares of the Company's common stock with an exercise price of \$9.22 per share. The term of the warrants is the earlier of (i) the fifth anniversary of the date of issuance, (ii) an acquisition, merger, or consolidation of the Company or a sale, lease or other disposition of all or substantially all of the assets of Phunware and its subsidiaries, except (a) any sale of stock for capital raising purposes, (b) purpose of changing the Company's state of incorporation, and (c) where the shareholders of Phunware immediately before such transaction retain at least a majority of the voting power immediately following such transaction; or (iii) immediately prior to an initial public offering. The Reverse Merger and Recapitalization did not trigger an expiration of the warrant pursuant to term (ii) or (iii) above. These warrants are fully vested.

The Company has common stock warrants trading under the Nasdaq ticker symbol PHUNW (the "Public Warrants"). Each Public Warrant entitles the holder to purchase one share of common stock at an exercise price of \$11.50 per share. No fractional shares will be issued upon exercise of the Public Warrants. The Public Warrants became exercisable for cash 30 days after the completion of the Reverse Merger and Recapitalization. In addition, if a registration statement covering the shares of common stock issuable upon exercise of the Public Warrants was not filed with the SEC and declared effective within 90 days from the consummation of the Reverse Merger and Recapitalization, holders were entitled to exercise warrants on a cashless basis pursuant to an available exemption from registration under the Securities Act. The Company was unable to have the registration statement declared effective by the 90-day deadline, although it was declared effective on May 14, 2019. As of September 30, 2019, 5,139,319 Public Warrants have been exercised on a cashless basis that resulted in the issuance of 2,951,741 shares. The Public Warrants will expire five years after the completion of the Reverse Merger and Recapitalization or earlier upon redemption or liquidation.

The Company also has Private Placement Warrants outstanding (the "Private Placement Warrants"). Each Private Placement Warrant entitles the holder to purchase one share of common stock at an exercise price of \$11.50 per share. The Private Placement Warrants became exercisable 30 days after the completion of the Reverse Merger and Recapitalization. The Private Placement Warrants are exercisable for cash (even if a registration statement covering the common stock issuable upon exercise of such warrants is not effective) or on a cashless basis, at the holder's option and will not be redeemable in each case so long as they are still held by the initial purchasers or their affiliates.

Unit Purchase Option ("UPOs")

The Company sold to the underwriters for its initial public offering in 2016 an option to purchase up to a total of 30,000 units, at an exercise price of \$11.50 per unit. The units are comprised of one share of common stock and one warrant to purchase common stock. The unit purchase option may be exercised for cash or on a cashless basis, at the holder's option, at any time during the period commencing on the closing of the Reverse Merger and Recapitalization and terminating on the fifth anniversary of the Reverse Merger and Recapitalization. The units issuable upon exercise of this option are identical to those offered in the Company's initial public offering in 2016. The unit purchase option may be exercised for cash or on a cashless basis, at the holder's option, such that the holder may use the appreciated value of the unit purchase option (the difference between the exercise prices of the unit purchase option and the underlying Warrants and the market price of the UPO and underlying ordinary shares) to exercise the unit purchase option without the payment of cash. As of September 30, 2019, all UPOs had been exercised, and 24,172 warrants related to the UPO exercise remained outstanding.

PhunCoin Warrant

In 2018, the Company issued warrants to sixty-eight (68) stockholders to receive an aggregate of approximately 27.4 billion PhunCoin. Should the Company complete a Token Generation Event, the stockholders would receive their requisite amount of PhunCoin. The Company believes there is no traditional "exercise period" or "term" as with other typical embedded features, and the PhunCoin warrants were originally issued in conjunction with the Company's Series F Preferred Stock financing. The PhunCoin warrants lack characteristics of financial instruments and derivatives. In addition, the PhunCoin warrants do not obligate the Company to achieve the Token Generation Event or launch and distribute PhunCoin to the warrant holders. At the time of the PhunCoin warrant issuance, there was no market for PhunCoin, and they did not exist. Accordingly, the Company determined there was no value assigned to the PhunCoin warrants issued to the stockholders. As of September 30, 2019, no PhunCoin had been issued to the PhunCoin warrant holders.

10. Stock-Based Compensation

2018 Equity Incentive Plan

In connection with the consummation of the Reverse Merger and Recapitalization, our board of directors adopted, and our stockholders approved, the 2018 Equity Incentive Plan (the "2018 Plan"). The purposes of the 2018 Plan are to attract and

retain the best available personnel for positions of substantial responsibility, to provide additional incentives to employees, directors and consultants who perform services to the Company, and to promote the success of our business. These incentives are provided through the grant of stock options, stock appreciation rights, restricted stock, restricted stock units, performance units and performance shares.

The number of shares of common stock available for issuance under the 2018 Plan will also include an annual increase on the first day of each fiscal year, equal to the lesser of: (i) 10% of the post-closing outstanding shares of common stock; (ii) 5% of the outstanding shares of common stock on the last day of the immediately preceding fiscal year; or (iii) such other amount as our board of directors may determine.

In addition, the shares of common stock reserved for issuance under the 2018 Plan also will include any shares of common stock subject to stock options, restricted stock units or similar awards granted under the 2009 Equity Incentive Plan (the “2009 Plan”), that, on or after the Reverse Merger and Recapitalization, are assumed in connection with the Reverse Merger and Recapitalization, expire or otherwise terminate without having been exercised in full and shares of common stock issued pursuant to awards granted under the 2009 Plan that, on or after the Reverse Merger and Recapitalization, are forfeited to or repurchased by us. As of September 30, 2019, the maximum number of shares of common stock that may be added to the 2018 Plan pursuant to the foregoing equals 1,733,430.

During the second quarter of 2019, we granted 620,363 restricted stock units to employees and 45,000 restricted stock units to non-employee directors, each with a grant date fair value of \$7.34 per share. The awards granted to team members vest over eighteen months in three equal installments on May 18, 2020, August 18, 2020, and November 18, 2020, respectively, and are subject to service conditions. The awards granted to non-employee directors vest in two equal installments on July 1, 2019 and December 26, 2019, respectively, and are subject to service conditions.

During the third quarter of 2019, we granted 1,603,000 restricted stock unit awards to team members with an average grant date fair value of \$2.11 per share. The awards granted to team members vest over an average of 4 years with various installment and vesting dates, and are subject to service conditions.

A summary of the Company’s restricted stock unit activity under the 2018 Plan is set forth below:

	Shares	Weighted Average Grant Date Fair Value
Outstanding as of December 31, 2018	—	\$ —
Granted	2,268,363	3.65
Released	(22,500)	7.34
Forfeited	(142,500)	2.93
Outstanding as of September 30, 2019	2,103,363	\$ 3.66

The 2018 Plan had 984,702 and 2,729,416 shares of common stock reserved for issuance as of September 30, 2019 and December 31, 2018, respectively.

2018 Employee Stock Purchase Plan

Also, in connection with the consummation of the Reverse Merger and Recapitalization, our board of directors adopted, and our stockholders approved, the 2018 Employee Stock Purchase Plan (the “2018 ESPP”). The 2018 ESPP will be administered by our board of directors or a committee appointed by the board (the “administrator”). The purpose of the 2018 ESPP is to provide eligible employees with an opportunity to purchase shares of our common stock through accumulated contributions. The 2018 ESPP permits participants to purchase shares of common stock through contributions (generally in the form of payroll deductions) of up to an amount of their eligible compensation determined by the administrator. Subject to certain other limitations or unless otherwise determined by the administrator, a participant may purchase a maximum of 2,000 shares of common stock during a purchase period. The offering periods under the 2018 ESPP will begin on such date as determined by the administrator and expire on the earliest to occur of (a) the completion of the purchase of shares on the last exercise date occurring within 27 months of the applicable enrollment date of the offering period on which the purchase right was granted, or (b) a shorter period established by the administrator prior to an enrollment date for all options to be granted on such enrollment date. Amounts deducted and accumulated by the participant are used to purchase shares of common stock on each exercise date. The purchase price of the shares will be determined by the administrator but in no event will be less than 85% of the lower of the fair market value of common stock on the enrollment date or on the exercise date. Participants may end their participation at

any time during an offering period and will be paid their accrued contributions that have not yet been used to purchase shares of common stock. Participation ends automatically upon termination of employment with the Company.

The number of shares of common stock that may be made available for sale under the 2018 ESPP also includes an annual increase on the first day of each fiscal year beginning for the fiscal year following the fiscal year in which the first enrollment date (if any) occurs equal to the lesser of (i) 3% of the expected post-closing outstanding shares of common stock; (ii) 1.5% of the outstanding shares of common stock on the last day of the immediately preceding fiscal year; or such other amount as the administrator may determine.

As of September 30, 2019, the Company has not consummated an enrollment or offering period related to the 2018 ESPP. The 2018 ESPP had 272,942 shares of common stock available for sale and reserved for issuance as of September 30, 2019 and December 31, 2018.

2009 Equity Incentive Plan

In 2009, the Company adopted its 2009 Equity Incentive Plan (the “2009 Plan”), which allowed for the granting of incentive and non-statutory stock options, as defined by the Internal Revenue Code, to employees, directors, and consultants. The exercise price of the options granted was generally equal to the value of the Company’s common stock on the date of grant, as determined by the Company’s board of directors. The awards are exercisable and vest, generally over four years, in accordance with each option agreement. The term of each option is no more than ten years from the date of the grant. The 2009 Plan allows for options to be immediately exercisable, subject to the Company’s right of repurchase for unvested shares at the original exercise price. The total amount received in exchange for these shares has been included in accrued expenses on the accompanying consolidated balance sheets and is reclassified to equity as the shares vest. As of September 30, 2019 and December 31, 2018, 13,091 and 40,707 shares were unvested amounting to \$7 and \$34 in accrued expenses, respectively. Effective with the Reverse Merger and Recapitalization, no additional grants will be made under the 2009 Plan.

A summary of the Company’s stock option activity under the 2009 Plan and related information is as follows:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (years)	Aggregate Intrinsic Value
Outstanding as of December 31, 2018	2,364,823	\$ 0.90	8.12	\$ 71,332
Granted	—	—		
Released	(282,086)	0.55		
Forfeited	(362,398)	1.69		
Outstanding as of September 30, 2019	1,720,339	\$ 0.79	7.16	\$ 1,281
Exercisable as of September 30, 2019	1,157,519	\$ 0.71	6.63	\$ 911

For the nine months ended September 30, 2019, the aggregate intrinsic value of options exercised was \$7,476 and the total fair value of options vested was \$289.

The fair value of stock options granted is estimated on the date of grant using the Black-Scholes option-pricing model. The following table sets forth information relating to stock options granted:

	Three Months Ended September 30, 2018	Nine Months Ended September 30, 2018
Weighted average risk-free rate	N/A	2.51%
Expected dividend yield	—	—
Weighted average expected life (years)	N/A	6.08
Weighted average volatility	N/A	56.87%

The Company did not grant any options under the 2009 Plan during the three and nine months ended September 30, 2019.

Stock-Based Compensation

Compensation costs that have been included on the Company's consolidated statements of operations and comprehensive loss for all stock-based compensation arrangements are detailed as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Stock-based compensation				
Cost of revenues	\$ 68	\$ 14	\$ 106	\$ 32
Sales and marketing	30	16	14	31
General and administrative	492	32	864	183
Research and development	94	12	127	39
Total stock-based compensation	\$ 684	\$ 74	\$ 1,111	\$ 285

The Company recognizes forfeitures as they occur. As of September 30, 2019, the unamortized fair value of the restricted stock units under the 2018 Plan was approximately \$6.8 million. The weighted-average remaining recognition period over which these costs will be amortized was approximately 2.9 years. Unrecognized stock compensation expense for options granted under the 2009 Plan was \$285, as of September 30, 2019.

11. Domestic and Foreign Operations

Identifiable long-lived assets attributed to the United States and international geographies are based upon the country in which the asset is located or owned. As of September 30, 2019 and December 31, 2018, all of the Company's identifiable long-lived assets were in the United States.

We derived over 98% and 99% of our net revenues from within the United States for the three and nine months ended September 30, 2019, respectively. During the three and nine months ended September 30, 2018, the Company derived 1% and 26% of its net revenues from outside the United States, respectively.

12. Related-Party Transactions

As consideration for the Transfer Sponsor Warrants transferred to Phunware shareholders, a promissory note was issued to the Sponsors (the "Transfer Sponsor Warrant Note"). The amount of the note was approximately \$1,993, which represented \$0.50 per warrant transferred to former stockholders of Phunware. The Transfer Sponsor Warrant Note bore no interest. The Transfer Sponsor Warrants have an exercise price of \$11.50 per share. The Transfer Sponsor Warrant Note was to mature on December 26, 2019. The Transfer Sponsor Warrant Note was waived and forgiven by the noteholders on January 15, 2019.

With the Reverse Merger and Recapitalization, the Company assumed \$255 in payables from Stellar to Nautilus Energy Management Corporation, an affiliate of two members of the Company's board of directors. This balance remains outstanding and is recorded in accounts payable as of September 30, 2019.

13. Subsequent Events

The Company has evaluated subsequent events through November 14, 2019.

In October 2019, the Company's board of directors authorized the issuance of \$20 million of promissory notes (the "Notes"), which may be paid by investors in the form of cash or, in the Company's sole discretion, cryptocurrency, such as Bitcoin or Ethereum. The Notes will be sold in reliance on an exemption from registration provided by Section 4(a)(2) of the Securities Act, and Rule 506 of Regulation D promulgated thereunder. The Notes will not be and have not been registered under the Securities Act and may not be offered or sold in the United States absent registration or an applicable exemption from registration requirements. The Notes are subordinated in the right of payment to all current and future indebtedness of the Company for borrowed money to banks, commercial finance lenders or other institutions regularly engaged in the business of lending money, including but not limited to the Company's factoring arrangement with Bay View. As of the date noted above, the Company has not issued any Notes; therefore, the initial closing has yet to occur.

On November 12, 2019, the Company entered into a lease amendment with Promontory Associates to extend its current lease in San Diego, California (the "Amendment"). The Amendment commences on February 1, 2020, and terminates on July 31, 2025, with one renewal option for an additional five years. Under the Amendment, the Company will pay monthly rent of

approximately \$146 for the first year, with such rent increasing by a specified amount every year thereafter. The Amendment also obligates the Company to pay its proportionate share of certain cost increases incurred by the landlord.

Future minimum annual lease payments under the Amendment are as follows:

Future minimum lease obligations years ended 12/31/2019	Lease Obligations
2020	\$ 131
2021	150
2022	196
2023	202
Thereafter	332
Total	\$ 1,011

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

References in this section to "we," "us," "our," or "the Company" refer to Phunware. References to "management" or "management team" refer to Phunware's officers and directors.

The following discussion and analysis of Phunware's financial condition and results of operations should be read in conjunction with Phunware's consolidated financial statements and the related notes to those statements presented in "Part I – Item 1. Financial Statements." In addition to historical financial information, the following discussion and analysis contains forward-looking statements that involve risks, uncertainties and assumptions. Phunware's actual results and timing of selected events may differ materially from those anticipated in these forward-looking statements as a result of many factors, including those discussed in the section titled "Risk Factors" and elsewhere in this Report.

Certain figures, such as interest rates and other percentages, included in this section have been rounded for ease of presentation. Percentage figures included in this section have not in all cases been calculated on the basis of such rounded figures but on the basis of such amounts prior to rounding. For this reason, percentage amounts in this section may vary slightly from those obtained by performing the same calculations using the figures in our condensed consolidated financial statements or in the associated text. Certain other amounts that appear in this section may similarly not sum due to rounding.

Overview

Phunware, Inc. offers a fully integrated software platform that equips companies with the products, solutions and services necessary to engage, manage and monetize their mobile application portfolios globally at scale. Phunware's Multiscreen as a Service (MaaS) platform provides the entire mobile lifecycle of applications, media and data in one login through one procurement relationship. Its offerings include:

- Enterprise mobile software including content management, location-based services, marketing automation, business intelligence and analytics, alerts, notifications and messaging, audience engagement, audience monetization, vertical solutions and cryptonetworking, MaaS software application framework that pre-integrates all of our MaaS software ingredients for use within mobile application portfolios, solutions and services;
- Application transactions for mobile audience building, user acquisition, application discovery, audience engagement, audience monetization; and
- Data for data enrichment expanding connections and attributes of a Phunware ID and building custom audience for use in mobile media campaigns.

Additionally, we plan to launch PhunCoin and Phun, blockchain-powered tokens, and our associated Token Ecosystem which will enable consumers, brands and application developers to transact directly and create a value-based and voluntary data exchange.

We intend to continue investing for long-term growth. We have invested and expect to continue investing in expanding our ability to market, sell and provide our current and future products and services to customers globally. We also expect to continue investing in the development and improvement of new and existing products and services to address customers' needs. We currently do not expect to be profitable in the near future.

Key Business Metrics

Our management regularly monitors certain financial measures to track the progress of its business against internal goals and targets. We believe that the most important of these measures include backlog and deferred revenue and dollar-based revenue retention rate.

Backlog and Deferred Revenue. Backlog represents future amounts to be invoiced under our current agreements. At any point in the contract term, there can be amounts that we have not yet been contractually able to invoice. Until such time as these amounts are invoiced, they are not recorded in revenues, deferred revenue, accounts receivable or elsewhere in our consolidated financial statements, and are considered by us to be backlog. We expect backlog to fluctuate up or down from period to period for several reasons, including the timing and duration of customer contracts, varying billing cycles and the timing and duration of customer renewals.

In addition, our deferred revenue consists of amounts that have been invoiced but that have not yet been recognized as revenues as of the end of a reporting period. Together, the sum of deferred revenue and backlog represents the total billed and unbilled contract value yet to be recognized in revenues, and provides visibility into future revenue streams.

The following table sets forth the backlog and deferred revenue:

	Period Ended	
	September 30, 2019	December 31, 2018
	(in thousands)	
Backlog	\$ 6,564	\$ 16,730
Deferred revenue	7,335	8,251
Total backlog and deferred revenue	\$ 13,899	\$ 24,981

Dollar-based Revenue Retention Rate, based on platform subscriptions and services revenue. Phunware calculated dollar-based revenue retention rate, based on platform subscriptions and services revenue, expressed as a percentage, by dividing total revenue in the current 12-month period from those customers who were customers during the prior 12-month period by total revenue from the customers in the prior 12-month period. Phunware believes that our ability to retain our customers and expand their use of our solutions over time is an indicator of the stability of our revenue base and the long-term value of our customer relationships. Our revenue retention rate provides insight into the impact on current period revenue of the number of new customers acquired during the prior 12-month period, the timing of our implementation of those new customers, growth in the usage of our solutions by our existing customers and customer attrition. If our revenue retention rate for a period exceeds 100%, this means that the revenue retained during the period including expansion and upsells more than offset the revenue that we lost from customers that did not renew their contracts during the period. Our revenue retention rate may decline or fluctuate as a result of a number of factors, including customers' satisfaction or dissatisfaction with our platform, pricing, economic conditions or overall reductions in our customers' spending levels.

The following table sets forth the dollar-based revenue retention rates:

	Period Ended September 30,	
	2019	2018
Dollar-based revenue retention rate	97 %	97 %

Non-GAAP Financial Measures

Adjusted Net Revenues, Adjusted Gross Profit, Adjusted Gross Margin and Adjusted EBITDA

Adjusted Net Revenues, Adjusted Gross Profit, Adjusted Gross Margin and Adjusted EBITDA are non-GAAP financial measures. Management uses these measures (i) to compare operating performance on a consistent basis, (ii) to calculate incentive compensation for its employees, (iii) for planning purposes including the preparation of its internal annual operating budget, and (iv) to evaluate the performance and effectiveness of operational strategies. Accordingly, we believe that these measures provide useful information to investors and others in understanding and evaluating our operating performance in the same manner as management. For more information, see the section titled “Use of Non-GAAP Financial Measures.”

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
	(in thousands)		(in thousands)	
Adjusted net revenues ⁽¹⁾	\$ 5,637	\$ 5,215	\$ 16,462	\$ 15,952
Adjusted gross profit ⁽²⁾	3,294	2,533	8,839	7,380
Adjusted gross margin ⁽²⁾	58.4 %	48.6 %	53.7 %	46.3 %
Adjusted EBITDA ⁽³⁾	\$ (1,521)	\$ (3,200)	\$ (7,136)	\$ (13,482)

- (1) Adjusted Net Revenues is a non-GAAP financial measure. We believe that Adjusted Net Revenues provides helpful information for management and investors regarding past performance and future results. We define Adjusted Net Revenues by excluding items from net revenues that are one-time in nature including, but not limited to, forfeited customer deposits and contract settlements.
- (2) Adjusted Gross Profit and Adjusted Gross Margin are non-GAAP financial measures. We believe that Adjusted Gross Profit and Adjusted Gross Margin provide supplemental information with respect to gross profit and gross margin regarding ongoing performance. We define Adjusted Gross Profit as net revenues less cost of revenue, adjusted to exclude one-time revenue adjustments, stock-based compensation and amortization of intangible assets. We define Adjusted Gross Margin as Adjusted Gross Profit as a percentage of Adjusted Net Revenues.
- (3) Adjusted EBITDA is a non-GAAP financial measure. We believe Adjusted EBITDA provides helpful information with respect to operating performance as viewed by management, including a view of our business that is not dependent on (i) the impact of our capitalization structure and (ii) items that are not part of day-to-day operations. We define Adjusted EBITDA as net loss plus (i) interest expense, (ii) income tax expense, (iii) depreciation, (iv) amortization, and further adjusted for (v) one-time revenue adjustments, and (vi) stock-based compensation expense.

The following tables present a reconciliation of Adjusted Net Revenues, Adjusted Gross Profit, Adjusted Gross Margin and Adjusted EBITDA to net revenues, gross profit and net loss, the most directly comparable financial measures calculated in accordance with GAAP:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
	(in thousands)		(in thousands)	
Net revenues	\$ 5,637	\$ 5,215	\$ 16,462	\$ 24,380
Less: One-time revenue adjustments	—	—	—	(8,428)
Adjusted net revenues	\$ 5,637	\$ 5,215	\$ 16,462	\$ 15,952

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
	(in thousands)		(in thousands)	
Gross profit	\$ 3,219	\$ 2,508	\$ 8,705	\$ 15,737
Less: One-time revenue adjustments	—	—	—	(8,428)
Add back: Amortization of intangibles	7	11	28	39
Add back: Stock-based compensation	68	14	106	32
Adjusted gross profit	\$ 3,294	\$ 2,533	\$ 8,839	\$ 7,380
Adjusted gross margin	58.4 %	48.6 %	53.7 %	46.3 %

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
	(in thousands)		(in thousands)	
Net loss	\$ (2,426)	\$ (3,520)	\$ (8,987)	\$ (6,212)
Add back: Depreciation and amortization	76	98	251	340
Add back: Interest expense	145	148	484	533
Add back: Income tax expense	—	—	5	—
EBITDA	(2,205)	(3,274)	(8,247)	(5,339)
Less: One-time revenue adjustments	—	—	—	(8,428)
Add Back: Stock-based compensation	684	74	1,111	285
Adjusted EBITDA	\$ (1,521)	\$ (3,200)	\$ (7,136)	\$ (13,482)

The one-time revenue adjustments of \$8.4 million noted above for the nine months ended September 30, 2018 relate to an application transaction partner released the Company from a liability of \$6.3 million, \$1.6 million from the expiration of a platform subscription and services partner arrangement and \$0.5 million related to a platform subscription and services customer contract settlement.

Use of Non-GAAP Financial Measures

Adjusted Net Revenues, Adjusted Gross Profit, Adjusted Gross Margin and Adjusted EBITDA should be considered in addition to, not as a substitute for, or superior to, financial measures calculated in accordance with GAAP. They are not measurements of our financial performance under GAAP and should not be considered as alternatives to net revenue or net loss, as applicable, or any other performance measures derived in accordance with GAAP and may not be comparable to other similarly titled measures of other businesses. Adjusted Net Revenues, Adjusted Gross Profit, Adjusted Gross Margin and Adjusted EBITDA have limitations as analytical tools and should not be considered in isolation or as a substitute for analysis of our operating results as reported under GAAP. Some of these limitations include:

- Non-cash compensation is and will remain a key element of our overall long-term incentive compensation package, although we exclude it as an expense when evaluating its ongoing operating performance for a particular period;
- Adjusted Net Revenues, Adjusted Gross Profit, Adjusted Gross Margin and Adjusted EBITDA do not reflect the impact of certain cash charges resulting from matters we consider not to be indicative of ongoing operations, and;
- other companies in our industry may calculate Adjusted Net Revenues, Adjusted Gross Profit, Adjusted Gross Margin and Adjusted EBITDA differently than we do, limiting their usefulness as comparative measures.

We compensate for these limitations to Adjusted Net Revenues, Adjusted Gross Profit, Adjusted Gross Margin and Adjusted EBITDA by relying primarily on GAAP results and using Adjusted Net Revenues, Adjusted Gross Profit, Adjusted Gross Margin and Adjusted EBITDA only for supplemental purposes. Adjusted Net Revenues, Adjusted Gross Profit, Adjusted Gross Margin and Adjusted EBITDA include adjustments for items that may not occur in future periods. However, we believe these adjustments are appropriate because the amounts recognized can vary significantly from period to period, do not directly

relate to the ongoing operations of our business and complicate comparisons of our internal operating results and operating results of other peer companies over time. For example, it is useful to exclude non-cash, stock-based compensation expenses because the amount of such expenses in any specific period may not directly correlate to the underlying performance of our business operations and these expenses can vary significantly across periods due to timing of new stock-based awards. We may also exclude certain discrete, unusual, one-time, or non-cash costs, including transaction costs and the income tax impact of adjustments in order to facilitate a more useful period-over-period comparison of our financial performance. Each of the normal recurring adjustments and other adjustments described in this paragraph help management with a measure of our operating performance over time by removing items that are not related to day-to-day operations or are non-cash expenses.

Components of Results of Operations

There are a number of factors that impact the revenue and margin profile of the services and technology offerings we provide, including, but not limited to, solution and technology complexity, technical expertise requiring the combination of products and types of services provided, as well as other elements that may be specific to a particular client solution.

Revenue and Gross Profit

Platform Subscriptions and Services Revenue. Subscription revenue is derived from software license fees, which comprise subscription fees from customers licensing the Company's Software Development Kits (SDKs), which includes accessing the MaaS platform and/or MaaS platform data; application development service revenue from the development of customer applications, or apps, which are built and delivered to customers; and support fees.

Subscription revenue from SDK licenses gives the customer the right to access the Company's MaaS platform. Application development revenue is derived from development services around designing and building new applications or enhancing existing applications. Support revenue is comprised of support and maintenance fees of customer applications, software updates, and technical support for application development services for a support term.

From time to time, the Company also provides professional services by outsourcing employees' time and materials to customers.

Platform subscriptions and services gross profit is equal to subscriptions and services revenue less the cost of personnel and related costs for our support and professional services employees, external consultants, stock-based compensation and allocated overhead. Costs associated with our development and project management teams are generally recognized as incurred. Costs directly attributable to the development or support of applications relating to platform subscription customers are included in cost of sales, whereas costs related to the ongoing development and maintenance of Phunware's MaaS platform are expensed in research and development. As a result, platform subscriptions and services gross profit may fluctuate from period to period.

Application Transaction Revenue. We also generate revenue by charging advertisers to deliver advertisements (ads) to users of mobile connected devices. Depending on the specific terms of each advertising contract, we generally recognize revenue based on the activity of mobile users viewing these ads. Fees from advertisers are commonly based on the number of ads delivered or views, clicks, or actions by users on mobile advertisements delivered, and we recognize revenue at the time the user views, clicks, or otherwise acts on the ad. We sell ads through several offerings: cost per thousand impressions, cost per click, and cost per action. In addition, we generate application transaction revenue thru in-app purchases from application on our platform.

Application transaction gross profit is equal to application transaction revenue less cost of revenue associated with application transactions. Application transaction gross profit is impacted by the cost of direct premium, performance and network cost as well as based on the activity of mobile users viewing ads and marketing engagements through mobile applications. As a result, our application transaction gross profit may fluctuate from period to period due to variable activity of mobile users.

Gross Margin

Gross margin measures gross profit as a percentage of revenue. Gross margin is generally impacted by the same factors that affect changes in the mix of subscriptions and services and application transactions.

Operating Expenses

Our operating expenses include sales and marketing expenses, general and administrative expenses, research and development expenses and amortization of acquired intangible assets.

Sales and Marketing Expense. Sales and marketing expense is comprised of compensation, commission expense, variable incentive pay and benefits related to sales personnel, along with travel expenses, other employee related costs, including share based compensation and expenses related to marketing programs and promotional activities.

General and Administrative Expense. General and administrative expense is comprised of compensation and benefits of administrative personnel, including variable incentive pay and share-based compensation, bad debt expenses and other administrative costs such as facilities expenses, professional fees and travel expenses. We expect to incur additional general and administrative expenses as a result of operating as a public company, including expenses related to compliance with the rules and regulations of the SEC and listing standards of Nasdaq, additional insurance expenses, investor relations activities and other administrative and professional services. We also expect to increase the size of our general and administrative function to support the growth of our business. As a result, we expect that our general and administrative expenses will increase in absolute dollars but may fluctuate as a percentage of our total revenue from period to period.

Research and Development Expense. Research and development expenses consist primarily of employee compensation costs and overhead allocation. We believe that continued investment in our platform is important for our growth. We expect our research and development expenses will increase as our business grows.

Interest and Other Expense

Interest expense and other income (expense) include interest expense associated with our factoring financing arrangement. We also may seek financing arrangements (including our convertible notes) in the future with the proceeds from additional debt issuances, which may have an impact on our interest expense.

Income Tax Benefit

We are subject to U.S. federal income taxes, state income taxes net of federal income tax effect and nondeductible expenses. Our effective tax rate will vary depending on permanent non-deductible expenses and other factors.

Results of Operations (In thousands, except per share information)

The following tables set forth our condensed consolidated financial data in dollar amounts and as a percentage of total revenue.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Net revenues	\$ 5,637	\$ 5,215	\$ 16,462	\$ 24,380
Cost of revenues	2,418	2,707	7,757	8,643
Gross profit	3,219	2,508	8,705	15,737
Operating expenses:				
Sales and marketing	705	1,241	2,094	4,573
General and administrative	3,754	2,937	11,699	10,744
Research and development	1,052	1,671	3,438	5,689
Total operating expenses	5,511	5,849	17,231	21,006
Operating loss	(2,292)	(3,341)	(8,526)	(5,269)
Other income (expense):				
Interest expense	(145)	(148)	(484)	(533)
Fair value adjustment for warrant liabilities	—	—	—	(54)
Impairment of digital currencies	—	—	—	(334)
Other income (expense)	11	(31)	28	(22)
Total other expense	(134)	(179)	(456)	(943)
Loss before taxes	(2,426)	(3,520)	(8,982)	(6,212)
Income tax expense	—	—	(5)	—
Net loss	(2,426)	(3,520)	(8,987)	(6,212)
Other comprehensive loss				
Cumulative translation adjustment	(33)	(16)	(36)	(43)
Comprehensive loss	\$ (2,459)	\$ (3,536)	\$ (9,023)	\$ (6,255)
Net loss per share, basic and diluted	\$ (0.06)	\$ (0.14)	\$ (0.25)	\$ (0.24)
Weighted-average shares used to compute net loss per share, basic and diluted	39,027	25,885	36,034	25,411

Comparison of three and nine months ended September 30, 2019 and 2018
Net Revenues

	Three Months Ended September 30,		Change	
	2019	2018	Amount	%
(in thousands)				
Net Revenues				
Platform subscriptions and services	\$ 5,152	\$ 4,349	\$ 803	18.5 %
Application transaction	485	866	(381)	(44.0)%
Net revenues	\$ 5,637	\$ 5,215	\$ 422	8.1 %
Platform subscriptions and services as a percentage of net revenues	91.4 %	83.4 %		
Application transactions as a percentage of net revenues	8.6 %	16.6 %		

	Nine Months Ended September 30,		Change	
	2019	2018	Amount	%
	(in thousands)			
Net Revenues				
Platform subscriptions and services	\$ 15,065	\$ 14,801	\$ 264	1.8 %
Application transaction	1,397	9,579	(8,182)	(85.4)%
Net revenues	\$ 16,462	\$ 24,380	\$ (7,918)	(32.5)%
Platform subscriptions and services as a percentage of net revenues	91.5 %	60.7 %		
Application transactions as a percentage of net revenues	8.5 %	39.3 %		

Net revenues increased \$0.4 million, or 8.1%, for the three months ended September 30, 2019 compared to the corresponding period in 2018. Platform subscriptions and services revenue increased \$0.8 million, or 18.5%, primarily because of the fulfillment of contracts related to new and existing customers. Application transaction revenue decreased \$0.4 million, or (44.0)%, for the three months ended September 30, 2019, compared to the corresponding period in 2018, primarily because of the various decreased or ceased advertising campaigns.

Net revenues decreased \$7.9 million, or (32.5)%, for the nine months ended September 30, 2019 compared to the corresponding period in 2018, primarily because of three non-recurring items that occurred in 2018 totaling \$8.4 million; an application transaction partner released the Company from a liability of \$6.3 million (which the Company then recorded as revenue), \$1.6 million from the expiration of a platform subscription and services partner arrangement and \$0.5 million related to a platform subscription and services customer contract settlement.

The Company has a concentration of net revenues with key customers. As noted on our Current Report on Form 8-K filed with the SEC on October 4, 2019, we completed our contractual obligations under our statement of work with Fox Networks Group ("Fox") as of September 30, 2019. While our master services agreement with Fox (setting forth general terms and conditions) remains in place, we do not have any active statements of work with Fox. Revenue from Fox was approximately \$3.1 million for the three months ended September 30, 2019 and 2018 and \$9.5 million for the nine months ended September 30, 2019 and 2018. See Note 2, the section titled, "*Concentrations of Credit Risk.*"

Cost of Revenues, Gross Profit and Gross Margin

	Three Months Ended September 30,		Change	
	2019	2018	Amount	%
	(in thousands)			
Cost of Revenues				
Platform subscriptions and services	\$ 2,299	\$ 2,408	\$ (109)	(4.5)%
Application transaction	119	299	(180)	(60.2)%
Total cost of revenues	\$ 2,418	\$ 2,707	\$ (289)	(10.7)%
Gross Profit				
Platform subscriptions and services	2,853	\$ 1,941	\$ 912	47.0 %
Application transaction	366	567	(201)	(35.4)%
Total gross profit	\$ 3,219	\$ 2,508	\$ 711	28.3 %
Gross Margin				
Platform subscriptions and services	55.4 %	44.6 %		
Application transaction	75.5 %	65.5 %		
Total gross margin	57.1 %	48.1 %		

	Nine Months Ended September 30,		Change	
	2019	2018	Amount	%
	(in thousands)			
Cost of Revenues				
Platform subscriptions and services	\$ 7,407	\$ 7,176	\$ 231	3.2 %
Application transaction	350	1,467	(1,117)	(76.1)%
Total cost of revenues	\$ 7,757	\$ 8,643	\$ (886)	(10.3)%
Gross Profit				
Platform subscriptions and services	\$ 7,658	\$ 7,625	\$ 33	0.4 %
Application transaction	1,047	8,112	(7,065)	(87.1)%
Total gross profit	\$ 8,705	\$ 15,737	\$ (7,032)	(44.7)%
Gross Margin				
Platform subscriptions and services	50.8 %	51.5 %		
Application transaction	74.9 %	84.7 %		
Total gross margin	52.9 %	64.5 %		

Total gross profit increased \$0.7 million, or 28.3%, for the three months ended September 30, 2019 compared to the corresponding period of 2018, due to the revenue items described above, as well as lower application transaction costs due to decreased or ceased advertising campaigns.

Total gross profit decreased \$7.0 million, or (44.7)%, for the nine months ended September 30, 2019 compared to the corresponding period of 2018, primarily due to an application transaction partner released the Company from a liability of \$6.3 million, as well as lower application transaction revenue due to decreased or ceased advertising campaigns.

Operating Expenses

	Three Months Ended September 30,		Change	
	2019	2018	Amount	%
	(in thousands)			
Operating expenses				
Sales and marketing	\$ 705	\$ 1,241	\$ (536)	(43.2)%
General and administrative	3,754	2,937	817	27.8 %
Research and development	1,052	1,671	(619)	(37.0)%
Total operating expenses	\$ 5,511	\$ 5,849	\$ (338)	(5.8)%

	Nine Months Ended September 30,		Change	
	2019	2018	Amount	%
	(in thousands)			
Operating expenses				
Sales and marketing	\$ 2,094	\$ 4,573	\$ (2,479)	(54.2)%
General and administrative	11,699	10,744	955	8.9 %
Research and development	3,438	5,689	(2,251)	(39.6)%
Total operating expenses	\$ 17,231	\$ 21,006	\$ (3,775)	(18.0)%

Sales and Marketing

Sales and marketing expense decreased \$0.5 million, or (43.2)% for the three months ended September 30, 2019 compared to the corresponding period of 2018, primarily due to reduced employee compensation costs due to lower headcount.

Sales and marketing expense decreased \$2.5 million, or (54.2)% for the nine months ended September 30, 2019 compared to the corresponding period of 2018, primarily as a result of reduced compensation costs due to lower headcount of \$1.7 million, and \$0.8 million of other expenditure decreases such as marketing related software, contractor spend, and travel.

General and Administrative

General and administrative expense increased \$0.8 million, or 27.8% for the three months ended September 30, 2019 compared to the corresponding period of 2018, primarily due to increase in stock-based compensation expense from awards granted during 2019 of \$0.5 million and an increase of \$0.5 million in professional costs such as legal and consulting fees around the Company's cryptocurrency offerings and board related fees. These increases were partially offset by a reduction of \$0.2 million related to software and bad debt expenditures.

General and administrative expense increased \$1.0 million, or 8.9% for the nine months ended September 30, 2019 compared to the corresponding period of 2018, primarily due to increase in stock-based compensation expense of \$0.6 million from awards granted during 2019 and an increase of \$0.6 million in professional costs such as legal and consulting fees. These increases were partially offset by a decrease of \$0.2 million related to employee compensation costs.

Research and Development

Research and development expense decreased \$0.6 million, or (37.0)% and \$2.3 million, or (39.6)% for the three and nine months ended September 30, 2019, respectively, compared to the corresponding period of 2018, primarily due to reduced employee compensation costs due to lower headcount.

Other expense

	Three Months Ended September 30,		Change	
	2019	2018	Amount	%
	(in thousands)			
Other expense				
Interest expense	\$ (145)	\$ (148)	\$ 3	(2.0)%
Fair value adjustment for warrant liabilities	—	—	—	— %
Impairment of digital currencies	—	—	—	— %
Other income (expense)	11	(31)	42	(135.5)%
Total other expense	\$ (134)	\$ (179)	\$ 45	(25.1)%

	Nine Months Ended September 30,		Change	
	2019	2018	Amount	%
	(in thousands)			
Other expense				
Interest expense	\$ (484)	\$ (533)	\$ 49	(9.2)%
Fair value adjustment for warrant liabilities	—	(54)	54	(100.0)%
Impairment of digital currencies	—	(334)	334	(100.0)%
Other income (expense)	28	(22)	50	(227.3)%
Total other expense	\$ (456)	\$ (943)	\$ 487	(51.6)%

Other expense decreased \$45 thousand for the three months ended September 30, 2019 compared to the corresponding period of 2018 primarily due to a loss on the sale of digital currencies of \$35 thousand recorded during 2018, and miscellaneous income of \$10 thousand recorded during the period in 2019.

Other expense decreased \$487 thousand for the nine months ended September 30, 2019 compared to the corresponding period of 2018, primarily due to expenses related to the impairment of digital currencies and a loss on the sale of digital currencies in 2018. As of September 30, 2019, the Company did not hold any digital currencies.

Liquidity and Capital Resources

The following table summarizes our cash flows for the periods presented:

	Nine Months Ended September 30,		Change	
	2019	2018	Amount	%
<i>(in thousands, except percentages)</i>				
Consolidated statement of cash flows				
Net cash used in operating activities	\$ (5,899)	\$ (6,439)	\$ 540	(8.4)%
Net cash provided by investing activities	70	451	(381)	(84.5)%
Net cash (used in) provided by financing activities	(409)	5,842	(6,251)	(107.0)%

Operating Activities

The primary source of cash from operating activities is receipts from the sale of platform subscriptions and services and application transactions to customers. The primary uses of cash from operating activities are payments to employees for compensation and related expenses, publishers and other vendors for the purchase of digital media inventory and related costs, sales and marketing expenses and general operating expenses.

The Company utilized \$5.9 million of cash from operating activities during the nine months ended September 30, 2019, primarily resulting from a net loss of \$9.0 million, as adjusted \$0.2 million for depreciation and amortization, \$0.1 million for allowance for doubtful receivables and \$1.1 million for stock-based compensation. In addition, certain changes in our operating assets and liabilities resulted in significant cash increases (decreases) as follows: \$(0.3) million from a decrease in accounts payable, \$1.0 million from an increase in accrued expenses, \$0.3 million from an increase in account receivable, and \$0.8 million from an increase in deferred revenue.

The Company utilized \$6.4 million of cash from operating activities during the nine months ended September 30, 2018, primarily resulting from a net loss of \$6.3 million, as adjusted for non-cash charges related to the impairment of digital currencies of \$0.3 million, \$0.3 million for depreciation and amortization, \$0.1 million for change in fair value of warrants, \$0.3 million for stock-based compensation and \$0.1 million for allowance for doubtful receivables. In addition, certain changes in our operating assets and liabilities resulted in significant cash increases (decreases) as follows: \$3.4 million from an increase in accounts payable and \$(6.3) million from a decrease in accrued expenses, \$1.9 million from an increase in accounts receivable, \$(0.1) million from a decrease in deferred revenue, \$0.5 million from an increase in warrant liability, \$0.2 million from an increase in prepaid expenses and other assets and \$(0.9) million from a decrease of deferred merger cost.

Investing Activities

Investing activities for the nine months ended September 30, 2019 primarily consisted of the sale of digital currencies received for warrant exercises.

Investing activities for the nine months ended September 30, 2018 consisted of \$0.9 million of proceeds received from the sale of digital currencies, partially offset by \$(0.5) million for the issuance of a note receivable.

Financing Activities

Financing activities during the nine months ended September 30, 2019 consisted of redemptions and dividends of the Series A convertible preferred stock, as well as net repayments on the Company's financing factoring agreement. These payments were mostly offset by proceeds from warrant exercises, convertible note, PhunCoin deposits and exercises of options

to purchase common stock. The Company utilized \$0.4 million of cash from financing activities, primarily as follows: \$(6.2) million from redemptions and dividend payments of Series A convertible preferred stock, \$(0.9) million of repayments from the Company's factoring financing agreement; mostly offset by \$6.1 million provided by warrant exercise, \$0.3 million provided from convertible notes borrowings, \$0.2 million from PhunCoin deposits, and \$0.2 million from exercises of options to purchase common stock.

Financing activities during the nine months ended September 30, 2018 consisted primarily of the proceeds from common stock subscriptions and the Company's financing factoring agreement. The Company acquired \$5.8 million of cash from financing activities, primarily as follows: \$5.4 million provided by common stock subscriptions, \$0.3 million provided by net proceeds from the Company's factoring financing agreement, and \$0.1 million provided from exercises of stock options.

The Company has a history of operating losses and negative operating cash flows. Although the Company continues to focus on growing its revenues, it expects these trends to continue into the foreseeable future. We will be required to raise additional capital through debt or equity financings or reduce operating expenses. Despite a history of successfully implementing similar plans to alleviate adverse financial conditions, these sources of working capital are not currently assured. There can be no assurance that we will be able to consummate such financings on favorable terms or at all. These conditions raise substantial doubt about our ability to continue as a "going concern".

Off-Balance Sheet Arrangements

During the periods ended September 30, 2019 and December 31, 2018, the Company did not have any off-balance sheet arrangements, as defined in Item 303(a)(4)(ii) of SEC Regulation S-K, such as the use of unconsolidated subsidiaries, structured finance, special purpose entities or variable interest entities.

Indemnification Agreements

In the ordinary course of business, the Company provides indemnifications of varying scope and terms to customers, vendors, lessors, business partners and other parties with respect to certain matters, including, but not limited to, losses arising out of breach of such agreements, solutions to be provided by the Company or from intellectual property infringement claims made by third parties. In addition, the Company has entered into indemnification agreements with directors and certain current and former officers and employees that will require the Company, among other things, to indemnify them against certain liabilities that may arise by reason of, or are related to, their status or service as directors, officers or employees.

Recent Accounting Pronouncements

Refer to Note 2, "Significant Accounting Policies" in the notes to our condensed consolidated financial statements for analysis of recent accounting pronouncements that are applicable to our business.

Summary of Significant Accounting Policies

Management's discussion and analysis of our financial condition and results of operations is based on our financial statements, which have been prepared in accordance with GAAP. The preparation of these financial statements requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, as well as the reported revenues generated and expenses incurred during the reporting periods. Our estimates are based on our historical experience and on various other factors that we believe are reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

With the exception of changes described within Note 2, "Significant Accounting Policies" due to the adoption of ASU No. 2014-09, there have been no material changes to our critical accounting policies and estimates as compared to the critical accounting policies and estimates disclosed in our Annual Report on Form 10-K filed with the SEC on March 20, 2019 for the year ended December 31, 2018.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Not applicable.

Item 4. Controls and Procedures

Limitations on Effectiveness of Controls

In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. In addition, the design of disclosure controls and procedures must reflect the fact that there are resource constraints and that management is required to apply its judgment in evaluating the benefits of possible controls and procedures relative to their costs.

Evaluation of Disclosure Controls and Procedures

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer (together, the “Certifying Officers”), we carried out an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act. Based on the foregoing, our Certifying Officers concluded that our disclosure controls and procedures were effective as of the end of the period covered by this Report.

Disclosure controls and procedures are controls and other procedures 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 information required to be disclosed in our reports filed or submitted under the Exchange Act is accumulated and communicated to management, including our Certifying Officers, or persons performing similar functions, as appropriate, to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting

During the nine months ended covered by this Report on Form 10-Q, we implemented new controls which enabled us to prepare our financial statements under ASC 606 on a modified retrospective basis effective for us on January 1, 2019. There were no other changes in our internal control over financial reporting identified in connection with the evaluation required by Rule 13a-15(d) and 15d-15(d) of the Exchange Act that occurred during the most recent fiscal quarter 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

On September 26, 2017, we filed a breach of contract complaint against Uber Technologies, Inc. seeking approximately \$3 million (plus interest) for unpaid invoices for advertising campaign services provided for Uber in the first quarter of 2017. The case, captioned *Phunware, Inc. v. Uber Technologies, Inc.*, Case No. CGC-17-561546 was filed in the Superior Court of the State of California County of San Francisco. On November 13, 2017, Uber generally denied the allegations in our complaint and also filed a cross-complaint against us and Fetch - the advertising agency Uber retained to run its mobile advertising campaign for the period 2014 through the first quarter of 2017 (the "Fetch Campaign"), asserting numerous fraud and contract-based claims. All the claims stem from Uber's allegation that Fetch and/or we (and/or other-as-yet-unidentified ad networks and publishers) are liable for the Fetch Campaign, under which Uber allegedly overpaid Fetch and mobile advertising providers due to allegedly fraudulent attribution for installments of the Uber application. Uber did not allege any specific dollar amount that it is seeking in damages against either of the named cross-defendants (Fetch and Phunware). We filed a motion to dismiss the cross-complaint, which was heard on February 7, 2018. The motion was granted in part and denied in part by the Court. On April 16, 2018, the action was designated complex, and the matter was assigned for all purposes to Judge Wiss of the Superior Court of California, San Francisco County (Department 305). In March 2019, Uber and Fetch settled Uber's claims against Fetch on terms that have not been disclosed to Phunware at this time. On May 7, 2019, we retained new counsel. In June 2019, the Court set a new trial date of April 20, 2020. Discovery is continuing. On June 26, 2019, the case was reassigned for all purposes to Judge Jackson of the Superior Court of California, San Francisco County (Department 613). On July 12, 2019, Uber filed its First Amended Cross-Complaint, naming new individual cross-defendants (Phunware Chief Executive Officer Alan S. Knitowski, and former Phunware employees D. Stasiuk, M. Borotsik, and A. Cook) accused of civil RICO violations and civil conspiracy to violate RICO, in addition to fraud, negligence, and unfair competition-based claims, and adding a fraud-based claim against Phunware. Uber's First Amended Cross-Complaint alleges that cross-defendants fraudulently obtained approximately \$17 million from Uber, and claims treble damages, general and punitive damages, and attorneys' fees and costs. We maintain that our claims against Uber are meritorious and that Uber's claims against us are not. However, we make no predictions on the likelihood of success of prevailing on our contract action against Uber or on the likelihood of defeating Uber's claims against us.

From time to time, the Company is and may become involved in various legal proceedings in the ordinary course of business. The outcomes of our legal proceedings are inherently unpredictable, subject to significant uncertainties, and could be material to our operating results and cash flows for a particular reporting period. In addition, for the matters disclosed above that do not include an estimate of the amount of loss or range of losses, such an estimate is not possible, and we may be unable to estimate the possible loss or range of losses that could potentially result from the application of non-monetary remedies.

Item 1A. Risk Factors

Important risk factors that could affect our operations and financial performance, or that could cause results or events to differ from current expectations, are described in "Part I, Item 1A — Risk Factors" of our Annual Report on Form 10-K filed with the SEC on March 20, 2019 for the year ended December 31, 2018, as supplemented by the "Risk Factors" section in our prospectus filed with the SEC on May 14, 2019 and the information set forth below. An investment in our securities involves a high degree of risk. The risks and uncertainties described below and within our Form 10-K for the year ended December 31, 2018 and the prospectus are not the only ones we face. Additional risks and uncertainties that we are unaware of, or that we currently believe are not material, may also become important factors that adversely affect our business or results of operations.

Our financial results may be adversely affected by changes in accounting principles applicable to us.

U.S. generally accepted accounting principles ("GAAP") is subject to interpretation by the Financial Accounting Standards Board ("FASB"), the SEC, and other various bodies formed to promulgate and interpret appropriate accounting principles. For example, in May 2014, the FASB issued Accounting Standards Update No. ("ASU") No. 2014-09 (Topic 606), *Revenue from Contracts with Customers*, which supersedes nearly all existing revenue recognition guidance under GAAP. We implemented this guidance in the first quarter of our fiscal year 2019. The most significant impact relates to our accounting for subscriptions to our MaaS licenses and application development services, which may potentially make revenue more volatile and difficult to predict. In addition, accounting for commissions is impacted significantly as we have to capitalize and amortize most commissions under the new standard instead of expensing commissions as incurred. Due to the complexity of certain of our contracts, the revenue recognition treatment required under the new standard is dependent on contract-specific terms.

To adopt the new standards, we may have to implement new modules in our accounting system, hire consultants and increase our spending on audit fees, thereby increasing our general and administrative expense. Increased spending related to

the new revenue standard will continue through at least the first half of 2019 and will likely increase our audit fees on an ongoing basis thereafter. Any difficulties in implementing changes in accounting pronouncements or adequately accounting after adoption could cause us to fail to meet our financial reporting obligations, which could result in regulatory discipline and harm investors' confidence in us.

We may experience quarterly fluctuations in our operating results due to a number of factors, which makes our future results difficult to predict and could cause our operating results to fall below expectations.

Our quarterly operating results have fluctuated in the past and we expect them to fluctuate in the future due to a variety of factors, many of which are outside of our control. As a result, our past results may not be indicative of our future performance and comparing our operating results on a period-to-period basis may not be meaningful. In addition to the other risks described herein, factors that may affect our quarterly operating results include, without limitation:

- changes in spending on subscriptions, services and application transactions media offerings and services by our current or prospective customers;
- pricing our technology offerings and services effectively so that we are able to attract and retain customers without compromising our operating results;
- one-time, non-recurring revenue generating events.

We have a concentration of sales with a key customer whose statement of work was completed on September 30, 2019. The loss of revenue from this customer may have a material adverse effect on our results of operations and financial condition.

Revenue from Fox Networks Group ("Fox") was 55% and 58% of total revenue for the three and nine months ended September 30, 2019, respectively. As noted on our Current Report on Form 8-K filed with the SEC on October 4, 2019, we completed our contractual obligations under our statement of work with Fox as of September 30, 2019. While our underlying master services agreement with Fox (setting forth general terms and conditions) remains in place, we do not have any active statements of work with Fox. Accordingly, there could be no additional sales in the foreseeable future from Fox. This could have a material adverse effect on our business, financial condition and results of operations.

There has been limited precedent set for financial accounting of digital assets. It is unclear how the Company will be required to account for digital assets transactions in the future.

There has been limited precedent set for the financial accounting of digital assets, including accounting for the issuance of our digital assets, PhunCoin and Phun. It is unclear how the Company will be required to account for issuances of its own digital assets and the digital assets it holds on its balance sheet. Furthermore, a change in regulatory or financial accounting standards could result in the necessity to restate the Company's financial statements. Such a restatement could negatively impact the Company's business, prospects, financial condition and results of operations. Such circumstances would have a material adverse effect on the ability of the Company to continue as a going concern or to pursue this segment at all, which would have a material adverse effect on the business, prospects or operations of the Company and potentially the value of any cryptocurrencies the Company holds or expects to acquire for its own account, including PhunCoin and Phun, to the detriment of the Company's investors.

We intend to raise additional capital to fund a Token Generation Event, pursuant to a Rule 506(c) of Regulation D offering by our wholly-owned subsidiary, PhunCoin, Inc., of rights to receive future PhunCoin. We further intend for our wholly-owned subsidiary, Phun Token International, to sell Phun. There can be no assurance that PhunCoin or Phun will ever be issued and, any significant difficulties we, PhunCoin, Inc., or Phun Token International may experience with the offerings of PhunCoin or Phun could result in claims against us. Additionally, the Token Generation Event and the offerings of PhunCoin and Phun could subject us to various other business and regulatory uncertainties.

In June 2018, PhunCoin, Inc. launched an offering to raise capital by offering investors the right to acquire PhunCoin ("Rights") pursuant to Rule 506(c) of Regulation D as promulgated under the Securities Act. In addition, in 2019, PhunCoin, Inc. commenced an offering of Rights pursuant to Regulation CF, which closed May 1, 2019. As of November 1, 2019, a total of \$1.2 million has been raised in both Rights offerings.

During the second quarter of 2019, Phunware announced the launch of a separate token, Phun, by its wholly owned subsidiary, Phun Token International, which enables consumers to participate in our blockchain-enabled data exchange and mobile loyalty ecosystem. As of September 30, 2019, no Phun has been sold.

We will use our commercially reasonable efforts to cause PhunCoin, Inc. and Phun Token International to develop and issue PhunCoin and Phun, but there is no assurance that such efforts will be successful. If the Token Generation Event, defined as the launch of the Token Ecosystem, is not consummated or the Rights offerings of PhunCoin or sales of Phun do not result in substantial proceeds, it could have a material adverse effect on our cash position. If the Token Generation Event is not consummated or Phun is not adopted commercially, we would have to reduce our planned expenditures and/or would require additional funding from other sources in order to carry out our business plan. Also, any significant difficulties we may experience with the Token Generation Event or the development of PhunCoin or Phun could result in claims against us and could have a material adverse effect on the Company and its stockholders.

The further development and acceptance of blockchain networks, which are part of a new and rapidly changing industry, are subject to a variety of factors that are difficult to evaluate. The slowing or stopping of the development or acceptance of blockchain networks and blockchain assets would have a material adverse effect on PhunCoin, Inc.'s and Phun Token International's business plans, which would have a material adverse effect on the Company and its stockholders.

The growth of the blockchain industry in general, as well as the networks on which PhunCoin will rely to consummate the Token Generation Event, is subject to a high degree of uncertainty. The cryptocurrency and cryptosecurities industries as a whole have been characterized by rapid changes and innovations and are constantly evolving. The slowing or stopping of the development, general acceptance and adoption and usage of blockchain networks and blockchain assets may materially adversely affect our business plans to launch and maintain PhunCoin and Phun. For example, given the regulatory complexity with respect to cryptocurrency and related digital assets, complying with such regulations, which could change in the future or be subject to new interpretations, could have a material and adverse effect on our ability to develop, launch and continue to operate PhunCoin, Phun and the Token Ecosystem. In addition, the tax and accounting consequences to us of the Token Generation Event, PhunCoin and Phun are uncertain, which could lead to incorrect reporting, classification or liabilities. If the Token Generation Event occurs and PhunCoin and Phun are developed, the structural foundation of PhunCoin and Phun, and the software applications and other interfaces or applications upon which PhunCoin, Phun and the Token Ecosystem rely or on which PhunCoin, Phun and the Token Ecosystem may rely in the future, are and will be unproven. There can be no assurances that PhunCoin or Phun will be fully secure, which may result in impermissible transfers, a complete loss of users' PhunCoin or Phun on the Token Ecosystem, or an unwillingness of users to access, adopt and utilize PhunCoin or Phun, whether through system faults or malicious attacks. Any such faults or attacks on PhunCoin or Phun may materially and adversely affect our business.

Because PhunCoin and Phun will be digital assets built and transacted initially on top of Stellar, an existing blockchain technology, Phunware is reliant on another blockchain network, and users are subject to the risk of wallet incompatibility and blockchain protocol risks.

We have decided to initially use the Stellar blockchain as the underlying blockchain technology to create the Token Ecosystem, although we may choose another blockchain technology in the future. Reliance upon another blockchain technology subjects us and the Token Ecosystem users to the risk of digital wallet incompatibility, or additional ecosystem malfunction, unintended function, unexpected functioning of, or attack on, the Stellar blockchain protocol, which may cause PhunCoin or Phun to malfunction or function in an unexpected manner, including, but not limited to, slowdown or complete cessation in functionality of the network.

The Token Ecosystem is designed to distribute PhunCoin and Phun to consumers in exchange for their agreement to provide certain personal information to us. Providing this data exposes us to risks of privacy data breach and cybersecurity attacks.

We utilize a substantial amount of electronic information. This includes transaction information and sensitive personal information of the users of the Token Ecosystem. The service providers used by us, may also use, store, and transmit such information. While we intend to implement detailed cybersecurity policies and procedures and an incident response plan designed to protect such information and prevent data loss and security breaches, there can be no assurances that such policies and procedures will be effective.

There can be no assurances that PhunCoin, Phun or a user's data will be fully secure, which may result in impermissible transfer, a complete loss of users' PhunCoin, Phun or data on the Token Ecosystem, and an unwillingness of

users to access, adopt and utilize PhunCoin and Phun, whether through system faults or malicious attacks. Any such faults or attacks on PhunCoin, Phun or users' data may materially and adversely affect PhunCoin, Phun and the Token Ecosystem. There are a number of data protection, security, privacy and other government- and industry-specific requirements, including those that require companies to notify individuals of data security incidents involving certain types of personal data. Security compromises could harm the Token Ecosystem's reputation, erode user confidence in the effectiveness of its security measures, negatively impact its ability to attract new users, or cause existing users to stop using the Token Ecosystem, PhunCoin and Phun. We may be compelled to disclose personal information about a user or users of the Token Ecosystem to federal or state government regulators or taxation authorities. Accordingly, certain information concerning users may be shared outside Phunware.

The regulatory regime governing blockchain technologies, cryptocurrencies, digital assets, utility tokens, and offerings of digital assets and utility tokens such as PhunCoin and Phun is uncertain, and new regulations or policies may materially adversely affect the development and the value of PhunCoin and Phun.

Regulation of digital assets, like PhunCoin and Phun, cryptocurrencies, blockchain technologies and cryptocurrency exchanges, is currently undeveloped and likely to rapidly evolve as government agencies take greater interest in them. Regulation also varies significantly among international, federal, state and local jurisdictions and is subject to significant uncertainty. For example, Phun will only be initially available to residents outside of the United States and Canada. Various legislative and executive bodies in the United States and in other countries may in the future adopt laws, regulations, or guidance, or take other actions, which may severely impact the permissibility of tokens generally and the technology behind them or the means of transaction or in transferring them. In addition, any violations of laws and regulations relating to the safeguarding of private information in connection with PhunCoin or Phun could subject us to fines, penalties or other regulatory actions, as well as to civil actions by affected parties. Any such violations could adversely affect the ability of Phunware to cause its subsidiaries to maintain PhunCoin or Phun, which could have a material adverse effect on our operations and financial condition. Failure by us to comply with any laws, rules and regulations, some of which may not exist yet or are subject to interpretation and may be subject to change, could result in a variety of adverse consequences, including civil penalties and fines.

Our recent reduction in workforce may prevent us from executing initiatives to improve the performance of our business effectively or at all.

We have been and are currently implementing certain initiatives to improve the performance of our business, and our recent reduction in workforce could prevent us from engaging in certain initiatives we had previously considered, and could prevent us from executing such initiatives effectively. As noted on our Current Report on Form 8-K filed with the SEC on October 4, 2019, upon completion of the statement of work with Fox, we committed to organizational restructuring and cost reductions specific to our former Fox team. To that end, we reduced our workforce by 21 persons in total, or 18%.

We also reduced our workforce by 23 persons in April 2019. The reductions in our workforce could prevent us from engaging in certain initiatives to improve the performance of our business, due to an insufficiency of workforce size or an insufficiency of certain required skills, and could prevent us from executing initiatives effectively, which could have a material adverse effect on our financial results, business and prospects.

Goodwill comprises a significant portion of our total assets. We assess goodwill for impairment at least annually, which could result in a material, non-cash write-down and could have a material adverse effect on our results of operations, financial condition and our future operating results.

The carrying value of our goodwill was \$25.8 million, or approximately 85% of our total assets, as of September 30, 2019. We perform an analysis on our goodwill balances to test for impairment on an annual basis or whenever events occur that may indicate impairment possibly exists. Goodwill is deemed to be impaired if the net book value of a reporting unit exceeds the estimated fair value.

Based on a combination of factors, including the anticipated revenue loss related to Fox, our operating results and a sustained decline in our market capitalization, we concluded that there were sufficient indicators to require us to perform an interim goodwill impairment analysis as of September 30, 2019. We completed our goodwill impairment analysis, and we concluded an impairment of goodwill was not necessary as of September 30, 2019.

Goodwill impairment analysis and measurement is a process that requires significant judgment. Several factors could result in impairment of a material amount of our goodwill balance in future periods, including, but not limited to:

- (1) A decline in our stock price and resulting market capitalization, if we determine that the decline is sustained and is indicative of a reduction in the fair value of any of our reporting units below its carrying value.
- (2) Weakening of the world-wide economy, weakness in the business in which we operate or failure to reach our internal forecasts could impact our ability to achieve our forecasted levels of cash flows and reduce the estimated discounted cash flow value of our reporting units.

It is not possible at this time to determine if any such future impairment charge would result from these factors, or, if it does, whether such charge would be material. We will continue to review our goodwill for possible impairment. We cannot be certain that a future downturn in our business, changes in market conditions or a longer-term decline in the quoted market price of our stock will not result in an impairment of goodwill and the recognition of resulting expenses in future periods, which could adversely affect our results of operations for those periods.

Current and future litigation could adversely affect us.

We, along with the Company's Chief Executive Officer, are parties to the legal proceedings with Uber described in Item 1 of Part 2 of this Quarterly Report on Form 10-Q. We, along with our officers and directors, may also become subject to other legal proceedings in our ordinary course of business. We cannot predict with certainty the outcomes of these legal proceedings. The outcome of some of these legal proceeding could require us to take, or refrain from taking, actions which could negatively affect our operations. Such legal proceedings involve substantial costs, including the costs associated with investigation, litigation and possible settlement, judgment, penalty, or fine. As a smaller company, the collective costs of litigation proceedings represent a drain on our cash resources, and require an inordinate amount of our management's time and attention. Moreover, an adverse ruling in respect of the Uber or any other litigation could have a material adverse effect on our results of operations and financial condition. Negative publicity surrounding such legal proceedings may also harm our reputation and adversely impact our business and results.

We require significant additional capital funding and such capital may not be available to us.

We expect that our operating expenses will be higher than our net revenues for the foreseeable future, we currently lack sufficient working capital and we do not currently have financing available to pay all liabilities as they are scheduled to come due in the next twelve months. We are working on several contingency plans within our control to conserve existing liquidity through the reduction of discretionary expenses. We are also exploring various alternatives including debt and equity financing vehicles, alternative offerings and strategic partnerships.

Our cash requirements relate primarily to our current negative working capital balance plus working capital needed to operate and grow our business, including funding operating expenses and continued development and expansion of our products and services. We are currently unable to fund our operations without additional external financing and therefore cannot sustain future operations. As such, we may be required to delay, reduce and/or cease our operations and/or seek bankruptcy protection. Although we have successfully raised funds from investors in the past, no assurances can be made that we will be able to obtain sufficient additional capital to satisfy the current negative working capital balances and future operations. Furthermore, if adequate additional funds are not available, we will be required to delay, reduce the scope of, or eliminate material parts of the implementation of our business strategy, including potential additional acquisitions or internally-developed businesses, which could seriously harm our business and operating results.

Additionally, even if we raise sufficient capital through additional equity or debt financings, strategic alternatives or otherwise, there can be no assurance that the revenue or capital infusion will be sufficient to enable us to develop our business to a level where it will be profitable or generate positive cash flow. If we raise additional funds through the issuance of equity or convertible debt securities, the percentage ownership of our stockholders could be significantly diluted and these newly issued securities may have rights, preferences or privileges senior to those of existing stockholders. If we incur additional debt, a substantial portion of our operating cash flow may be dedicated to the payment of principal and interest on such indebtedness, thus limiting funds available for our business activities. The debt holders would have rights senior to common stockholders to make claims on our assets and the terms of any debt securities issued could also impose significant restrictions on our operations. Because our decision to issue securities in any future offering will depend on market conditions and other factors beyond our control, we cannot predict or estimate the amount, timing or nature of our future offerings. Our warrants may and have been exercised on a cashless basis. As a result, our stockholders bear the risk of our future securities offerings reducing the market price of our common stock and diluting their interest. Broad market and industry factors may seriously harm the market price of our common stock, regardless of our operating performance and may adversely impact our ability to raise additional funds. If we raise additional funds through collaborations and/or licensing arrangements, we might be required to relinquish significant rights to our technologies, or grant licenses on terms that are not favorable to us.

Our subsidiary, PhunCoin, Inc., launched an offering to raise capital in 2018 by offering investors Rights to acquire PhunCoin. During the second quarter of 2019, Phunware's board of directors authorized the issuance of \$20 million of convertible promissory notes, and in October 2019, our board of directors authorized the issuance of \$20 million of promissory notes. As of September 30, 2019, \$1.2 million had been raised in the PhunCoin Rights offerings and \$250 thousand in convertible notes had been issued. There can be no assurance that the Company will be able to obtain additional funding via these capital raises or at all, and there can be no assurances that the Company will be able to obtain additional funding on satisfactory terms.

The price of our common stock and warrants has been, and may continue to be, volatile, and you could lose all or part of your investment.

Technology stocks have historically experienced high levels of volatility. The trading price and volume of our common stock and warrants has fluctuated, and may continue to fluctuate, substantially due to a variety of factors, including those described in this "Risk Factors" section and within our Form 10-K filed with the SEC on March 20, 2019 for year ended December 31, 2018, many of which are beyond our control and may not be related to our operating performance. These fluctuations could cause you to lose all or part of your investment in our common stock.

In addition, if the market for technology stocks or the stock market in general experiences a loss of investor confidence, the trading price of our common stock and/or warrants could decline for reasons unrelated to our business, results of operations or financial condition. The trading price of our common stock and warrants might also decline in reaction to events that affect other companies in our industry even if these events do not directly affect us. In the past, following periods of volatility in the trading price of a company's securities, securities class action litigation has often been brought against that company. If our stock price is volatile, we may become the target of securities litigation. Securities litigation could result in substantial costs and divert our management's attention and resources from our business. This could have an adverse effect on our business, results of operations and financial condition.

Specifically, while we cannot state with certainty what circumstances and factors are causing volatility in our stock price, such volatility may be attributable in part to the following factors:

- the periodic trading of shares by existing holders of pre-merger shares of common stock, who were not subject to any lock-up, and therefore are able to freely trade shares of common stock on the public market free of restriction;
- the lock-up of 180-days expired on June 26, 2019, which may have increased the trading activity and the supply of freely tradeable shares on the public market;
- the effectiveness of our registration statement, filed with the SEC on May 3, 2019 for the registration of additional shares of common stock, including those shares of common stock underlying outstanding warrants, which signaled that additional dilution may result in the event that such warrants are or were exercised for the underlying shares;
- short-sales and trading by public investors who may be either attempting to take advantage of the low public float or covering their short positions and, because of the low public float at times, may have had to pay relatively high prices for their shares to close out their positions;
- the cashless exercises of up to 6,900,610 in public warrants for the underlying shares of common stock, which shares may be unrestricted and available for trading immediately; and
- the public market's disproportionate focus on PhunCoin, Phun, and other ancillary activities that are speculative in nature and separate from our core operations.

As a result of the offering covered by the Registration Statement on Form S-1 (as amended), which was declared effective on May 14, 2019, the number of shares of common stock that are in the public float increased due to shares issued upon the exercise of outstanding warrants. Such shares, which are now registered are in the hands of stockholders who are not subject to lock-ups. This resulted in a larger public market for our shares, and may or may not normalize the trading price and reduce volatility in the stock price.

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

The following list sets forth information as to all Phunware securities sold which were not registered under the Securities Act.

Plan-Related Issuances

None.

Item 3. Defaults Upon Senior Securities

Not applicable.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

Not applicable.

Item 6. Exhibits

Unless otherwise noted, the exhibits listed on the accompanying Exhibit Index are filed or incorporated by reference (as stated therein) as part of this Quarterly Report on Form 10-Q.

EXHIBIT INDEX

Exhibit No.	Description
2.1	Agreement and Plan of Merger, dated February 27, 2018, by and among Stellar, STLR Merger Subsidiary Inc. and Phunware, Inc (Incorporated by reference to Exhibit 2.1 of Stellar's Form 8-K (File No. 001-37862), filed with the SEC on February 28, 2018, and also included as Annex C to the joint proxy statement/prospectus).
2.2	First Amendment to Agreement and Plan of Merger, dated November 1, 2018, by and among Stellar, Phunware, Inc. and the Holder Representative named therein (Incorporated by reference to Annex C-1 to Stellar's Form S-4/A (File No. 333-224227), filed with the SEC on November 13, 2018).
3.1	Amended and Restated Certificate of Incorporation of the Registrant (Incorporated by reference to Exhibit 3.1 of the Registrant's Form 8-K (File No. 001-37862), filed with the SEC on January 2, 2019).
3.2	Amended and Restated Bylaws of the Registrant (Incorporated by reference to Exhibit 3.2 of the Registrant's Form 8-K (File No. 001-37862), filed with the SEC on January 2, 2019).
3.3	Certificate of Designation (Incorporated by reference to Exhibit 3.3 of the Registrant's Form 8-K (File No. 001-37862) filed with the SEC on January 2, 2019).
4.1	Form of Convertible Promissory Note (Incorporated by reference to Exhibit 4.1 of the Registrant's Form 8-K (File No. 001-37862) filed with the SEC on June 5, 2019).
10.1	Standard office lease dated July 16, 2019, between the Company and BRE CA Office Owner, LLC (Incorporated by reference to Exhibit 10.3 of the Registrant's Form 10-Q filed with the SEC on August 13, 2019).
10.2*	Third amendment to Lease dated August 20, 2019, between the Company and Seamless Shoal Creek, LLC.
10.3*	First amendment to Lease dated November 12, 2019, between the Company and Promontory Associates.
31.1*	Certification of the Principal Executive Officer required by Rule 13a-14(a) or Rule 15d-14(a)*
31.2*	Certification of the Principal Financial Officer required by Rule 13a-14(a) or Rule 15d-14(a)*
32.1 ⁽¹⁾	Certification of the Principal Executive Officer required by Rule 13a-14(b) or Rule 15d-14(b) and 18 U.S.C. 1350*
101.INS	XBRL Instance Document*
101.SCH	XBRL Taxonomy Extension Schema*
101.CAL	XBRL Taxonomy Calculation Linkbase*
101.LAB	XBRL Taxonomy Label Linkbase*
101.PRE	XBRL Definition Linkbase Document*
101.DEF	XBRL Definition Linkbase Document*

* Filed herewith

- (1) The certifications attached as Exhibit 32.1 accompany this Quarterly Report on Form 10-Q pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, and shall not be deemed “filed” by the Registrant for purposes of Section 18 of the Securities Exchange Act of 1934, as amended.

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.

November 14, 2019

Phunware, Inc.

By: /s/ Alan S. Knitowski

Name: Alan S. Knitowski
Title: Chief Executive Officer
(Principal Executive Officer)

By: /s/ Matt Aune

Name: Matt Aune
Title: Chief Financial Officer
(Principal Accounting and Financial Officer)

THIRD AMENDMENT TO LEASE

THIS THIRD AMENDMENT TO LEASE ("Third Amendment") is entered into as of August 20th, 2019, by and between SEAMLESS SHOAL CREEK, LLC, a Delaware limited liability company ("Landlord") and PHUNWARE, INC., a Delaware corporation ("Tenant").

RECITALS

A. Landlord (as successor-in-interest to Hub Properties Trust) and Tenant are parties to that certain Lease dated November 1, 2011 (the "Initial Lease"), as amended by a First Amendment to Lease dated September 6, 2012 ("First Amendment"), and a Second Amendment to Lease dated July 3, 2013 ("Second Amendment"). The Initial Lease, the First Amendment, and Second Amendment will be referred to herein collectively as the "Existing Lease."

B. Pursuant to the Existing Lease, Landlord leases to Tenant, and Tenant leases from Landlord, certain space (the "Premises") in the building commonly known as Exchange Park and located at 7800 Shoal Creek Blvd., Austin, Texas (the "Building").

C. Landlord and Tenant desire to amend the Existing Lease to, among other things, extend the term of the Existing Lease, subject to the terms of this Third Amendment.

AGREEMENT

NOW, THEREFORE, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Landlord and Tenant hereby agree as follows:

1. Definitions. All capitalized terms used herein but not specifically defined in this Third Amendment shall have the meanings ascribed to such terms in the Existing Lease. The term "Lease" when used in the Existing Lease and this Third Amendment will hereafter refer to the Existing Lease, as amended by this Third Amendment.

2. Term. The term of the Lease is extended so as to expire on March 31, 2022. The period commencing on April 1, 2020 and expiring on March 31, 2022 will be referred to herein as the "Third Amendment Term."

3. Annual Fixed Rent. Prior to April 1, 2020, Tenant will continue to pay Annual Fixed Rent in accordance with the terms of the Existing Lease. Effective as of April 1, 2020, and continuing thereafter during the Third Amendment Term, Tenant will pay monthly installments of Annual Fixed Rent in accordance with the following schedule (which Annual Fixed Rent will be payable in addition to all other amounts due under the Lease, including, without limitation, Additional Rent):

Period of Third Amendment Term	Annual Fixed Rent	Monthly Installment
04/01/20 – 03/31/21	\$223,083.00	\$18,590.25
04/01/21 – 03/31/22	\$231,050.25	\$19,254.19

4. Severability. Any provision of this Third Amendment which shall prove to be invalid, void, or illegal shall in no way affect, impair or invalidate any other provision hereof and such other provisions shall remain in full force and effect.

5. Condition of Premises. Tenant shall continue lease the Premises "as is," "with all faults," and "without any representations or warranties." Tenant currently occupies the Premises and has investigated and inspected the condition of the Premises and the suitability of same for Tenant's purposes, and Tenant hereby waives and disclaims any objection to, cause of action based upon, or claim that its obligations hereunder should be reduced or limited because of the condition of the Premises or the suitability of same for Tenant's purposes. Tenant acknowledges that neither Landlord nor any agent or employee of Landlord has made any representations or warranties with respect to the Premises or the Building or with respect to their suitability for the conduct of Tenant's business except as otherwise expressly set forth in the Lease.

6. Attorney's Fees. In the event either party shall commence an action to enforce any provision of the Lease, the prevailing party in such action shall be entitled to receive from the other party, in addition to damages, equitable or other relief, any and all costs and expenses incurred, including reasonable attorneys' fees and court costs and the fees and costs of expert witnesses, and fees incurred to enforce any judgment obtained. This provision with respect to attorneys' fees incurred to enforce a judgment shall be severable from all other provisions of the Lease, shall survive any judgment, and shall not be deemed merged into the judgment. Tenant shall also reimburse Landlord for all costs incurred by Landlord in connection with enforcing its rights under the Lease in a bankruptcy proceeding, or other proceeding under Title 11 of the United States Code, as amended, including without limitation, legal fees, experts' fees and expenses, court costs and consulting fees.

7. Broker. Tenant represents and warrants to Landlord that it has not dealt with any broker with respect to this Third Amendment other than Cushman & Wakefield, Inc. (representing Landlord) and Aquila Commercial (representing Tenant). If Tenant has dealt with any other broker or person with respect to this Third Amendment, it shall be solely responsible for the payment of any fees due said person or firm and Tenant shall protect, indemnify, hold harmless and defend Landlord from any liability in respect thereto.

8. Binding Effect. This Third Amendment shall be binding upon and inure to the benefit of Landlord, its successors and assigns, and Tenant and its permitted successors and assigns.

9. Lease in Full Force. Except for those provisions which are inconsistent with this Third Amendment and those terms, covenants and conditions for which performance has heretofore been completed, all other terms, covenants and conditions of the Existing Lease shall remain unmodified and in full force and effect and Landlord and Tenant hereby ratify the Existing Lease, as amended hereby. Tenant represents and certifies to Landlord that, as of the date of this Amendment, there is no default by Landlord under the Lease.


10. Facsimile/PDF; Counterparts. Each party hereto, and their respective successors and assigns shall be authorized to rely upon the signatures of all of the parties hereto on this Third Amendment which are delivered by facsimile or by email as a .PDF copy as constituting a duly authorized, irrevocable, actual, current delivery of this Third Amendment with original ink signatures of each person and entity. This Third Amendment may be executed in counterparts, each of which shall be deemed an original part and all of which together shall constitute a single agreement.

[Signature Page Follows]

IN WITNESS WHEREOF, this Third Amendment is executed as of the date first written above.

TENANT:


PHUNWARE, INC.,
a Delaware corporation

By: 
Printed Name: Randall Crowder
Title: COO

LANDLORD:

SEAMLESS SHOAL CREEK, LLC,
a Delaware limited liability company

By: Seamless Shoal Creek GP, LLC,
a Texas limited liability company, Manager

By: 
Printed Name: DUSTIN DONNELL
Title: AUTHORIZED PERSON

FIRST AMENDMENT TO LEASE

This First Amendment to Lease dated August 1, 2019 is attached to and made a part of the Lease Agreement ("Lease") dated July 23, 2014, by and between Promontory Associates, a California General Partnership ("Landlord") and Phunware Inc., a Delaware Corporation ("Tenant") for Suite 170, consisting of approximately 5,353 rentable square feet located at 11440 West Bernardo Court, San Diego, CA 92127.

Unless otherwise defined or the context otherwise indicates, the terms used herein have the meanings defined in the Lease. The provisions of this First Amendment to Lease shall control over any inconsistent provisions of the Lease. The Lease is hereby modified and supplemented as follows:

1. **EFFECTIVE DATE:** Modifications to the Lease as herein set forth shall be effective on February 1, 2020.
2. **RENTABLE SQUARE FEET OF PREMISES:** The Rentable Square Feet of the Premises as defined in Paragraph 1.5 of the Lease shall be modified to 5,353 rentable square feet.
3. **RENTABLE SQUARE FEET OF BUILDING:** The Rentable Square Feet of the Building as defined in Paragraph 1.5 of the Lease shall be modified to 98,212 rentable square feet.
4. **TENANT'S PERCENTAGE OF OPERATING EXPENSES:** The Tenant's Percentage of Operating Expenses as defined in Paragraph 1.10 of the Lease shall be modified to 5.45%.
5. **COMMENCEMENT DATE:** The Commencement Date as defined in Paragraph 1.7 of the Lease shall be modified to February 1, 2020.
6. **LEASE TERM:** The Lease Term as defined in Paragraph 1.6 of the Lease shall be modified to five (5) years and five (5) months.
7. **INITIAL BASIC ANNUAL RENT:** The Initial Basic Annual Rent as defined in Paragraph 1.8 of the Lease shall be modified to One Hundred Eighty-four Thousand Nine Hundred Ninety-nine and 68/100 Dollars (\$184,999.68).
8. **INITIAL MONTHLY INSTALLMENT OF BASIC ANNUAL RENT:** The Initial Monthly Installment of Basic Annual Rent as defined in Paragraph 1.9 of the Lease shall be modified to Fifteen Thousand Four Hundred Sixteen and 64/100 Dollars (\$15,416.64) or \$2.88 per rentable square foot. The Base Rent shall be increased annually by three percent (3%) on the anniversary of the Commencement Date. Therefore, the rent for the Term of the Lease shall be paid according to the following schedule:

Months 1- 5* \$1.44 per rentable square foot per month, or \$7,708.32 per month;
Month 6-12 \$2.88 per rentable square foot per month, or \$15,416.64 per month;
Months 13-17* \$1.48** per rentable square foot per month, or \$7,939.57 per month;
Months 17-24 \$2.97 per rentable square foot per month, or \$15,879.14 per month;
Months 25-36 \$3.06 per rentable square foot per month, or \$16,355.51 per month;
Months 37-48 \$3.15 per rentable square foot per month, or \$16,846.18 per month;
Months 49-60 \$3.24 per rentable square foot per month, or \$17,351.56 per month;
Months 61-65 \$3.34 per rentable square foot per month, or \$17,872.11 per month

*Ten months of half rent realized in Months 1 through 5 and Months 13 through 17 of the Lease Term.
**The Rental Rates described as Per Rentable Square Foot Per Month above, are, for the most part, approximate and rounded to the nearest \$0.01. Tenant is responsible for paying the monthly rent as shown in the right-hand column above.
9. **OPERATING EXPENSE BASE YEAR:** The Operating Expense Base Year as defined in the Paragraph 1.16 of the lease shall be modified to a Base Year defined as Calendar Year 2020.

10. RIGHT TO EXTEND: Provided Tenant is not in default of the Lease, Tenant shall have the Right to Extend the term of the Lease for one (1) additional period of five (5) years, commencing immediately upon the expiration of the original term. The Tenant may exercise this right to extend by delivering written notice to Landlord no less than six (6) months before the end of the original term. The Basic Annual Rent at the beginning of the option period shall be adjusted to the then "prevailing rental rate" which shall be defined as the amount of base rent at which tenants, as of the commencement of the Option Term, are leasing space comparable in size, location and quality to the Premises for a term comparable to the Option Term, which comparable space is located in comparable developments to the Project in the Rancho Bernardo area of the City of San Diego, taking into consideration all monetary and non-monetary concessions being granted to tenants (including, without limitation, improvement allowances, free rent periods and construction periods). Annual increases in Basic Annual Rent during the Option Term shall be at three percent (3%).

ALL OTHER TERMS AND CONDITIONS OF THE LEASE SHALL REMAIN IN FULL FORCE AND EFFECT.

LANDLORD:

Promontory Associates,
A California general partnership

By: Promontory Associates, LLC General Partner

By: Carleton Management, Inc.
Manager

By: John Harris

Its: Chief Financial Officer

Date: 11/12/2019

TENANT:

Phunware Inc.,
A Delaware corporation

By: s/ Matt Aune

Its: Chief Financial Officer

Date: 11/12/2019

CERTIFICATION

I, Alan S. Knitowski, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Phunware Inc.;
1. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
2. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
3. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
1. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 14, 2019

By: /s/ Alan S. Knitowski
Alan S. Knitowski
Chief Executive Officer
(Principal Executive Officer)

CERTIFICATION

I, Matt Aune, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Phunware Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 14, 2019

By: /s/ Matt Aune

Matt Aune
Chief Financial Officer
(Principal Financial and Accounting Officer)

CERTIFICATION

Pursuant to the requirement set forth in Rule 13a-14(b) of the Securities Exchange Act of 1934, as amended, (the "Exchange Act") and Section 1350 of Chapter 63 of Title 18 of the United States Code (18 U.S.C. §1350), Alan S. Knitowski, Chief Executive Officer (Principal Executive Officer) of Phunware, Inc. (the "Company"), and Matt Aune, Chief Financial Officer (Principal Financial and Accounting Officer) of the Company, each hereby certifies that, to the best of his or her knowledge:

1. The Company's Quarterly Report on Form 10-Q for the period ended September 30, 2019, to which this Certification is attached as Exhibit 32.1 (the "Periodic Report"), fully complies with the requirements of Section 13(a) or Section 15(d) of the Exchange Act, and
2. The information contained in the Periodic Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

November 14, 2019

Phunware, Inc.

By: /s/ Alan S. Knitowski

Name: Alan S. Knitowski
Title: Chief Executive Officer
(Principal Executive Officer)

By: /s/ Matt Aune

Name: Matt Aune
Title: Chief Financial Officer
(Principal Accounting and Financial Officer)

"This certification accompanies the Form 10-Q to which it relates, is not deemed filed with the Securities and Exchange Commission and is not to be incorporated by reference into any filing of Phunware, Inc. under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended (whether made before or after the date of the Form 10-Q), irrespective of any general incorporation language contained in such filing."