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 March 31, 2021

☐ **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	**30-1205798**
(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**

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**

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	☐	Accelerated filer	☐
Non-accelerated filer	☒	Smaller reporting company	☒
		Emerging growth company	☒

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

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

As of May 10, 2021, 71,662,933 shares of common stock, par value $0.0001 per share, were issued and outstanding.

TABLE OF CONTENTS

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report (the "Report") includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). These forward-looking statements are intended to be covered by the safe harbor for forward-looking statements provided by the Private Securities Litigation Reform Act of 1995. 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 share and per share information)

	March 31, 2021	December 31, 2020
	(Unaudited)	
Assets		
Current assets:		
Cash	$ 23,469	$ 3,940
Accounts receivable, net of allowance for doubtful accounts of $122 and $356 at March 31, 2021 and December 31, 2020, respectively	937	664
Digital currencies	1,098	—
Prepaid expenses and other current assets	794	304
Total current assets	26,298	4,908
Property and equipment, net	12	13
Goodwill	25,911	25,900
Intangible assets, net	79	111
Deferred tax asset	537	537
Restricted cash	91	91
Right-of-use asset	1,723	—
Other assets	276	276
Total assets	$ 54,927	$ 31,836
Liabilities and stockholders’ equity (deficit)		
Current liabilities:		
Accounts payable	$ 7,781	$ 8,462
Accrued expenses	3,190	5,353
Accrued legal settlement	3,000	3,000
Lease liability	530	—
Deferred revenue	2,180	2,397
PhunCoin deposits	1,202	1,202
Current maturities of long-term debt, net	10,012	4,435
Warrant liability	2,499	1,614
Total current liabilities	30,394	26,463
Long-term debt	3,741	3,762
Long-term debt - related party	195	195
Deferred tax liability	537	537
Deferred revenue	2,054	2,678
Lease liability	1,447	—
Deferred rent	—	180
Total liabilities	38,368	33,815
Commitments and contingencies		
Stockholders’ equity (deficit)		
Common stock, $0.0001 par value; 1,000,000,000 shares authorized at March 31, 2021 and December 31, 2020; 71,211,399 and 56,380,111 shares issued and outstanding as of March 31, 2021 and December 31, 2020, respectively	7	6
Additional paid-in capital	175,046	144,156
Accumulated other comprehensive loss	(328)	(338)
Accumulated deficit	(158,166)	(145,803)
Total stockholders’ equity (deficit)	16,559	(1,979)
Total liabilities and stockholders’ equity (deficit)	$ 54,927	$ 31,836

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 March 31,	
	2021	**2020**
Net revenues	$ 1,646	$ 2,640
Cost of revenues	692	1,091
Gross profit	954	1,549
Operating expenses:		
Sales and marketing	556	605
General and administrative	2,758	3,945
Research and development	1,052	861
Total operating expenses	4,366	5,411
Operating loss	(3,412)	(3,862)
Other expense:		
Interest expense	(2,219)	(101)
Loss on extinguishment of debt	(5,768)	—
Loss on change in fair value of warrant liability	(885)	—
Other expense	(79)	—
Total other expense	(8,951)	(101)
Loss before taxes	(12,363)	(3,963)
Income tax expense	—	—
Net loss	(12,363)	(3,963)
Other comprehensive income (loss):		
Cumulative translation adjustment	10	(72)
Comprehensive loss	$ (12,353)	$ (4,035)
Net loss per common share, basic and diluted	$ (0.19)	$ (0.10)
Weighted-average common shares used to compute net loss per share, basic and diluted	64,587	40,095

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

Phunware, Inc.
Condensed Consolidated Statements of Changes in Stockholders' Equity (Deficit)
(In thousands)
(Unaudited)

	Common Stock		Additional Paid-in Capital	Accumulated Deficit	Other Comprehensive Loss	Total Stockholders' Equity (Deficit)
	Shares	Amount				
Balance - December 31, 2020	56,371	$ 6	$ 144,156	$ (145,803)	$ (338)	$ (1,979)
Exercise of stock options, net of vesting of restricted shares	120	—	65	—	—	65
Release of restricted stock	183	—	—	—	—	—
Issuance of common stock for payment of board of director fees	99	—	66	—	—	66
Sales of common stock, net of issuance costs	14,431	1	29,704	—	—	29,705
Stock-based compensation expense	—	—	1,055	—	—	1,055
Cumulative translation adjustment	—	—	—	—	10	10
Net loss	—	—	—	(12,363)	—	(12,363)
Balance - March 31, 2021	71,204	$ 7	$ 175,046	$ (158,166)	$ (328)	$ 16,559

	Common Stock		Additional Paid-in Capital	Accumulated Deficit	Other Comprehensive Loss	Total Stockholders' Equity
	Shares	Amount				
Balance - December 31, 2019	39,811	$ 4	$ 128,008	$ (123,604)	$ (382)	$ 4,026
Exercise of stock options, net of vesting of restricted shares	33	—	16	—	—	16
Vesting of restricted stock units	116	—	—	—	—	—
Issuance of common stock for payment of legal and board of director fees	733	—	492	—	—	492
Stock-based compensation expense	—	—	635	—	—	635
Equity classified cash conversion feature of Senior Convertible Note	—	—	219	—	—	219
Cumulative translation adjustment	—	—	—	—	(72)	(72)
Net loss	—	—	—	(3,963)	—	(3,963)
Balance - March 31, 2020	40,693	$ 4	$ 129,370	$ (127,567)	$ (454)	$ 1,353

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

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

	Three Months Ended March 31,	
	2021	**2020**
Operating activities		
Net loss	$ (12,363)	$ (3,963)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	33	49
Amortization of debt discount and deferred financing costs	1,642	13
Amortization of right-of-use asset	114	—
Loss on change in fair value of warrant liability	885	—
Impairment of right-of-use asset	77	—
Loss on extinguishment of debt	5,768	—
Bad debt recovery	(234)	(16)
Stock-based compensation	1,055	635
Changes in operating assets and liabilities:		
Accounts receivable	(40)	783
Prepaid expenses and other assets	(490)	(108)
Accounts payable	(682)	851
Accrued expenses	(2,287)	643
Lease liability	64	—
Deferred revenue	(841)	(792)
Net cash used in operating activities	(7,299)	(1,905)
Investing activities		
Purchase of digital currencies	(1,098)	—
Net cash provided by investing activities	(1,098)	—
Financing activities		
Proceeds from borrowings, net of issuance costs	9,981	2,595
Proceeds from related party bridge loans	—	560
Payments on senior convertible notes	(11,835)	—
Net repayments on factoring agreement	—	(627)
Proceeds from exercise of options to purchase common stock	65	15
Proceeds from sales of common stock, net of issuance costs	29,705	—
Net cash provided by (used in) financing activities	27,916	2,543
Effect of exchange rate on cash and restricted cash	10	(76)
Net increase (decrease) in cash and restricted cash	19,529	562
Cash and restricted cash at the beginning of the period	4,031	362
Cash and restricted cash at the end of the period	$ 23,560	$ 924

Supplemental disclosure of cash flow information:				
Interest paid	$	567	$	98
Income taxes paid	$	—	$	—
Supplemental disclosures of non-cash financing activities:				
Issuance of common stock for payment of legal and board of director fees	$	66	$	492
Equity classified cash conversion feature of Senior Convertible Note	$	—	$	219

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. and its subsidiaries (the “Company”, "we", "us", or "our") 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 and media in one login through one procurement relationship. 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 advertisers, the Company provides in-app application transactions for mobile audience building, user acquisition, application discovery, audience engagement and audience monetization. Founded in 2009, we are a Delaware corporation headquartered in Austin, Texas.

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, 2020 was derived from our 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 our audited consolidated financial statements and the notes thereto for the year ended December 31, 2020, which are referenced herein. The accompanying interim condensed consolidated financial statements as of March 31, 2021 and for the three months ended March 31, 2021 and 2020, 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 Securities and Exchange Commission ("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 our financial position as of March 31, 2021 and the results of operations for the three months ended March 31, 2021 and 2020, and cash flows for the three months ended March 31, 2021 and 2020. The results for the three months ended March 31, 2021 are not necessarily indicative of the results to be expected for the year ending December 31, 2021 or for any future interim period.

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 for the year ended December 31, 2020, except as set forth below.

Recently Adopted Accounting Pronouncements

In December 2019, the Financial Accounting Standards Board (the "FASB") issued Accounting Standards Update ("ASU") No. 2019-12, *Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes* (“ASU 2019-12”). ASU 2019-12 includes the removal of certain exceptions to the general principles of ASC 740 and simplifies the accounting for income taxes by clarifying and amending existing guidance. We adopted the update January 1, 2021 and it did not have a material impact on our condensed consolidated financial statements and disclosures.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)* ("ASU 2016-02"). We adopted ASU 2016-02 effective January 1, 2021. The core principle of ASU 2016-02 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. We have elected certain practical expedients permitted under the transition guidance that allows us to use the beginning of the period of adoption (January 1, 2021) as the date of initial recognition. As a result, prior period comparative financial information was not recast under the new standard and continues to be presented under the prior lease accounting standards. Other practical expedients include our election to not separate non-lease components from lease components and to not reassess lease classification, treatment of initial direct costs or whether an existing or expired contract contains a lease. We have also elected to apply the short-term lease exception for all leases, which we will not recognize right-of-use assets or lease liabilities for leases that, at the commencement date, have a term of twelve (12) months or less.

The adoption of the new lease standard on January 1, 2021, resulted in the recognition of right-of-use assets and operating lease liabilities of $2,101 on the condensed consolidated balance sheet. In connection with the adoption of this standard, short-term deferred rent of $8, which was previously recorded in accrued expenses and long term deferred rent of $180 previously recorded in deferred rent on the condensed consolidated balance sheet was offset against the right-of-use asset. The details of our right-of-use asset and lease liability recognized upon adoption of ASC 842 are set forth below:

		January 1, 2021
Right-of-use asset	$	2,101
Straight-line rent accrual		(188)
	$	1,913
Lease liability, current	$	500
Lease liability, non-current		1,601
	$	2,101

Concentrations of Credit Risk

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

The following table sets forth our concentration of accounts receivable, net of specific allowances for doubtful accounts.

	March 31, 2021	December 31, 2020
Customer A	20 %	— %
Customer B	19 %	— %
Customer C	18 %	16 %
Customer D	— %	55 %
Customer E	— %	13 %
Customer F	25 %	— %

Digital Assets

During the three months ended March 31, 2021, we purchased an aggregate of $1,098 in digital assets, comprised solely of bitcoin. We currently account for all digital assets held as a result of these transactions as indefinite-lived intangible assets in accordance with Accounting Standards Codification ("ASC") 350, *Intangibles—Goodwill and Other*. We have ownership of and control over our bitcoin and we may use third-party custodial services to secure it. The digital assets are initially recorded at cost and are subsequently remeasured on the condensed consolidated balance sheet at cost, net of any impairment losses incurred since acquisition.

We determine the fair value of our bitcoin on a nonrecurring basis in accordance with ASC 820, *Fair Value Measurement*, based on quoted prices on the active exchange(s) that we have determined is its principal market for bitcoin (Level 1 inputs). We perform an analysis each quarter to identify whether events or changes in circumstances, principally decreases in the quoted prices on active exchanges, indicate that it is more likely than not that our digital assets are impaired. In determining if an impairment has occurred, we consider the lowest market price of one bitcoin quoted on the active exchange since acquiring the bitcoin. If the then current carrying value of a digital asset exceeds the fair value, an impairment loss has occurred with respect to those digital assets in the amount equal to the difference between their carrying values and the fair value.

The impaired digital assets are written down to their fair value at the time of impairment and this new cost basis will not be adjusted upward for any subsequent increase in fair value. Gains are not recorded until realized upon sale, at which point they are presented net of any impairment losses for the same digital assets held. In determining the gain to be recognized upon sale, we calculate the difference between the sales price and carrying value of the digital assets sold immediately prior to sale. Impairment losses and gains or losses on sales are recognized within other expense in our condensed consolidated statements of operations and comprehensive loss. Impairment loss was immaterial and we did not sell any bitcoin during the three months ended March 31, 2021.

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. Items subject to the use of estimates include, but are not limited to, the standalone selling price for our products and services, stock-based compensation, useful lives of long-lived assets including intangibles, fair value of intangible assets and the recoverability or impairment of tangible and intangible assets, including goodwill, reserves and certain accrued liabilities, the benefit period of deferred commissions, assumptions used in Black-Scholes valuation method, such as expected volatility, risk-free interest rate and expected dividend rate, our incremental borrowing rate in determining the present value of remaining lease payments, and provision for (benefit from) income taxes. Actual results could differ from those estimates and such differences could be material to the condensed consolidated financial statements.

Loss per Common Share

Basic loss per common share is computed by dividing net loss applicable to common stockholders 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 our 2009 Equity Incentive Plan were excluded from basic shares outstanding. Diluted loss per common share is computed by giving effect to all potential shares of common stock, including those related to our outstanding warrants and stock equity plans, 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 all periods presented.

The following table sets forth common stock equivalents that have been excluded from the computation of dilutive weighted average shares outstanding as their inclusion would have been anti-dilutive:

	March 31,	
	2021	**2020**
Convertible notes	4,920,000	21,740
Warrants	5,996,112	3,836,112
Options	1,087,033	1,381,173
Restricted stock units	5,545,454	3,124,460
Restricted shares	574	4,689
Total	17,549,173	8,368,174

Fair Value of Financial Instruments

We follow the guidance in ASC 820, *Fair Value Measurement*, to account for financial assets and liabilities measured on a recurring basis. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. 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. The Company uses a fair value hierarchy, which distinguishes between assumptions based on market data (observable inputs) and an entity's own assumptions (unobservable inputs). The guidance requires fair value measurements be classified and disclosed in one of the following three categories:

- Level 1: Unadjusted quoted prices in active markets for identical assets or liabilities.
- Level 2: Quoted prices in markets that are not active or inputs which are observable, either directly or indirectly, for substantially the full term of the asset or liability.
- Level 3: Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (i.e., supported by little or market activity).

Determining which category an asset or liability falls within the hierarchy requires significant judgment. Our financial instruments measured at fair value as of March 31, 2021 are set forth below:

	Level 1	Level 2	Level 3	Total
Assets:				
Digital currencies	$ 1,098	$ —	$ —	$ 1,098
Total	$ 1,098	$ —	$ —	$ 1,098
Liabilities:				
Warrant liability	$ —	$ 2,499	$ —	$ 2,499
Total	$ —	$ 2,499	$ —	$ 2,499

Our financial instruments measured at fair value as of December 31, 2020 are set forth below:

	Level 1	Level 2	Level 3	Total
Liabilities:				
Warrant liability	$ —	$ 1,614	$ —	$ 1,614
Total	$ —	$ 1,614	$ —	$ 1,614

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.

Recent Accounting Pronouncements Not Yet Adopted

In June 2016, the FASB issued ASU No. 2016-13,*Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*("ASU 2016-13"). ASU 2016-13 introduces a model based on expected losses for most financial assets and certain other instruments. In addition, for available-for-sale debt securities with unrealized losses, the losses will be recognized as allowances rather than reductions in the amortized cost of the securities. As a smaller reporting company, the standard is currently effective for us for annual reporting periods beginning after December 15, 2022, with early adoption permitted for annual reporting periods beginning after December 15, 2019. We currently intend to adopt this new standard effective January 1, 2023. We currently do not expect the adoption of ASU 2016-13 to have a material impact on our condensed consolidated financial statements and disclosures.

In August 2020, the FASB issued ASU 2020-06,*Debt – Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging – Contracts in Entity's Own Equity (Subtopic 815 – 40)*, ("ASU 2020-06"). ASU 2020-06 simplifies the accounting for certain financial instruments with characteristics of liabilities and equity, including convertible instruments and contracts on an entity's own equity. ASU 2020-06 is effective for smaller reporting companies for fiscal years beginning after December 15, 2023, and interim periods within those fiscal years. Early adoption is permitted, but no earlier than fiscal years beginning after December 15, 2020, including interim periods within those fiscal years. We are currently evaluating the impact of this guidance on our condensed consolidated financial statements and disclosures.

3. Revenue

Disaggregation of Revenue

The following table sets forth our net revenues by category:

	Three Months Ended March 31, 2021	Three Months Ended March 31, 2020
Net Revenues		
Platform subscriptions and services	$ 1,521	$ 2,391
Application transaction	125	249
Net revenues	$ 1,646	$ 2,640

We generate revenue in domestic and foreign regions and attribute net revenue to individual countries based on the location of the contracting entity. We derived 99% and 90% of our net revenues from within the United States for the three months ended March 31, 2021 and 2020, respectively.

The following table sets forth our concentration of revenue sources as a percentage of total net revenues.

	Three Months Ended March 31, 2021	Three Months Ended March 31, 2020
Customer A	13 %	— %
Customer B	15 %	— %
Customer F	1 %	31 %
Customer G	17 %	11 %
Customer H	10 %	9 %

Deferred Revenue

Our deferred revenue balance consisted of the following:

	March 31, 2021	December 31, 2020
Current deferred revenue		
Platform subscriptions and services revenue	$ 2,100	$ 2,317
Application transaction revenue	80	80
Total current deferred revenue	$ 2,180	$ 2,397
Non-current deferred revenue		
Platform subscriptions and services revenue	$ 2,054	$ 2,678
Total non-current deferred revenue	$ 2,054	$ 2,678
Total deferred revenue	$ 4,234	$ 5,075

Deferred revenue consists of customer billings or payments received in advance of the recognition of revenue under the arrangements with customers. We recognize deferred revenue as revenue only when revenue recognition criteria are met. During the three months ended March 31, 2021, we recognized revenue of $1,279 that was included in its deferred revenue balance as of December 31, 2020.

Remaining Performance Obligations

Remaining performance obligations were $7,768 as of March 31, 2021, of which we expect to recognize 42% as revenue over the next 12 months and the remainder thereafter.

4. Cash, Cash Equivalents, and Restricted Cash

The following table sets forth our cash and restricted cash as of March 31, 2021 and December 31, 2020:

Cash and restricted cash	March 31, 2021	December 31, 2020
Cash	$ 23,469	$ 3,940
Restricted cash	91	91
Total cash and restricted cash	$ 23,560	$ 4,031

5. Debt

The following table sets forth our various debt obligations:

	March 31, 2021	December 31, 2020
Series A Note (principal amount)	$ —	$ 2,481
Series B Note (principal amount)	11,071	3,585
Paycheck Protection Program Loan	2,850	2,850
Convertible notes	250	250
Promissory notes	905	905
Total debt	$ 15,076	$ 10,071
Debt discount - warrants (2020 Convertible Notes)	—	(1,029)
Debt discount - issuance costs (2020 Convertible Notes)	(1,128)	(650)
Less: current maturities of long-term debt	(10,012)	(4,435)
Less: related-party debt	(195)	(195)
Long-term debt	$ 3,741	$ 3,762

2020 Convertible Notes

On July 15, 2020, we issued a Series A Senior Convertible Note (a "Series A Note") to an institutional investor with an initial principal amount of $4,320 (reflecting an original issue discount of $320) in a private placement. We repaid in full the outstanding principal balance, accrued and unpaid interest and make-whole amount on a separate senior convertible note issued on March 20, 2020 to the same investor. After the payoff of the senior convertible note and deducting transaction costs, net cash proceeds to the Company was $1,751.

On the same date, we issued a Series B Senior Secured Convertible Note (a "Series B Note," and together with the Series A Note, the "2020 Convertible Notes") to the same investor with an initial principal amount of $17,280 (reflecting an original issue discount of $1,280). The investor paid for the Series B Note by delivering a secured promissory note (the "Investor Note") with an initial principal amount of $16,000.

We received cash under the Series B Note only upon cash repayment of the corresponding Investor Note. The investor, at its option and at any time, had the right to voluntarily prepay the Investor Note, in whole or in part. Until the Investor Note was repaid, the principal (and related original issue discount) of the Series B Note was considered to be "restricted." The Series B Note and the Investor Note were subject to the terms of a Master Netting Agreement between us and the investor. Upon repayment of the Investor Note, an equal amount of the Series B Note became "unrestricted" and recorded as debt in our condensed consolidated balance sheets.

As a result of multiple offerings of sales of shares of our common stock as more fully described Note 9 below, the investor elected to require us to use forty percent (40%) of the net proceeds from those offerings to satisfy obligations under the 2020 Convertible Notes. During January and February 2021, we paid approximately $11,507, of which $5,717 was recorded as a loss on extinguishment of debt.

In March 2021, the investor voluntarily prepaid an aggregate of $10,250 pursuant to the terms of the Investor Note. As a result, we received cash proceeds of $10,250 and this amount of principal of the Series B Note, along with $820 of original issue discount became "unrestricted" and outstanding. After the aggregate payments pursuant to the Investor Note by the investor to us, there was no balance outstanding under the Investor Note and no restricted balance under the Series B Note.

On March 25, 2021, we delivered a Company Optional Redemption Notice (as defined in the Series B Note) to the holder of our Series B Note exercising our right to redeem and fully satisfy all obligations under the Series B Note on April 5, 2021. See Note 13 below.

We recorded a loss on extinguishment of debt of $51 for the three months ended March 31, 2021 related to monthly installment payments made to the investor.

Warrant

In addition to the 2020 Convertible Notes, we issued a warrant exercisable for 3 years for the purchase of an aggregate of up to 2,160,000 shares of the Company's common stock, with a current exercise price of $2.25 per share, which decreased from $4.00 in February 2021 as a result of our underwritten public offering. The number of shares and exercise price are each subject to adjustment provided under the warrant. If, at the time of exercise of the warrant, there is no effective registration statement registering, or no current prospectus available for, the issuance of the shares, then the warrant may also be exercised, in whole or in part, by means of a “cashless exercise.” The warrant may not be exercised if, after giving effect to the exercise, the investor would beneficially own amounts in excess of those permissible under the terms of the warrant.

Upon issuance of the warrant, we recorded a warrant liability as a discount to the 2020 Convertible Notes. We revalued the warrant as of March 31, 2021, and accordingly recorded a loss of $885 as a result of the change in the fair value of the warrant liability for the three months ended March 31, 2021. The following table sets forth the assumptions used to calculate the fair value of our warrant liability at the respective dates:

	March 31, 2021	December 31, 2020
Strike price per share	$ 2.25	$ 4.00
Closing price per share	$ 1.65	$ 1.26
Term (years)	2.28	2.53
Volatility	150 %	146 %
Risk-free rate	0.17 %	0.17 %
Dividend Yield	—	—

Participation Rights

In addition, the Company granted the investor participation rights in future equity and equity-linked offerings of securities, subject to certain limited exceptions, during the two years after the later of (a) the closing or (b) the date the Investor Note no longer remains outstanding, in an amount of up to 30% of the securities being sold in such offerings.

Paycheck Protection Program ("PPP") Loan

On April 10, 2020, we received loan proceeds in the amount of $2,850 from JPMorgan Chase, N.A. pursuant to the PPP under the Coronavirus Aid, Relief and Economic Security Act (the "CARES Act"), which was enacted on March 27, 2020. The loan, which was in the form of a note dated April 9, 2020, matures on April 9, 2022 and bears interest at a rate of 0.98% per annum. The Paycheck Protection Flexibility Act of 2020, extended the deferral period for loan payments to either (i) the date that SBA remits the borrower’s loan forgiveness amount to the lender or (ii) if the borrower does not apply for loan forgiveness, ten months after the end of the borrower's loan forgiveness covered period. The note may be prepaid by us at any time prior to the maturity with no prepayment penalties.

The principal amount of our PPP loan is subject to forgiveness under the PPP upon our request and to the extent that PPP loan proceeds were used to pay expenses permitted by the PPP. Although we currently anticipate a portion of the loan to be forgiven, there can be no assurance that any part of the PPP loan will be forgiven.

Convertible Notes

During April 2019, our board of directors authorized the issuance of $20,000 of convertible promissory notes (the "Convertible Notes"). 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. The Convertible Notes are convertible into shares of the Company's common stock at a price of $11.50 per share and mature on June 3, 2024. Additional information about our Convertible Notes is included in Note 8, "*Debt*" of the notes to the consolidated financial statements included in our Annual Report on Form 10-K.

Promissory Notes

In October 2019, our board of directors authorized the issuance of $20,000 of promissory notes (the "Notes"). The Notes bear ordinary interest at a rate of 10% per annum. Interest under the Notes is payable monthly beginning on November 30, 2019. During the term of the Notes, we are required to maintain a restricted bank account with a minimum balance of one year of interest payments on the aggregate principal balance of all Notes, which will be available for use exclusively to satisfy any payments owed by the Company under the Notes. The principal and unpaid accrued interest on the Notes will be due and payable on demand by the majority Note holders on or after the date that is 60 months following November 15, 2019. Additional information about our Notes is included in Note 8, "*Debt*" of the notes to the consolidated financial statements included in our Annual Report on Form 10-K.

During 2019, we issued a Note in the principal amount of $195, in exchange for cash consideration, to Cane Capital, LLC, an entity owned in part by Alan S. Knitowski, our Chief Executive Officer and a member of our board of directors.

Interest Expense

The following table sets forth interest expense for our various debt obligations included on the condensed consolidated statements of operations:

	Three Months Ended March 31,	
	2021	**2020**
2020 Convertible Notes	$ 452	$ —
Accretion of debt discount - issuance costs	620	13
Accretion of debt discount - warrants	1,029	—
All other debt and financing obligations	118	88
Total	$ 2,219	$ 101

6. Leases

As described in Note 2, we adopted ASU 2016-02, Leases (Topic 842) as of January 1, 2021. We lease our corporate offices under operating leases and determine if an arrangement is or contains a lease at inception. The initial terms of our real property lease agreements are generally five years and typically allows for renewals in five-year increments. We may, at times, negotiate a shorter lease renewal term. We generally do not account for any renewals at the lease adoption date. We maintain four corporate offices located in Austin, Texas; Irvine, California; San Diego, California; and Miami, Florida. The earliest of our lease agreements currently ends in March 2022 with the latest terminating in June 2025. Some of our leases include both lease and non-lease components, which we have elected not to account for separately. Lease components generally include rent, taxes and insurance, while non-lease components generally include common area or other maintenance.

The weighted-average remaining lease term for operating leases as of March 31, 2021 was3.79 years. As our leases generally do not include an implicit rate, we compute our incremental borrowing rate based on information available at the lease commencement date applying a rate to each lease. We used incremental borrowing rates that match the duration of the remaining lease terms of our operating leases on a fully collateralized basis upon adoption as of January 1, 2021 to initially measure our lease liability. The weighted average incremental borrowing rate used to measure our lease liability as of March 31, 2021 was 19.13%.

We recognize lease expense on a straight-line basis over the lease term with variable lease expense recognized in the period in which the costs are incurred. The components of lease expense are included in general and administrative expense in our condensed consolidated statement of operations and comprehensive loss. Lease expense for the three months ended March 31, 2021 was $212.

Future minimum lease obligations are set forth below:

Future minimum lease obligations years ending December 31,	**Lease Obligations**
2021 (Remainder)	$ 636
2022	725
2023	622
2024	609
2025	208
Thereafter	—
	$ 2,800
Less: Portion representing interest	(823)
	$ 1,977

On March 16, 2021, we entered into a sublease agreement pursuant to which we will sublease our existing office space in Irvine, California. The term of the sublease commences on April 1, 2021 and terminates on March 31, 2025. The subtenant will pay us initial base rent of approximately $17 per month, which is subject to certain discounts throughout the sublease, as well as rent escalations. We recognized an impairment of our right-to-use asset related to the sublease of $77, which is recorded in other expense in our condensed consolidated statement of operations and comprehensive loss for the three months ended March 31, 2021.

7. Commitments and Contingencies

Litigation

There have been no changes to the disclosure related to our settlements with Uber Technologies, Inc. and Ellenoff Grossman & Schole LLP, as well as, the dismissal of claims brought by Sha-Poppin Gourmet Popcorn, LLC since the filing of our Annual Report on Form 10-K. See Note 9, "*Commitments and Contingencies*" in our Annual Report on Form 10-K filed with the SEC on March 31, 2021 for further information on the these matters.

On December 17, 2019, certain stockholders filed a lawsuit against Phunware. The case, captioned Wild Basin Investments, LLC, et al. v. Phunware, Inc., et al.; Cause No. D-1-GN-19-008846 was filed in the 126th Judicial District Court of Travis County, Texas. The plaintiffs invested in various early rounds of financing while the Company was private and claim Phunware should not have subjected their shares to a 180-day "lock up" period. According to the plaintiffs, the price of our stock dropped significantly during the lock up period. The plaintiffs seek unspecified damages in excess of $1,000. We maintain the plaintiffs' claims are without merit and intends to contest vigorously the claims asserted in the lawsuit, but there can be no guarantees that a favorable resolution will be successful. All defendants have answered. The court has not yet set a trial date or pretrial deadlines. The case is in early stage of discovery. Given the preliminary stage of the case, we are unable to predict the outcome of this dispute, or estimate the loss or range of loss, if any, associated with this matter.

On March 30, 2021, Phunware filed an action against its former counsel Wilson Sonsini Goodrich & Rosati, PC (“WSGR”). The matter is Phunware, Inc., v. Wilson Sonsini Goodrich & Rosati, Professional Corporation, Does 1-25, Case No. 21CV381517, filed in the Superior Court of the State of California for the County of Santa Clara. The complaint alleges a single cause of action for negligence related to services provided by WSGR to Phunware. We’re seeking compensatory and consequential damages, attorney's fees and costs, interest and other relief the Court deems just and proper. The case is in the early stages of litigation; the outcome is not certain.

From time to time, we are 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.

8. PhunCoin & PhunToken

During 2018 and 2019, PhunCoin, Inc., our wholly-owned subsidiary, launched offerings of rights to acquire a token denominated as "PhunCoin" (the "Rights"). PhunCoin, Inc. accepts payment in the form of cash and digital currencies for purchases of the Rights. 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 PhunCoin during the launch of the Token Ecosystem (as defined below) before taking into consideration an applicable discount rate, which is based on the time of the purchase.

Through March 31, 2021, we received aggregate net cash proceeds from our Rights offerings of $1,202. Proceeds from the Rights are recorded as PhunCoin deposits in the condensed consolidated balance sheet as of March 31, 2021 and December 31, 2020.

PhunCoin is expected to be issued to Rights holders the earlier of (i) the launch of PhunCoin's, Inc.'s blockchain technology enabled rewards marketplace and data exchange ("Token Ecosystem" or "Token Generation Event"), (ii) one (1) year after the issuance of the Rights to the purchaser or (iii) 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. We currently anticipate that PhunCoin will be issued to the holders of the Rights in 2021; however, there can be no assurance as to when or if we will be able to successfully launch the Token Ecosystem.

Additional information about PhunCoin is included in Note 10, "*PhunCoin and PhunToken*" of the notes to the consolidated financial statements included in our Annual Report on Form 10-K.

PhunToken ("PHTK")

During the second quarter of 2019, Phunware announced the launch of a separate token, PhunToken, which is meant to act as a medium of exchange within the Token Ecosystem. PhunToken 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 PhunToken for actively engaging in marketing campaigns; developers and publishers may receive PhunToken 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 March 31, 2021, we had not issued or sold any PhunToken.

9. Stockholders' Equity

Common Stock

Total common stock authorized to be issued as of March 31, 2021 was 1,000,000,000 shares, with a par value of $0.0001 per share. At March 31, 2021 and December 31, 2020, there were 71,211,399 and 56,380,111 shares outstanding, respectively, inclusive of 574 restricted shares subject to repurchase for unvested shares related to early option exercises under the Company's stock equity plans.

On August 14, 2020, we entered into an At-The-Market Issuance Sales Agreement (the "Sales Agreement") with Ascendiant Capital Markets, LLC ("Ascendiant"), as sales agent, pursuant to which the Company would offer and sell, from time to time, through Ascendiant shares of common stock for an aggregate offering price of up to $15,000. In January 2021, we issued 2,670,121 shares of our common stock were sold for aggregate net cash proceeds of $5,058. Transaction costs were $156. We terminated the Sales Agreement with Ascendiant effective as of March 28, 2021.

In February 2021, we entered into an underwriting agreement with Northland Securities, Inc. and Roth Capital Partners, LLC, relating to an underwritten public offering to which we issued 11,761,111 shares of our common stock at an offering price of $2.25 per share. Aggregate cash proceeds at closing, net of transaction costs of $1,740, totaled $24,722. We incurred additional transaction costs paid outside of closing of $75.

Warrants

We have various warrants outstanding. A summary of our outstanding warrants as of March 31, 2021 and December 31, 2020 is set forth below:

Warrant Type		Cash Exercise Price per share	Warrants Outstanding
2020 Convertible Note warrants	$	2.25	2,160,000
Common stock warrant (Series D-1)	$	5.54	14,866
Common stock warrants (Series F)	$	9.22	377,402
Public Warrants (PHUNW)	$	11.50	1,761,291
Private Placement Warrants	$	11.50	1,658,381
Unit Purchase Option Warrants	$	11.50	24,172
Total			5,996,112

10. Stock-Based Compensation

2018 Equity Incentive Plan

In 2018, 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 adoption of the 2018 Plan, 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 are forfeited to or repurchased by us. As of March 31, 2021, the maximum number of shares of common stock that may be added to the 2018 Plan pursuant to the foregoing equals 1,087,607.

Since its inception, restricted stock units have been the only stock-based incentives granted under the 2018 Plan. A summary of our restricted stock unit activity under the 2018 Plan for the three months ended March 31, 2021 is set forth below:

	Shares		Weighted Average Grant Date Fair Value
Outstanding as of December 31, 2020	1,677,060	$	1.41
Granted	4,238,176		1.88
Released	(280,788)		1.22
Forfeited	(88,994)		1.47
Outstanding as of March 31, 2021	5,545,454	$	1.78

Not including the maximum number of shares from the 2009 Plan that may be added to the 2018 Plan noted above, the 2018 Plan had 1,134,393 and 2,551,720 shares of common stock reserved for future issuances as of March 31, 2021 and December 31, 2020, respectively.

During the first quarter of 2021, we granted 3,488,262 restricted stock unit awards to team members with an average grant date fair value of $2.03 per share. The awards granted to team members vest over range of 10 to 51 months with various installment and vesting dates, and are subject to service conditions. We also granted 652,170 restricted stock units to non-employee directors, each with a grant date fair value of $1.22. The awards vest in four equal installments on March 4, 2021, June 4, 2021, September 4, 2021, and December 4, 2021, respectively, and are subject to service conditions. We also granted 97,744 restricted stock units to non-employee directors, with a grant date fair value of $1.22 per share in lieu of cash compensation board fees for services provided. These awards vested immediately.

The restricted stock unit grants were valued based on the fair value of our common stock on the date of grant.

2018 Employee Stock Purchase Plan

Also, in 2018, our board of directors adopted, and our stockholders approved, the 2018 Employee Stock Purchase Plan (the "2018 ESPP"). As of March 31, 2021, we had 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 March 31, 2021 and December 31, 2020. Additional information about our 2018 ESPP can be found in Note 12, "*Stock-Based Compensation"* in our Annual Report on Form 10-K.

2009 Equity Incentive Plan

In 2009, we 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 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 condensed consolidated balance sheets and is reclassified to equity as the shares vest. As of March 31, 2021 and December 31, 2020, 574 shares were unvested amounting to $1 in accrued expenses. Effective with the adoption of the 2018 Plan, no additional grants will be made under the 2009 Plan.

A summary of our 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, 2020	1,208,740	$ 0.80	6.19	$ 700
Granted	—			
Exercised	(119,268)	0.55		
Forfeited	(2,439)	2.31		
Outstanding as of March 31, 2021	1,087,033	$ 0.82	6.38	$ 986
Exercisable as of March 31, 2021	991,476	$ 0.78	6.33	$ 926

For the three months ended March 31, 2021, the aggregate intrinsic value of options exercised was $214 and the total fair value of options vested was $20.

Stock-Based Compensation

Compensation costs that have been included in our condensed consolidated statements of operations and comprehensive loss for all stock-based compensation arrangements is set forth below:

Stock-based compensation	Three Months Ended March 31, 2021	2020
Cost of revenues	$ 210	$ 51
Sales and marketing	102	7
General and administrative	624	599
Research and development	119	(22)
Total stock-based compensation	$ 1,055	$ 635

We recognize forfeitures as they occur. As of March 31, 2021, the unamortized fair value of the restricted stock units under the 2018 Plan was approximately $8,852. The weighted-average remaining recognition period over which these costs will be amortized was approximately 2.5 years. Unrecognized stock compensation expense for options granted under the 2009 Plan was $64 as of March 31, 2021.

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 March 31, 2021 and December 31, 2020, all of our identifiable long-lived assets were in the United States.

12. Related-Party Transactions

Accounts Payable

There are $255 included in accounts payables in our condensed consolidated balance sheet as of March 31, 2021 and December 31, 2020 for Nautilus Energy Management Corporation, an affiliate of a current member and former member of our board of directors.

Debt

As more fully discussed in Note 5, *Debt*, the Company entered into a Note (defined above) with a certain related party.

13. Subsequent Events

We have evaluated subsequent events through the date the financial statements were issued.

On April 5, 2021, we paid $13,902 in cash to the noteholder of our 2020 Convertible Notes in full satisfaction of all obligations under our Series B Note, which amounted to $11,718 of principal, interest and make-whole and $2,184 for the loss on extinguishment of debt.

On April 7, 2021, we entered into an At Market Issuance Sales Agreement with B. Riley Securities, Inc. ("B. Riley"), pursuant to which we may offer and sell, from time to time, shares of our common stock through or to B. Riley, for an aggregate offering price of $25,000. We will pay B. Riley a commission of 3% of the gross proceeds of the sales price per share for sales of our common stock sold through or to B. Riley. The sales agreement with B. Riley will terminate the earlier of (i) the sale of all shares of our common stock permitted under the sales agreement; (ii) we and B. Riley may terminate by giving the other party five days notice to the other party; and (iii) any other termination permitted therein. We are not obligated to sell shares under the sales agreement with B. Riley and as of the date noted above, we have not done so.

On May 11, 2021, we announced the commencement of the selling of PhunToken. As of the date the financial statements were issued, sales of PhunToken were immaterial.

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 condensed 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. Our Multiscreen-as-a-Service ("MaaS") platform provides the entire mobile lifecycle of applications, media and data in one login through one procurement relationship. Our offerings include:

- Enterprise mobile software development kits (SDKs) including content management, location-based services, marketing automation, business intelligence and analytics, alerts, notifications and messaging, audience engagement, and audience monetization;
- Integration of our SDK licenses into existing applications maintained by our customers, as well as custom application development and support services;
- Cloud-based vertical solutions, which are off-the-shelf, iOS- and Android-based mobile application portfolios, solutions and services that address: the patient experience for healthcare, the shopper experience for retail, the fan experience for sports, the traveler experience for aviation, the luxury resident experience for real estate, the luxury guest experience for hospitality, the student experience for education and the generic user experience for all other verticals and applications; and
- Application transactions for mobile audience building, user acquisition, application discovery, audience engagement and audience monetization.

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.

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 condensed 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. We reasonably expect approximately half of our backlog as of March 31, 2021 will be invoiced during the subsequent 12-month period, primarily due to the fact that our contracts are typically one to three years in length.

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:

(in thousands)	March 31, 2021	December 31, 2020
Backlog	$ 3,452	$ 3,991
Deferred revenue	4,234	5,075
Total backlog and deferred revenue	$ 7,686	$ 9,066

Non-GAAP Financial Measures

Adjusted Gross Profit, Adjusted Gross Margin and Adjusted EBITDA

We report our financial results in accordance with accounting principles generally accepted in the United States of America ("GAAP"). We also use certain non-GAAP financial measures that fall within the meaning of Securities and Exchange Commission Regulation G and Regulation S-K Item 10(e), which may provide users of the financial information with additional meaningful comparison to prior period results. Our non-GAAP financial measures include adjusted gross profit, adjusted gross margin and adjusted earnings before interest, taxes, depreciation and amortization ("EBITDA") (our "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.

Our non-GAAP financial measures 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 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. Our non-GAAP financial measures 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 our ongoing operating performance for a particular period;
- Our non-GAAP financial measures 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 our non-GAAP financial measures differently than we do, limiting their usefulness as comparative measures.

We compensate for these limitations to our non-GAAP financial measures by relying primarily on our GAAP results and using our non-GAAP financial measures only for supplemental purposes. Our non-GAAP financial measures 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 in order to facilitate a more useful period-over-period comparison of its 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.

The following table sets forth the non-GAAP financial measures we monitor.

(in thousands, except percentages)	Three Months Ended March 31, 2021	2020
Adjusted gross profit [(1)]	$ 1,168	$ 1,607
Adjusted gross margin [(1)]	71.0 %	60.9 %
Adjusted EBITDA [(2)]	$ (2,403)	$ (3,178)

(1) 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 net revenues.

(2) 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 adjustments and (vi) stock-based compensation expense.

Reconciliation of Non-GAAP Financial Measures

The following tables set forth a reconciliation of the most directly comparable GAAP financial measure to each of the non-GAAP financial measures discussed above.

(in thousands, except percentages)	Three Months Ended March 31, 2021	2020
Gross profit	$ 954	$ 1,549
Add back: Amortization of intangibles	4	7
Add back: Stock-based compensation	210	51
Adjusted gross profit	$ 1,168	$ 1,607
Adjusted gross margin	71.0 %	60.9 %

(in thousands)	Three Months Ended March 31, 2021	2020
Net loss	$ (12,363)	$ (3,963)
Add back: Depreciation and amortization	33	49
Add back: Interest expense	2,219	101
EBITDA	(10,111)	(3,813)
Add back: Stock-based compensation	1,055	635
Add back: Loss on extinguishment of debt	5,768	—
Add back: Loss on change in fair value of warrant liability	885	—
Adjusted EBITDA	$ (2,403)	$ (3,178)

Components of Results of Operations

Revenue and Gross Profit

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.

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

Subscription revenue from SDK licenses gives the customer the right to access our 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, we also provide 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 or clicks by users on mobile advertisements delivered, and we recognize revenue at the time the user views or clicks on the ad. We sell our ads by cost per thousand impressions and cost per click.

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 advertising traffic we pay to our suppliers and amount of traffic which we can purchase from those suppliers. As a result, our application transaction gross profit may fluctuate from period to period due to variable costs of advertising traffic.

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, depreciation and amortization of acquired intangible assets. Personnel costs are the most significant component of operating expenses and consist of salaries, benefits, bonuses, stock-based compensation and, in sales and marketing expense, commissions. Legal settlements pertaining to litigation brought as a result of the Company's operations is also included in operating expenses.

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 stock-based compensation and expenses related to marketing programs and promotional activities. We expect our sales and marketing expense will increase in absolute dollars as we increase our sales and marketing organizations as we plan to increase revenue but may fluctuate as a percentage of our total revenue from period to period.

General and Administrative Expense. General and administrative expense is comprised of compensation and benefits of administrative personnel, including variable incentive pay and stock-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. As a result, we expect our research and development expenses will increase in absolute dollars as our business grows but may fluctuate as a percentage of revenue from period to period.

Interest Expense

Interest expense includes interest related to our outstanding debt, including amortization of discounts and deferred issuance costs.

Refer to Note 5 "*Debt*" in the notes to the condensed consolidated financial statements included Part I, Item 1 of this Quarterly Report on Form 10-Q for more information on our debt offerings.

We also may seek additional debt financings to fund the expansion of our business or to finance strategic acquisitions in the future, which may have an impact on our interest expense.

Results of Operations

Net Revenues

(in thousands, except percentages)	Three Months Ended March 31, 2021	2020	Change Amount	%
Net Revenues				
Platform subscriptions and services	$ 1,521	$ 2,391	$ (870)	(36.4)%
Application transaction	125	249	(124)	(49.8)%
Net revenues	$ 1,646	$ 2,640	$ (994)	(37.7)%
Platform subscriptions and services as a percentage of net revenues	92.4 %	90.6 %		
Application transactions as a percentage of net revenues	7.6 %	9.4 %		

Net revenues decreased $1.0 million, or (37.7)%, for the three months ended March 31, 2021 compared to the corresponding period in 2020.

Platform subscriptions and services revenue decreased $0.9 million, or (36.4)%, primarily driven by development, licensing and support services provided to a customer during 2020. This customer is identified as "*Customer F*" in Note 3, *Revenue* in the notes to the condensed consolidated financial statements included in Part I, Item 1 of this quarterly report on Form 10-Q.

Application transaction revenue decreased $0.1 million, or (49.8)%, for the three months ended March 31, 2021, compared to the corresponding period in 2020, primarily due to a decrease in app store revenue.

Cost of Revenues, Gross Profit and Gross Margin

(in thousands, except percentages)	Three Months Ended March 31, 2021	2020	Change Amount	%
Cost of Revenues				
Platform subscriptions and services	$ 648	$ 1,046	$ (398)	(38.0)%
Application transaction	44	45	(1)	(2.2)%
Total cost of revenues	$ 692	$ 1,091	$ (399)	(36.6)%
Gross Profit				
Platform subscriptions and services	873	$ 1,345	$ (472)	(35.1)%
Application transaction	81	204	(123)	(60.3)%
Total gross profit	$ 954	$ 1,549	$ (595)	(38.4)%
Gross Margin				
Platform subscriptions and services	57.4 %	56.3 %		
Application transaction	64.8 %	81.9 %		
Total gross margin	58.0 %	58.7 %		

Total gross profit decreased $0.6 million, or (38.4)% for the three months ended March 31, 2021, when compared to the corresponding period of 2020, due to the revenue items described above.

Operating Expenses

(in thousands, except percentages)	Three Months Ended March 31, 2021	2020	Change Amount	%
Operating expenses				
Sales and marketing	$ 556	$ 605	$ (49)	(8.1)%
General and administrative	2,758	3,945	(1,187)	(30.1)%
Research and development	1,052	861	191	22.2 %
Total operating expenses	$ 4,366	$ 5,411	$ (1,045)	(19.3)%

Sales and Marketing

Sales and marketing expense decreased $0.05 million, or (8.1)% for the three months ended March 31, 2021 compared to the corresponding period of 2020, primarily due to reduced employee compensation costs as a result of lower headcount of $0.1 million. This is partially offset with an increase in stock-based compensation expense.

General and Administrative

General and administrative expense decreased $1.2 million, or (30.1)% for the three months ended March 31, 2021 compared to the corresponding period of 2020, due to a decrease of $0.5 million in headcount related costs, a decrease of $0.5 million in legal fees mainly related to our previous litigation with Uber, which was settled in October 2020 and $0.2 million in bad debt recovery.

Research and Development

Research and development expense increased $0.2 million, or 22.2%, for the three months ended March 31, 2021, compared to the corresponding period of 2020, primarily due to increases of $0.1 million for headcount dedicated to research and development projects and $0.1 million in stock-based compensation expense.

Other expense

	Three Months Ended March 31,		Change	
(in thousands, except percentages)	2021	2020	Amount	%
Other expense				
Interest expense	$ (2,219)	$ (101)	$ (2,118)	2,097.0 %
Loss on extinguishment of debt	(5,768)	—	(5,768)	100.0 %
Loss on change in fair value of warrant liability	(885)	—	(885)	100.0 %
Other income (expense)	(79)	—	(79)	100.0 %
Total other expense	$ (8,951)	$ (101)	$ (8,850)	8,762.4 %

Other expense increased $8.9 million for the three months ended March 31, 2021, compared to the corresponding period of 2020, primarily due to losses on extinguishment of debt and interest related to our debt borrowings as further described in Note 5 "*Debt"* in the notes to the condensed consolidated financial statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q.

Liquidity and Capital Resources

As of March 31, 2021, we held total cash (including restricted cash) of $23.6 million, all of which was held in the United States.

On October 9, 2020, we entered into a settlement agreement with Uber Technologies, Inc. ("Uber") and certain other parties related to our complaint against Uber, Uber's cross-complaint and amended cross-complaint against us and certain individual defendants. The settlement agreement provides that we will pay to Uber a total sum of $4.5 million in a series of installments. We recorded a charge in the third quarter of 2020 related to the settlement agreement. As of March 31, 2021, we owe $3 million related to the settlement, which will be paid in various installments ending no later than September 30, 2021. For further information related to the Uber settlement agreement, refer to Note 9 "*Commitments and Contingencies"* of the notes to the consolidated financial statements included in Part II, Item 8 of our Annual Report on Form 10-K filed with the SEC on March 31, 2021.

As of March 31, 2021, the principal balance of our debt was approximately $15.1 million from various debt, including a Paycheck Protection Program ("PPP") loan and convertible debt offerings. The debt we believe will have the most significant impact on our future liquidity and capital resources is discussed below. For further information on all our debt outstanding as of March 31, 2021, refer to Note 5 "*Debt*" of the notes to the condensed consolidated financial statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q.

In April 2020, we received a PPP loan of approximately $2.85 million, which bears interest at a rate of 0.98% per annum. The Paycheck Protection Flexibility Act of 2020, extended the deferral period for loan payments. The Company currently anticipates its first PPP loan payment will be made in the third quarter of 2021. Although we intend to apply for forgiveness, as currently provided for under terms of the PPP loan and the CARES Act, there can be no assurance that any part of our PPP loan will be forgiven. The PPP loan matures in April 2022.

During 2020, we issued a series of convertible notes to an institutional investor. As of March 31, 2021, the unrestricted principal balance of our Series A Convertible Note and Series B Convertible Note (collectively, the "2020 Convertible Notes") was $0 as we had paid the Series A Convertible Note in full during the first quarter of 2021 and $11.1 million, respectively. The 2020 Convertible Notes were issued with an original issue discount of 8% and each bear an interest rate of 7% per annum, which further includes a make-whole of interest (for unrestricted principal amounts) from the date of issuance through the maturity date of December 31, 2021. Outstanding principal on the 2020 Convertible Notes was subject to monthly installment payments in cash of 107% of the installment amount due. The noteholder had various redemption rights, such as the right to redeem an amount equal to 40% of the net proceeds from a qualified capital raise, or upon change of control or company default. The noteholder could also convert 2020 Convertible Notes into shares of our common at a current adjusted conversion price of $2.25 per share. Upon consummation of the issuance of the 2020 Convertible Notes, we also issued the note holder a warrant for the purchase of up to 2,160,000 shares of our common stock, which has a current adjusted exercise price of $2.25 per share. We also had the right to redeem the full amount of the outstanding principal under the 2020 Convertible Notes.

In January 2021, we issued 2,670,121 shares of common stock for aggregate proceeds of $5.1 million, net of $0.2 million of commissions (and before noteholder redemption payment) pursuant to the terms of an at-the-market offering, which has concluded. In February 2021, we also issued 11,761,111 shares of our common stock for aggregate proceeds at closing of $24.7 million in an underwritten public offering, net of $1.7 million of underwriter commissions and other underwriter costs.

As a result of the fundraising events above, the holder of our 2020 Convertible Notes elected to require us to use forty percent (40%) of the net proceeds satisfy obligations under the 2020 Convertible Notes, pursuant to which we paid approximately $11.5 million to the noteholder.

Upon issuance of the 2020 Convertible Notes, the noteholder issued an investor note to us, which offset the combined restricted balances of the 2020 Convertible Notes. In March 2021, the noteholder voluntarily prepaid an aggregate of $10.3 million pursuant to the terms of the investor note. As a result, we received cash proceeds of $10.3 million and the corresponding amount of principal of the Series B Note, representing the entire remaining amount remaining of restricted principal as of that date, along with $0.8 million of original issue discount became unrestricted and outstanding. As of March 31, 2021, the restricted principal balance of both the Series A Convertible Note and Series B Convertible Note was $0 and the balance of the corresponding investor note was $0.

On March 25, 2021, we delivered a Company Optional Redemption Notice to the holder of our Series B Note exercising our right to redeem and fully satisfy all obligations under the Series B Note on April 5, 2021. On April 5, 2021, we paid $13,902 in cash to the noteholder in full satisfaction of all obligations under our Series B Note, which amounted to $11,718 of principal, interest and make-whole and $2,184 for the loss on extinguishment of debt.

Given the financings achieved above, we believe our current cash position to be sufficient to meet our projected operating requirements for at least the next twelve months from the filing of this Report on Form 10-Q.

We have a history of operating losses and negative operating cash flows. As we continue to focus on growing our revenues, we expect these trends to continue into the foreseeable future. Our future capital requirements will depend on many factors, including our pace of growth, subscription renewal activity, the timing and extent of spend to support development efforts, the expansion of sales and marketing activities and the market acceptance of our products and services. We believe that it is likely we will in the future enter into arrangements to acquire or invest in complementary businesses, technologies and intellectual property rights. We may be required to seek additional equity or debt financing. In the event that additional financing is required from outside sources, we may not be able to raise it on terms acceptable to us, or at all. If we are unable to raise additional capital when desired and/or on acceptable terms, our business, operating results and financial condition could be adversely affected.

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

	Three Months Ended March 31,		Change	
(in thousands, except percentages)	**2021**	**2020**	**Amount**	**%**
Consolidated statement of cash flows				
Net cash used in operating activities	$ (7,299)	$ (1,905)	$ (5,394)	283.1 %
Net cash provided by investing activities	(1,098)	—	(1,098)	100.0 %
Net cash provided by (used in) financing activities	27,916	2,543	25,373	997.8 %

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.

We utilized $7.3 million of cash from operating activities during the three months ended March 31, 2021, primarily resulting from a net loss of $12.4 million, as adjusted $1.1 million for stock-based compensation $0.2 million for bad debt recovery, $1.6 million for amortization of debt discount and deferred financing costs, $0.9 million for loss on the change in fair value of warrants and $5.8 million for loss on extinguishment of debt related to our 2020 Convertible Notes. In addition, certain changes in our operating assets and liabilities resulted in significant cash increases (decreases) as follows: $(0.7) million from a decrease in accounts payable, $(2.3) million from a decrease in accrued expenses, $(0.8) million from a decrease in deferred revenue and $0.5 million from an increase in prepaid and other assets.

We utilized $1.9 million of cash from operating activities during the three months ended March 31, 2020, primarily resulting from a net loss of $4.0 million, as adjusted $0.6 million for stock-based compensation. In addition, certain changes in our operating assets and liabilities resulted in significant cash increases (decreases) as follows: $0.9 million from an increase in accounts payable, $0.6 million from an increase in accrued expenses, $0.8 million from an increase in account receivable and $(0.8) million from an decrease in deferred revenue.

Investing Activities

Investing activities for the three months ended March 31, 2021 consisted of the purchase of digital currencies.

Financing Activities

Our financing activities during the three months ended March 31, 2021 consisted of proceeds from equity financings and debt borrowings offset by payments on debt. We acquired $27.9 million of cash from financing activities resulting from $29.7 million in proceeds from the sale of our common stock and $10 million in proceeds from our Series B Convertible Note. These sources of financing were partially offset by $11.8 million of payments on debt, a majority of which were payments on the 2020 Convertible Notes. Refer to the notes to the condensed consolidated financial statements included in Part I, Item 1 of this Report on Form 10-Q for information on the Company's financing activities.

Our financing activities during the three months ended March 31, 2020 consisted of proceeds derived from debt borrowings offset by net repayments on our financing factoring agreement. We acquired $2.5 million of cash from financing activities, resulting from $3.2 million in proceeds from new issuances of debt (inclusive of $0.6 million from related parties), partially offset of $(0.6) million in net repayments on our factoring financing agreement.

Off-Balance Sheet Arrangements

Through March 31, 2021, we 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, we provide 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, we have 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, "*Summary of Significant Accounting Policies*", in the notes to the condensed consolidated financial statements included in Part I, Item 1 of this Report on Form 10-Q for analysis of recent accounting pronouncements that are applicable to our business.

Summary of Significant Accounting Policies

Our 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.

Except for the changes described in Note 2, "*Summary of Significant Accounting Policies*," in the notes to the condensed consolidated financial statements related to the adoption of ASU 2016-02 and our disclosure of our accounting policy related to our digital currencies purchsed during the current quarter, 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 for the year ended December 31, 2020 filed with the SEC on March 31, 2021.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Not applicable.

Item 4. Controls and Procedures

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 three months ended March 31, 2021, we implemented new controls related to the adoption of ASU 2016-02. 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.

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.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

The information set forth under the "*Litigation*" subheading in Note 7, "*Commitments and Contingencies*" in the notes to the condensed consolidated financial statements included in Part I, Item 1 of this Report on Form 10-Q is incorporated herein by reference.

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 31, 2021 for the year ended December 31, 2020, as supplemented by the "*Risk Factors*" section in our prospectus filed with the SEC on February 12, 2021 (as amended and/or supplemented to date) and April 7, 2021 (as amended and/or supplemented to date) and the information set forth below or contained elsewhere in this Report. The risks and uncertainties described below and within our Form 10-K for the year ended December 31, 2020 and the prospectuses 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.

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

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

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
3.1	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).
4.1	Form of Note, dated April 9, 2020, between the Company and JPMorgan Chase (Incorporated by reference to Exhibit 4.1 of the Registrants Form 8-K filed with the SEC on April 16, 2020.
10.1	Form of Security Purchase Agreement, dated July 14, 2020, between the Company and Alto Opportunity Master Fund, SPC – Segregated Master Portfolio B (Incorporated by reference to Exhibit 10.1 of the Registrant's Form 8-K filed with the SEC on July 16, 2020).
10.2	Form of Series A Senior Convertible Note , dated July 15, 2020, between the Company and Alto Opportunity Master Fund, SPC – Segregated Master Portfolio B (Incorporated by reference to Exhibit 10.2 of the Registrant's Form 8-K filed with the SEC on July 16, 2020).
10.3	Form of Series B Senior Convertible Note, dated July 15, 2020, between the Company and Alto Opportunity Master Fund, SPC – Segregated Master Portfolio B (Incorporated by reference to Exhibit 10.3 of the Registrant's Form 8-K filed with the SEC on July 16, 2020).
10.4	Form of Note Purchase Agreement , dated July 14, 2020, between the Company and Alto Opportunity Master Fund, SPC – Segregated Master Portfolio B (Incorporated by reference to Exhibit 10.4 of the Registrant's Form 8-K filed with the SEC on July 16, 2020).
10.5	Form of Secured Promissory Note, dated July 14, 2020, between the Company and Alto Opportunity Master Fund, SPC – Segregated Master Portfolio B (Incorporated by reference to Exhibit 10.5 of the Registrant's Form 8-K filed with the SEC on July 16, 2020).
10.6	Form of Master Netting Agreement, dated July 15, 2020, between the Company and Alto Opportunity Master Fund, SPC – Segregated Master Portfolio B (Incorporated by reference to Exhibit 10.6 of the Registrant's Form 8-K filed with the SEC on July 16, 2020).
10.7	Form of Warrant to Purchase Common Stock, dated July 15, 2020, between the Company and Alto Opportunity Master Fund, SPC – Segregated Master Portfolio B (Incorporated by reference to Exhibit 10.7 of the Registrant's Form 8-K filed with the SEC on July 16, 2020).
10.8	Form of Registration Rights Agreement, dated July 15, 2020, between the Company and Alto Opportunity Master Fund, SPC – Segregated Master Portfolio B (Incorporated by reference to Exhibit 10.8 of the Registrant's Form 8-K filed with the SEC on July 16, 2020).
10.9	At-The-Market Issuance Sales Agreement, by and between Phunware, Inc. and H.C. Ascendiant Capital Markets, LLC, dated August 14, 2020 (Incorporated by reference to Exhibit 10.1 of the Registrant's Form 8-K filed with the SEC on August 14, 2020).
10.10	Settlement Agreement and Mutual General Release, dated October 9, 2020, between the Company, Uber Technologies, Inc., and certain Individual Defendants (Incorporated by reference to Exhibit 10.12 of the Registrants Form 10-Q (File No. 001-37862), filed with the SEC on November 12, 2020).
10.11	Underwriting Agreement, dated February 12, 2021 by and among Northland Securities, Inc., Roth Capital Partners, LLC and Phunware, Inc. (Incorporated by Reference to Exhibit 1.1 of the Registrants Form 8-K filed with the SEC on February 16,2021).
10.12	Office Sublease between the Company and Bangarang Enterprises LLC d/b/a Gander Group dated effective as of March 16, 2021 (Incorporated by Reference to Exhibit 10.1 of the Registrant's Form 8-K filed with the SEC on March 19, 2021).
10.13	At Market Issuance Sales Agreement, by and between Phunware, Inc. and B. Riley Securities, Inc., dated April 7, 2021 (Incorporated by Reference to Exhibit 10.1 of the Registrants Form 8-K (File No. 001-37862), filed with the SEC on April 7, 2021).
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.

May 14, 2021

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)

Exhibit 31.1

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: May 14, 2021

/s/ Alan S. Knitowski

Alan S. Knitowski
Chief Executive Officer
(Principal Executive Officer)

Exhibit 31.2

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: May 14, 2021

/s/ Matt Aune

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

Exhibit 32.1

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 March 31, 2021, 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.

May 14, 2021

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.”