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 June 30, 2022

☐ **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)

1002 West Avenue, Austin, Texas	**78701**
(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 August 10, 2022, 98,382,554 shares of common stock, par value $0.0001 per share, were issued and outstanding.

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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 Sheets
(In thousands, except share and per share information)

	June 30, 2022	December 31, 2021
	(Unaudited)	
Assets		
Current assets:		
Cash	$ 2,705	$ 23,137
Accounts receivable, net of allowance for doubtful accounts of $0 and $10 at June 30, 2022 and December 31, 2021, respectively	803	967
Inventory	3,528	2,636
Digital assets, net	12,592	32,581
Prepaid expenses and other current assets	1,188	686
Total current assets	20,816	60,007
Property and equipment, net	145	—
Goodwill	33,142	33,260
Intangible assets, net	2,858	3,213
Deferred tax asset	1,278	1,278
Right-of-use asset	2,595	1,260
Other assets	402	276
Total assets	$ 61,236	$ 99,294
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	$ 7,510	$ 6,589
Accrued expenses	6,953	9,621
Lease liability	614	399
Deferred revenue	1,715	3,973
PhunCoin deposits	1,203	1,202
Current maturities of long-term debt, net	2,031	4,904
Warrant liability	1,136	3,605
Total current liabilities	21,162	30,293
Deferred tax liability	1,278	1,278
Deferred revenue	859	1,299
Lease liability	2,244	1,147
Total liabilities	25,543	34,017
Commitments and contingencies (Note 8)		
Stockholders' equity		
Common stock, $0.0001 par value; 1,000,000,000 shares authorized at June 30, 2022 and December 31, 2021; 98,137,070 and 96,751,610 shares issued and outstanding as of June 30, 2022 and December 31, 2021, respectively	10	10
Additional paid-in capital	267,465	264,944
Accumulated other comprehensive loss	(469)	(352)
Accumulated deficit	(231,313)	(199,325)
Total stockholders' equity	35,693	65,277
Total liabilities and stockholders' equity	$ 61,236	$ 99,294

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	**2021**	**2022**	**2021**
Net revenues	$ 5,485	$ 1,436	$ 12,263	$ 3,082
Cost of revenues	3,965	1,124	8,972	1,816
Gross profit	1,520	312	3,291	1,266
Operating expenses:				
Sales and marketing	1,928	639	3,413	1,195
General and administrative	5,251	3,021	9,556	5,779
Research and development	1,876	846	2,879	1,898
Total operating expenses	9,055	4,506	15,848	8,872
Operating loss	(7,535)	(4,194)	(12,557)	(7,606)
Other income (expense):				
Interest expense	(273)	(1,845)	(654)	(4,064)
Loss on extinguishment of debt	—	(2,184)	—	(7,952)
Impairment of digital assets	(12,158)	(776)	(21,511)	(776)
Fair value adjustment of warrant liability	2,682	1,180	2,469	(1,649)
Other income (expense), net	213	43	265	(36)
Total other expense	(9,536)	(3,582)	(19,431)	(14,477)
Loss before taxes	(17,071)	(7,776)	(31,988)	(22,083)
Income tax expense	—	—	—	—
Net loss	(17,071)	(7,776)	(31,988)	(22,083)
Other comprehensive income (loss):				
Cumulative translation adjustment	(85)	5	(117)	15
Comprehensive loss	$ (17,156)	$ (7,771)	$ (32,105)	$ (22,068)
Net loss per share, basic and diluted	$ (0.17)	$ (0.11)	$ (0.33)	$ (0.32)
Weighted-average common shares used to compute net loss per share, basic and diluted	97,742	71,620	97,293	68,103

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

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

	Common Stock		Additional Paid-in Capital	Accumulated Deficit	Other Comprehensive Loss	Total Stockholders' Equity
	Shares	Amount				
Balance - March 31, 2022	97,251	$ 10	$ 266,606	$ (214,242)	$ (384)	$ 51,990
Release of restricted stock	790	—	—	—	—	—
Issuance of common stock under the 2018 employee stock purchase plan	96	—	116	—	—	116
Stock-based compensation expense	—	—	743	—	—	743
Cumulative translation adjustment	—	—	—	—	(85)	(85)
Net income	—	—	—	(17,071)	—	(17,071)
Balance - June 30, 2022	98,137	$ 10	$ 267,465	$ (231,313)	$ (469)	$ 35,693
Balance - December 31, 2021	96,752	$ 10	$ 264,944	$ (199,325)	$ (352)	$ 65,277
Exercise of stock options, net of vesting of restricted shares	23	—	16	—	—	16
Release of restricted stock	882	—	—	—	—	—
Issuance of common stock under the 2018 employee stock purchase plan	96	—	116	—	—	116
Issuance of common stock in connection with acquisition of Lyte Technology, Inc.	384	—	1,125	—	—	1,125
Stock-based compensation expense	—	—	1,264	—	—	1,264
Cumulative translation adjustment	—	—	—	—	(117)	(117)
Net loss	—	—	—	(31,988)	—	(31,988)
Balance - June 30, 2022	98,137	$ 10	$ 267,465	$ (231,313)	$ (469)	$ 35,693

	Common Stock		Additional Paid-in Capital	Accumulated Deficit	Other Comprehensive Loss	Total Stockholders' Equity (Deficit)
	Shares	Amount				
Balance - March 31, 2021	71,204	$ 7	$ 175,046	$ (160,110)	$ (328)	$ 14,615
Exercise of stock options, net of vesting of restricted shares	11	—	5	—	—	5
Release of restricted stock	829	—	—	—	—	—
Sales of common stock, net of issuance cost	692	—	832	—	—	832
Stock-based compensation expense	—	—	1,371	—	—	1,371
Cumulative translation adjustment	—	—	—	—	5	5
Net loss	—	—	—	(7,776)	—	(7,776)
Balance - June 30, 2021	72,736	$ 7	$ 177,254	$ (167,886)	$ (323)	$ 9,052
Balance - December 31, 2020	56,371	$ 6	$ 144,156	$ (145,803)	$ (338)	$ (1,979)
Exercise of stock options, net of vesting of restricted shares	131	—	70	—	—	70
Release of restricted stock	1,012	—	—	—	—	—
Issuance of common stock for payment of board of director fees	99	—	66	—	—	66
Sales of common stock, net of issuance costs	15,123	1	30,536	—	—	30,537
Stock-based compensation expense	—	—	2,426	—	—	2,426
Cumulative translation adjustment	—	—	—	—	15	15
Net loss	—	—	—	(22,083)	—	(22,083)
Balance - June 30, 2021	72,736	$ 7	$ 177,254	$ (167,886)	$ (323)	$ 9,052

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

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

	Six Months Ended June 30, 2022	Six Months Ended June 30, 2021
Operating activities		
Net loss	$ (31,988)	$ (22,083)
Adjustments to reconcile net loss to net cash used in operating activities:		
Amortization of debt discount and deferred financing costs	259	2,770
Loss on change in fair value of warrant liability	(2,469)	1,649
Loss on extinguishment of debt	—	7,952
Impairment of digital assets	21,511	776
Stock-based compensation	1,270	2,438
Other adjustments	284	142
Changes in operating assets and liabilities:		
Accounts receivable	178	237
Inventory	(892)	—
Prepaid expenses and other assets	(631)	(416)
Accounts payable	920	(1,282)
Accrued legal settlement	—	(1,500)
Lease liability payments	(347)	(434)
Accrued expenses	(386)	(3,334)
Deferred revenue	(2,698)	(1,286)
Net cash used in operating activities	(14,989)	(14,371)
Investing activities		
Acquisition payment	(1,125)	—
Purchase of digital assets	(923)	(1,497)
Capital expenditures	(158)	—
Net cash used in investing activities	(2,206)	(1,497)
Financing activities		
Proceeds from borrowings, net of issuance costs	—	9,981
Payments on borrowings	(3,132)	(25,095)
Proceeds from exercise of options to purchase common stock	16	70
Proceeds from sales of common stock, net of issuance costs	—	29,670
Net cash (used) provided by financing activities	(3,116)	14,626
Effect of exchange rate on cash and restricted cash	(121)	16
Net decrease in cash and restricted cash	(20,432)	(1,226)
Cash and restricted cash at the beginning of the period	23,137	4,031
Cash and restricted cash at the end of the period	$ 2,705	$ 2,805

Supplemental disclosure of cash flow information:				
Interest paid	$	408	$	1,287
Income taxes paid	$	—	$	—
Supplemental disclosures of non-cash activities:				
Right-of-use assets obtained in exchange for operating lease obligations	$	1,508	$	—
Non-cash exchange of digital assets	$	923	$	—
Issuance of common stock in connection with acquisition of Lyte Technology, Inc.	$	1,125	$	—
Proceeds not received related to sales of common stock	$	—	$	867
Issuance of common stock for payment of board of director fees	$	—	$	66

The accompanying notes are an integral part of these unaudited 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. Our Multiscreen-as-a-Service ("MaaS") platform provides the entire mobile lifecycle of applications and media in one login through one procurement relationship. Our MaaS technology is available in software development kit ("SDK") form for organizations developing their own application, via customized development services and prepackaged solutions. Through our integrated mobile advertising platform of publishers and advertisers, we provide in-app application transactions for mobile audience building, user acquisition, application discovery, audience engagement and audience monetization. During 2021, we began to sell PhunToken to consumers, developers and brands. PhunToken is an innovative digital asset utilized within our token ecosystem to help drive engagement by unlocking features and capabilities of our MaaS platform. PhunToken is designed to reward consumers for their activity, such as watching branded videos, completing surveys and visiting points of interest. In October 2021, we acquired Lyte Technology, Inc. ("Lyte"), a provider of high-performance computer systems to individual consumers. 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, 2021 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, 2021, which are referenced herein. The accompanying interim condensed consolidated financial statements as of June 30, 2022 and for the three and six months ended June 30, 2022 and 2021, 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 June 30, 2022 and the results of operations for the three and six months ended June 30, 2022 and 2021, and cash flows for the six months ended June 30, 2022 and 2021. The results for the three and six months ended June 30, 2022 are not necessarily indicative of the results to be expected for the year ending December 31, 2022 or for any future interim period.

Revised Financial Statements

During the preparation of our Quarterly Report on Form 10-Q for the period ended September 30, 2021, the Company determined that it had inaccurately accounted for an adjustment to certain terms of an outstanding warrant issued in connection with a certain Series A Senior Convertible Note and Series B Senior Convertible Note we issued on July 15, 2020 (collectively, the "2020 Convertible Notes"). As a result of our underwritten public offering in February 2021, the number of shares issuable and the exercise price were each adjusted pursuant to the terms of the warrant. While we accurately accounted for the decrease in the exercise price (from $4.00 per share to $2.25 per share), we did not account for the increase in the number of shares available for exercise under the warrant, from 2,160,000 shares to 3,840,000 shares. This resulted in an understatement of net loss during the three and six months ended June 30, 2021. We assessed the materiality of this misstatement in accordance with Staff Accounting Bulletin No. 108, "*Quantifying Misstatements*" and concluded this error was not qualitatively material as there was no impact on cash, operating income, or cash flow from operations, among other considerations.

The correction of this error resulted in adjustments to our condensed consolidated statements of operations and comprehensive loss for the three and six months ended June 30, 2021. The revised amounts have been reflected in condensed consolidated financial statements presented above. The effect of this revision on certain line items within our condensed consolidated balance sheets and condensed consolidated statements of operations and comprehensive loss are set forth below:

	As of June 30, 2021		
	Previously reported	Adjustments	As revised
Warrant liability	$ 1,836	$ 1,427	$ 3,263
Accumulated deficit	$ (166,459)	$ (1,427)	$ (167,886)

	For the three months ended June 30, 2021		
	Previously reported	Adjustments	As revised
Gain on change in fair value of warrant liability	$ 663	$ 517	$ 1,180
Net loss	$ (8,293)	$ 517	$ (7,776)
Net loss per common share, basic and diluted	$ (0.12)	$ 0.01	$ (0.11)

	For the six months ended June 30, 2021		
	Previously reported	Adjustments	As revised
Loss on change in fair value of warrant liability	$ (222)	$ (1,427)	$ (1,649)
Net loss	$ (20,656)	$ (1,427)	$ (22,083)
Net loss per common share, basic and diluted	$ (0.30)	$ (0.02)	$ (0.32)

Going Concern, Liquidity and Management's Plan

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

We have a history of losses in each fiscal year since our inception. Total backlog and cash-on-hand for the period then ended did not meet our expectations, as a result of uncertainty of the broader marketplace. For the six months ended June 30, 2022, we incurred a net loss of $17,071 and used $14,989 in cash for operations.

In July 2022, the Company raised additional cash proceeds in the amount of $11,795 through the issuance of a note, as detailed in Note 12, *Subsequent Events*. In accordance with the note, we can defer one monthly payment in the amount $1,566 up to twelve times. Furthermore, as more fully described in Note 9, *Stockholders Equity*, in January 2022, we entered into a sales agreement, pursuant to which we may offer and sell shares of our common stock, for aggregate gross proceeds of up to $100 million. We currently anticipate selling common stock through our at-the-market offering, if needed. Sales of shares of our common stock sold under the sales agreement will be made pursuant to an effective shelf registration statement on Form S-3 in the amount of $200 million filed with the SEC on February 1, 2022. We may also sell additional securities, including common stock, preferred stock, warrants and units through private placement transactions or public offerings. We believe the foregoing plan mitigate the Company's going concern considerations.

There can be no assurance that we will be able to obtain additional funding on satisfactory terms or at all. In addition, no assurance can be given that any such financing, if obtained, will be adequate to meet our capital needs and support growth. If additional funding cannot be obtained on a timely basis and/or on satisfactory terms, our operations could be materially impacted.

The accompanying condensed consolidated financial statements have been prepared on a going-concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business.

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, 2021, except as set forth below.

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, our various digital asset transactions, 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, contingent consideration for our business combination with Lyte and periodic reassessment of fair value, allocating the fair value of purchase consideration to assets acquired and liabilities assumed in our business combination, reserves and certain accrued liabilities, the benefit period of deferred commissions, assumptions used in Black-Scholes valuation method, such as the current trading price of our common stock at time of exercise of our warrant, expected volatility, risk-free interest rate and expected dividend rate and provision for (benefit from) income taxes. Actual results could differ from those estimates and such differences could be material to the consolidated financial statements.

Risks and Uncertainties

Regulation governing blockchain technologies, cryptocurrencies, digital assets, utility tokens, security tokens and offerings of digital assets is uncertain, and new regulations or policies may materially adversely affect the development and the value of our tokens. Regulation of digital assets, like PhunCoin and PhunToken, cryptocurrencies, blockchain technologies and cryptocurrency exchanges, is evolving and likely to continue to evolve. Regulation also varies significantly among international, federal, state and local jurisdictions and is subject to significant uncertainty. Various legislative and executive bodies in the United States and in other countries may in the future adopt laws, regulations, or guidance, or take other actions, which may severely impact the permissibility of tokens generally and the technology behind them or the means of transaction or in transferring them. Any such violations could adversely affect the ability of us to maintain PhunCoin and PhunToken, which could have a material adverse effect on our operations and financial condition. Failure by us to comply with any laws, rules and regulations, some of which may not exist yet or are subject to interpretation and may be subject to change, could also result in a material adverse effect on our operations and financial condition.

Concentrations of Credit Risk

Our financial instruments that are exposed to concentrations of credit risk consist primarily of cash, trade accounts receivable and our digital asset holdings.

There is currently no clearing house for our digital assets, including our bitcoin, ethereum or other digital asset holdings, nor is there a central or major depository for the custody of our digital assets. There is a risk that some or all of our digital asset holdings could be lost or stolen. There can be no assurance that the custodians will maintain adequate insurance or that such coverage will cover losses with respect to our digital asset holdings. Further, transactions denominated in digital assets are irrevocable. Stolen or incorrectly transferred digital assets may be irretrievable. As a result, any incorrectly executed transactions could adversely our financial condition. The aggregate cost basis of our digital asset holdings is $42,255 and $41,964 at June 30, 2022 and December 31, 2021, respectively.

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.

	June 30, 2022	December 31, 2021
Customer A	12 %	— %
Customer B	10 %	— %
Customer C	7 %	18 %
Customer D	— %	20 %

Digital Assets

Payments by customers in and purchases by us of digital assets were primarily of bitcoin and ethereum. We currently account for all digital assets held as a result of these transactions as indefinite-lived intangible assets in accordance with ASC 350, *Intangibles—Goodwill and Other*. We have ownership of and control over our digital assets and we may use third-party custodial services to secure them. The digital assets are initially recorded at cost and are subsequently remeasured, net of any impairment losses incurred since acquisition.

We determine the fair value of our digital assets 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 the principal market for bitcoin, ethereum and other digital asset holdings (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 quoted on an active exchange since acquiring the respective digital asset. 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. In determining the gain or loss 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 consolidated statements of operations and comprehensive loss. Impairment loss was $12,158 and $21,511 for the three and six months ended June 30, 2022. We realized gains in the amount of $194 for the six months ended June 30, 2022.

The following table sets forth our digital asset holdings as of June 30, 2022:

Asset	Gross Carrying Amount	Accumulated Digital Asset Impairment	Digital Asset Carrying Value
Bitcoin	$ 37,882	$ (26,295)	$ 11,587
Ether	3,163	(2,471)	692
Other	1,210	(897)	313
Total	$ 42,255	$ (29,663)	$ 12,592

The following table sets forth our digital asset holdings as of December 31, 2021:

Asset	Gross Carrying Amount	Accumulated Digital Asset Impairment	Digital Asset Carrying Value
Bitcoin	$ 36,963	$ (8,554)	$ 28,409
Ethereum	4,714	(670)	4,044
Other	287	(159)	128
Total	$ 41,964	$ (9,383)	$ 32,581

Accumulated digital asset impairment noted above represent impairment on the remaining cost lots as of the respective dates. Changes in our digital asset holdings for the six months ended June 30, 2022 were as follows:

	Bitcoin	Ethereum	Other	Total
Net balance at December 31, 2021	$ 28,409	$ 4,044	$ 128	$ 32,581
Received from customers, net of expenses	28	377	—	405
Purchases of digital assets	923	—	—	923
Exchanges of digital assets	—	(923)	923	—
Realized gain	26	168	—	194
Impairment expense	(17,799)	(2,974)	(738)	(21,511)
Net balance at 6/30/2022	$ 11,587	$ 692	$ 313	$ 12,592

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:

	June 30,	
	2022	2021
Convertible notes	—	21,136
Warrants	5,636,801	5,996,112
Options	934,729	1,071,782
Restricted stock units	2,621,346	4,665,060
Restricted shares	—	574
Total	9,192,876	11,754,664

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 and non-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 no market activ

Determining which category an asset or liability falls within the hierarchy requires significant judgment. Our financial instruments measured at fair value as of June 30, 2022 are set forth below:

	Level 1	Level 2	Level 3	Total
Assets:				
Digital assets	$ 12,592	$ —	$ —	$ 12,592
Total	$ 12,592	$ —	$ —	$ 12,592
Liabilities:				
Warrant liability	$ —	$ 1,136	$ —	$ 1,136
Total	$ —	$ 1,136	$ —	$ 1,136

Our financial instruments measured at fair value as of December 31, 2021 are set forth below:

	Level 1	Level 2	Level 3	Total
Assets:				
Digital assets	$ 32,581	$ —	$ —	$ 32,581
Total	$ 32,581	$ —	$ —	$ 32,581
	Level 1	Level 2	Level 3	Total
Liabilities:				
Warrant liability	$ —	$ 3,605	$ —	$ 3,605
Total	$ —	$ 3,605	$ —	$ 3,605

The following table sets forth the assumptions used to calculate the fair values of the liability classified warrant issued in connection with our 2020 Convertible Notes as of the dates presented:

	June 30, 2022	December 31, 2021
Strike price per share	$ 2.25	$ 2.25
Closing price per share	$ 1.08	$ 2.63
Term (years)	1.04	1.53
Volatility	205 %	186 %
Risk-free rate	2.85 %	0.56 %
Dividend Yield	—	—

The carrying value of accounts receivable, inventory, 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 Standards 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. As the Company does not currently have any debt with conversion features outstanding, we do not expect the adoption of ASU 2020-06 to have a material impact on our condensed consolidated financial statements and disclosures.

3. Business Combination

On October 18, 2021, we closed the acquisition of Lyte with an adjusted purchase price of approximately $11.0 million (subject to an earn-out provision). This acquisition was accounted for using the acquisition method of accounting and, accordingly, assets acquired, liabilities assumed and consideration exchanged was recorded at estimated fair values on the date of acquisition. The fair values assigned to tangible and identifiable intangible assets acquired and liabilities assumed were based on management's estimates and assumptions at the time of acquisition. Fair values are subject to refinement for up to one year after the closing date as additional information regarding the closing date fair values becomes available. The fair values of the aggregate assets and liabilities acquired are disclosed in in Note 3, *Business Combination, in* our Annual Report on Form 10-K filed with the SEC on April 7, 2022. We have not booked any adjustments to the initial fair values booked at acquisition date.

Pursuant to terms of the stock purchase agreement, the acquisition and earn-out payments consist of the following: (i) $1,125, as adjusted for working capital items, on June 30, 2022, (ii) the issuance of shares of our common stock with an aggregate value of $2,250, in two equal installments valued at up to $1,125, determined on the last business day of each of the quarters ending March 31, 2022 and September 30, 2022 and (iii) up to $1,250 in cash and issuance of shares of our common stock valued at up to $1,250 on the first anniversary of closing, as an earn-out payment based upon Lyte achieving certain annual revenue milestones as provided in the purchase agreement in the year following closing. We currently believe Lyte will achieve the annual revenue milestone and we will owe the full amount of the contingent consideration on the first annual anniversary of closing. There is $3,471 and $5,531 recorded in accrued expenses in the condensed consolidated balance sheets as of June 30, 2022 and December 31, 2021, respectively, related to fair value of future acquisition payments and earn out payable due to the seller.

The following table summarizes the unaudited pro forma condensed consolidated financial information of Phunware for the three and six months ended June 30, 2021, as if the acquisition of Lyte had occurred on January 1, 2021:

(in thousands)	**Three Months Ended June 30, 2021**	**Six Months Ended June 30, 2021**
	(unaudited)	
Net revenues	$ 3,583	$ 7,353
Net loss	(7,943)	(22,777)

4. Revenue

Our platform revenue consists of SDK license subscriptions and application development services, as well as application transactions, which are comprised of in-app advertising and sales of our digital asset, PhunToken. Hardware revenue relates to the sale of high-performance personal computers. Refer to our revenue recognition policy under the subheading, *Revenue Recognition,* in Note 2, *Summary of Significant Accounting Policies,* in our Annual Report on Form 10-K filed with the SEC on April 7, 2022.

Disaggregation of Revenue

The following table sets forth our net revenues by category:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Platform revenue	$ 1,628	$ 1,436	$ 4,120	$ 3,082
Hardware revenue	3,857	—	8,143	—
Net revenues	$ 5,485	$ 1,436	$ 12,263	$ 3,082

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 98% and 97% of our net revenues from within the United States for the three and six months ended June 30, 2022, respectively. We derived 99% of our net revenues from within the United States for the three and six months ended June 30, 2021.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Customer E	1 %	6 %	1 %	11 %
Customer F	— %	21 %	— %	19 %
Customer G	— %	13 %	— %	11 %

Deferred Revenue

Our deferred revenue balance consisted of the following:

	June 30, 2022	December 31, 2021
Current deferred revenue		
Platform revenue	$ 1,616	$ 1,824
Hardware revenue	99	2,149
Total current deferred revenue	$ 1,715	$ 3,973
Non-current deferred revenue		
Platform revenue	$ 859	$ 1,299
Total non-current deferred revenue	$ 859	$ 1,299
Total deferred revenue	$ 2,574	$ 5,272

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 six months ended June 30, 2022, we recognized revenue of $3,182 that was included in our deferred revenue balance as of December 31, 2021.

Remaining Performance Obligations

Remaining performance obligations were $5,243 as of June 30, 2022, of which we expect to recognize approximately 40% as revenue over the next 12 months and the remainder thereafter.

PhunToken

In May 2021, we announced the commencement of the selling of PhunToken. PhunToken is our innovative digital asset intended to be utilized within our token ecosystem, once developed, to help drive engagement by unlocking features and capabilities of our MaaS platform. During the six months ended June 30, 2022, we sold 186.8 million PhunToken for an aggregate of $1,533, for which we received both cash and digital assets from customers. Sales of PhunToken are recorded within platform revenue in the table above.

In March 2022, certain members of our senior management team purchased 827.5 million PhunToken pursuant to Restricted Token Purchase Agreements, at an aggregate purchase price of approximately $7. The PhunToken will be transferred to employees over a time-based delivery schedule ranging from one to four years. The Company will have the right to repurchase any PhunToken not delivered to the employee as a result of voluntary termination or termination for cause.

As of June 30, 2022 and December 31, 2021, issued PhunToken were 461.3 million and 131.7 million, respectively. Total supply of PhunToken is capped at 10 billion.

5. Inventory

Our inventory balance on the dates presented consisted of the following:

	June 30, 2022	December 31, 2021
Raw materials	$ 3,173	$ 2,075
Work-in-process	—	207
Finished goods	113	138
Other	242	216
Total inventory	$ 3,528	$ 2,636

6. Debt

2021 Promissory Note

In connection with the acquisition of Lyte, we entered into a note purchase agreement and completed the sale of an unsecured promissory note (the "2021 Promissory Note") with an original principal amount of $5,220 in a private placement that closed on October 18, 2021. The 2021 Promissory Note was sold with an original issue discount of $200 and we paid at closing issuance costs totaling $280. After deducting all transaction costs, net cash proceeds to the Company were $4,740. No interest will accrue on the 2021 Promissory Note unless and until the occurrence of an event of default (as defined in the 2021 Promissory Note). Beginning on January 15, 2022 and on the same day of each month thereafter until the 2021 Promissory Note is paid in full, we are required to make a monthly amortization payments in the amount of $574 until the maturity date of October 15, 2022. We may prepay any or all outstanding balance of the 2021 Promissory Note earlier than it is due with a prepayment premium of 110%. The prepayment premium also applies to the monthly amortization payments, which amounts to an effective interest rate of approximately 18%.

The 2021 Promissory Note had a principal balance of $2,088 and $5,220 and debt discount of $57 and $316 at June 30, 2022 and December 31, 2021, respectively.

Interest Expense

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
2021 Promissory Note	$ 122	$ —	$ 300	$ —
2020 Convertible Notes	—	659	—	1,111
Accretion of debt discount - issuance costs	103	1,121	258	1,741
Accretion of debt discount - warrants	—	—	—	1,029
All other debt and financing obligations	48	65	96	183
Total	$ 273	$ 1,845	$ 654	$ 4,064

Other Debt Obligations

Other than the 2021 Promissory Note referenced above and disclosures contained within Note 12, *Subsequent Events*, there have been no material changes to the terms and conditions of our other debt obligations, including the payments in full thereof, since the filing of our Annual Report on Form 10-K. See Note 9, *Debt*, in our Annual Report on Form 10-K filed with the SEC on April 7, 2022.

7. Leases

On March 15, 2022, we entered into a lease agreement, in which we will lease approximately 21,830 square feet in Round Rock, Texas, which we intend to use as manufacturing and warehouse space for our Lyte computer division. The term of the lease is five years and commences on the earliest of (a) the date we occupy any portion of the premises and begin conducting business therein, (b) the date on which construction is substantially completed in the building (as defined in the construction addendum) or (c) the date the landlord would have achieved substantial completion of construction of the building but for a delay caused by us (as defined in the construction addendum). The lease provides for initial base rent payments of approximately $27 per month, subject to escalations. In addition, we will be responsible for payments equal to our proportionate share of operating expenses, which is currently estimated to be approximately $7 per month, which is also subject to adjustment to actual costs and expenses according to provisions of the lease. We took possession of the lease in July 2022. In accordance with authoritative guidance, we will defer recording the right-of-use asset and lease liability until such date the lessor makes the leased premises available for our use.

On June 3, 2022, we entered into a lease agreement pursuant to which we will lease approximately 7,458 square feet in Austin, Texas, which we intend to use as professional office space for our corporate headquarters. The term of the Lease commenced on June 10, 2022 and has a term of sixty-four (64) months. The lease provides for rent abatement until September

30, 2022. Beginning on October 1, 2022, initial base rent payments are approximately $28 per month, subject to escalations contained therein. In addition, we will be responsible for payments equal to our proportionate share of operating expenses, which is currently estimated to be approximately $9 per month, plus electrical and janitorial services, which are to be contracted and paid separately by us. As a result of entering into this lease agreement, we recorded a right-of-use asset and corresponding lease liability of $1,508 on the commencement date noted above.

Further information regarding our other office leases and accounting thereof are located in Note 2, *Summary of Significant Accounting Policies,* and Note 10, *Leases,* in our Annual Report on Form 10-K filed with the SEC on April 7, 2022.

The weighted-average remaining lease term for our operating leases as of June 30, 2022 was 4.13 years. 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 and six months ended June 30, 2022 was $236 and $440, respectively. Lease expense for the three and six months ended June 30, 2021 was $209 and $421, respectively.

Future minimum lease obligations are set forth below:

Future minimum lease obligations years ending December 31,	**Lease Obligations**
2022 (Remainder)	$ 404
2023	963
2024	959
2025	569
2026	370
Thereafter	284
	$ 3,549
Less: Portion representing interest	(691)
	$ 2,858

8. Commitments and Contingencies

Litigation

There have been no material changes to the disclosure related to our litigation matters since the filing of our Annual Report on Form 10-K, except as set forth below. See Note 11, "*Commitments and Contingencies*" in our Annual Report on Form 10-K filed with the SEC on April 7, 2022 for further information.

On February 18, 2022, certain stockholders filed a lawsuit against Phunware and its individual officers and directors. The case, captioned Wild Basin Investments, LLC, et al. v. Phunware, Inc., et al., was filed in the in the Court of Chancery of the state of Delaware (Cause No. 2022-0168-LWW). Plaintiffs alleged that they invested in various early rounds of financing while the Company was private and that Phunware should not have subjected their shares to a 180-day “lock up” period. Plaintiffs also allege that Phunware’s stock price dropped significantly during the lock up period and seek damages, costs and professional fees. We filed a motion to dismiss the complaint on May 27, 2022 and on July 15, 2022, Plaintiffs filed their answering brief in opposition to the motion to dismiss and a partial motion for summary judgement. Our opposition in response to Plaintiffs’ answering brief is due by August 12, 2022 in accordance with the previously agreed upon schedule. We further intend to vigorously defend against this lawsuit and any appeals. We have not recorded an expense related to this matter because any potential loss is not currently probable or reasonably estimable. Additionally, we cannot presently estimate the range of loss, if any, that may result from the matter. It is possible that the ultimate resolution of the foregoing matter, or other similar matters, if resolved in a manner unfavorable to us, may be materially adverse to our business, financial condition, results of operations or liquidity.

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.

9. Stockholders' Equity

Common Stock

Total common stock authorized to be issued as of June 30, 2022 was 1,000,000,000 shares, with a par value of $0.0001 per share. At June 30, 2022 and December 31, 2021, there were 98,137,070 and 96,751,610 shares of our common stock outstanding.

On January 31, 2022, we entered into an At Market Issuance Sales Agreement with H.C. Wainwright & Co., LLC ("Wainwright"), pursuant to which we may offer and sell, from time to time, shares of our common stock, par value $0.0001 per share, for aggregate gross proceeds of up to $100,000, through or to Wainwright, as agent or principal. We are not obligated to sell shares of our common stock under the sales agreement with Wainwright. As of June 30, 2022, we have not sold any shares of common stock pursuant to the sales agreement with Wainwright. Sales of shares of our common stock sold under the sales agreement will be made pursuant to an effective shelf registration statement on Form S-3 in the amount of $200,000 filed with the SEC on February 1, 2022.

In January 2021, 2,670,121 shares of our common stock were sold in an at-the-market offering with Ascendiant Capital Markets, LLC ("Ascendiant") 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.

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 up to $25,000. We paid 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. As of June 30, 2021, 691,584 shares of our common stock has been sold and we have received aggregate net cash proceeds of $979, of which $112 had been received by us in cash as of June 30, 2021. We received the balance subsequent to the end of the quarter, and accordingly, we recorded $867 in prepaid expenses and other current assets as of June 30, 2021. Transaction costs were $30. We also incurred additional transaction costs paid outside of closing of $147. We terminated the sales agreement with B. Riley on February 4, 2022, with an effective date of February 9, 2022.

Warrants

We have various warrants outstanding. A summary of our outstanding warrants is set forth below:

	June 30, 2022		December 31, 2021	
Warrant Type	**Cash Exercise Price per share**	**Number of warrants**	**Cash Exercise Price per share**	**Number of warrants**
2020 Convertible Note warrant	$ 2.25	1,780,000	$ 2.25	1,780,000
Common stock warrant (Series D-1)	$ 2.25	35,555	$ 2.25	35,555
Common stock warrants (Series F)	$ 9.22	377,402	$ 9.22	377,402
Public warrants (PHUNW)	$ 11.50	1,761,291	$ 11.50	1,761,291
Private placement warrants	$ 11.50	1,658,381	$ 11.50	1,658,381
Unit purchase option warrants	$ 11.50	24,172	$ 11.50	24,172
Total		5,636,801		5,636,801

Except as set forth below, there have been no material changes to the terms of our outstanding warrants. Additional information about our various warrants outstanding is in included under the subheading, "*Warrants*", in Note 13, *Stockholders' Equity*, in our Annual Report on Form 10-K filed with the SEC on April 7, 2022.

2020 Convertible Note Warrant

In connection with the issuance of the 2020 Convertible Notes, in 2020, we issued a warrant exercisable for three (3) years for the purchase, initially, of up to an aggregate of 2,160,000 shares of the Company's common stock at an initial exercise price of $4.00 per share. The number of shares and exercise price are each subject to adjustment provided under the warrant. As a result of our underwritten public offering in February 2021, the exercise price of each share decreased to $2.25 per share, and the number of shares for which the warrant is exercisable increased to 3,840,000 shares. 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 registration statement registering 2,160,000 shares of our common stock issuable pursuant to the terms of the warrant was declared effective by the SEC on October 27, 2020. In April 2022, we filed a registration statement, as amended, registering 250% of the additional warrant shares as result of the adjustment noted above. The registration statement was declared effective by the SEC on May 2, 2022. 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.

10. Stock-Based Compensation

There have been no material changes to the terms of our 2018 Equity Incentive Plan (the "2018 Plan"), 2018 Employee Stock Purchase Plan ("2018 ESPP") and 2009 Equity Incentive Plan ("2009 Plan") since the filing of our Annual Report on Form 10-K. Refer to Note 14, *Stock-Based Compensation*, in our Annual Report on Form 10-K filed with the SEC on April 7, 2022 for more information on our various equity incentive plans.

2018 Equity Incentive Plan

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 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 June 30, 2022, the maximum number of shares of common stock that may be added to the 2018 Plan pursuant to the foregoing is 897,229. Not including the maximum number of shares from the 2009 Plan that may be added to the 2018 Plan, the 2018 Plan had 3,582,435 and 762,038 shares of common stock reserved for future issuances as of June 30, 2022 and December 31, 2021, respectively.

Restricted Stock Units

A summary of our restricted stock unit activity under the 2018 Plan for the six months ended June 30, 2022 is set forth below:

	Shares	Weighted Average Grant Date Fair Value
Outstanding as of December 31, 2021	3,576,270	$ 1.94
Granted	—	—
Released	(881,924)	1.85
Forfeited	(73,000)	2.33
Outstanding as of June 30, 2022	2,621,346	$ 1.95

Stock Options

During third quarter of 2021, we granted an option to purchase 50,000 shares of our common stock to a non-employee consultant with an exercise price of $1.08 per share. The option vests over one year in twelve equal monthly installments. The non-employee consultant ceased providing services to us during the second quarter of 2022, and, as such, 12,500 shares of this stock option were forfeited as of such date. As of June 30, 2022, the holder had not exercised the balance of this stock option and this is the only stock option grant outstanding under the 2018 Plan.

2018 Employee Stock Purchase Plan

We use a Black-Scholes option pricing model to determine the fair value of shares to be purchased under the 2018 ESPP. Stock-based compensation expense related to our 2018 ESPP for the three and six months ended June 30, 2022 was not significant. There were 911,245 and 189,215 shares of common stock available for sale and reserved for issuance as of June 30, 2022 and December 31, 2021, respectively.

2009 Equity Incentive 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, 2021	925,467	$ 0.80	5.59	$ 1,692
Granted	—	—		
Exercised	(22,757)	0.68		
Forfeited	(5,481)	2.00		
Outstanding as of June 30, 2022	897,229	$ 0.80	5.21	$ 374
Exercisable as of June 30, 2022	895,638	$ 0.79	5.21	$ 374

For the six months ended June 30, 2022, the aggregate intrinsic value of options exercised was $374 and the total fair value of options vested was $16.

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:

	Three Months Ended June 30,		Six Months Ended June 30,	
Stock-based compensation	**2022**	**2021**	**2022**	**2021**
Cost of revenues	$ 49	$ 323	$ 95	$ 532
Sales and marketing	27	129	45	231
General and administrative	595	709	1,067	1,334
Research and development	35	222	63	341
Total stock-based compensation	$ 706	$ 1,383	$ 1,270	$ 2,438

As of June 30, 2022, there was approximately $4,588, $293 and $2 of total unrecognized compensation cost related to the 2018 Plan, the 2018 ESPP and the 2009 Plan, respectively. These unrecognized compensation costs are expected to be recognized over an estimated weighted-average period of approximately 2.3 years, 1.3 years and 0.9 years for the 2018 Plan, the 2018 ESPP and 2009 Plan, respectively.

11. Segment and Geographic Information

Our chief operating decision maker is our Chief Executive Officer ("CEO"). Our CEO reviews operating segment information for purposes of allocating resources and evaluating financial performance. We have determined that the Company operates in two reporting segments: Phunware and Lyte. In 2021, but prior to the acquisition of Lyte, our CEO reviewed the financial information presented on a consolidated basis for purposes of allocating resources and evaluating financial performance.

Selected information for the Company's operating segments and a reconciliation to the condensed consolidated financial statement amounts are as follows:

	Three Months Ended June 30, 2022		
	Phunware	Lyte	Consolidated
Net revenues	$ 1,628	$ 3,857	$ 5,485
Loss before taxes	$ (16,708)	$ (363)	$ (17,071)

	Six Months Ended June 30, 2022		
	Phunware	Lyte	Consolidated
Net revenues	$ 4,120	$ 8,143	$ 12,263
Loss before taxes	$ (31,067)	$ (921)	$ (31,988)

	June 30, 2022		
	Phunware	Lyte	Consolidated
Goodwill	$ 25,769	$ 7,373	$ 33,142
Total assets	$ 57,057	$ 4,179	$ 61,236

	December 31, 2021		
	Phunware	Lyte	Consolidated
Goodwill	$ 25,887	$ 7,373	$ 33,260
Total assets	$ 94,621	$ 4,673	$ 99,294

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 June 30, 2022 and December 31, 2021, all of our identifiable long-lived assets were in the United States.

12. Subsequent Events

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

On July 6, 2022, we entered into a note purchase agreement and completed the sale of an unsecured promissory note (the "2022 Promissory Note") with an original principal amount of $12,809 in a private placement with the same investor of our 2021 Promissory Note. The 2022 Promissory Note was sold with an original issue discount of $492 and we paid at closing issuance costs totaling $522. After deducting all transaction fees paid by us at closing, net cash proceeds to the Company at closing were $11,795. No interest will accrue on the 2022 Promissory Note unless and until the occurrence of an event of default, as defined in the 2022 Promissory Note. Beginning on November 1, 2022 and on the same day of each month thereafter until the 2022 Promissory Note is paid in full, we are required to make a monthly amortization payments in the amount of $1,566 until the maturity date of July 1, 2022, which is subject to adjustment for any payment deferrals we elect. We have the right to defer any monthly payment by one month up to twelve times so long as certain conditions, as defined in the 2022 Promissory Note, are satisfied. In the event we exercise the deferral right for any given month: (i) the outstanding balance will automatically increase by 1.85%; (ii) we will not be obligated to make the monthly payment for such month; and (iii) the maturity date will be extended for one month. We may prepay any or all outstanding balance of the 2022 Promissory Note earlier than it is due with a prepayment premium of 110%. The prepayment premium also applies to the monthly amortization payments.

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 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 monetization, including our engagement-driven digital asset PhunToken.

We also offer and sell pre-packaged and custom high-end personal computer systems for gaming, streaming and cryptocurrency mining enthusiasts.

We intend to continue investing for long-term growth. We have invested and expect to continue investing in the expansion of 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 our 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 36% of our backlog as of June 30, 2022 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 our backlog and deferred revenue:

(in thousands)	June 30, 2022	December 31, 2021
Backlog	$ 2,669	$ 3,316
Deferred revenue	2,574	5,272
Total backlog and deferred revenue	$ 5,243	$ 8,588

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 income (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.

	Three Months Ended June 30,		Six Months Ended June 30,	
(in thousands, except percentages)	**2022**	**2021**	**2022**	**2021**
Adjusted gross profit [(1)]	$ 1,569	$ 638	3,386	1,805
Adjusted gross margin [(1)]	28.6 %	44.4 %	27.6 %	58.6 %
Adjusted EBITDA [(2)]	$ (6,602)	$ (2,743)	$ (10,848)	$ (5,146)

(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) non-cash impairment and valuation 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.

	Three Months Ended June 30,		Six Months Ended June 30,	
(in thousands, except percentages)	2022	2021	2022	2021
Gross profit	$ 1,520	$ 312	$ 3,291	$ 1,266
Add back: Amortization of intangibles	—	3	—	7
Add back: Stock-based compensation	49	323	95	532
Adjusted gross profit	$ 1,569	$ 638	$ 3,386	$ 1,805
Adjusted gross margin	28.6 %	44.4 %	27.6 %	58.6 %

	Three Months Ended June 30,		Six Months Ended June 30,	
(in thousands)	2022	2021	2022	2021
Net loss	$ (17,071)	$ (7,776)	$ (31,988)	$ (22,083)
Add back: Depreciation and amortization	182	25	368	58
Add back: Interest expense	273	1,845	654	4,064
EBITDA	(16,616)	(5,906)	(30,966)	(17,961)
Add back: Stock-based compensation	706	1,383	1,270	2,438
Add back: Loss on extinguishment of debt	—	2,184	—	7,952
Add back: Impairment of digital assets	12,158	776	21,511	776
(Less) Add back: Fair value adjustment of warrant liability	(2,682)	(1,180)	(2,469)	1,649
Less: Gain on sale of digital asset	(168)	—	(194)	—
Adjusted EBITDA	$ (6,602)	$ (2,743)	$ (10,848)	$ (5,146)

Components of Results of Operations

Revenue and Gross Profit

There are a number of factors that impact the revenue and margin profile of the product, service 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 Revenue and Gross Profit

Our platform revenue consists of software subscriptions, application development services and support and application transactions, which are comprised of in-app advertising and PhunToken sales.

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. 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 may also provide professional services by outsourcing employees' time and materials to customers.

We generate application transaction revenue by charging advertisers to deliver advertisements (ads) to users of mobile connected devices. Depending on the specific terms of each advertising contract, we generally recognize revenue based on the activity of mobile users viewing these ads. Fees from advertisers are commonly based on the number of ads delivered or views, clicks or actions by users on mobile advertisements delivered, and we recognize revenue at the time the user views, clicks or otherwise acts on the ad. We sell ads through several offerings: cost per thousand impressions and cost per click. During 2021, we announced the commencement of PhunToken sales. PhunToken is designed to reward consumers for their activity, such as watching branded videos, completing surveys and visiting points of interest. We recognize revenue related to PhunToken at time of delivery to a customer's ethereum-based wallet.

Platform 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 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. Furthermore, gross profit related to application transactions is equal to application transaction revenue less cost of revenue associated with application transactions, which is impacted by the cost of advertising traffic we pay to our suppliers, the amount of traffic which we can purchase from those suppliers and ethereum blockchain fees paid to deliver PhunToken.

As a result, platform gross profit may fluctuate from period to period.

Hardware Revenue and Gross Profit

We acquired Lyte in October 2021. Revenue from Lyte is primarily derived from the sale of high-performance personal computers. Lyte computers are sold with a variety of pre-packaged solutions, as well as customizable solutions selected by our customers. A majority of Lyte's customers pay us via credit card payments, which is managed through a third party processor. We recognize revenue at the time a completed unit ships from our facility.

Hardware gross profit is equal to hardware revenue less the costs associated with the assembly of computers. Hardware gross profit is impacted by the costs that we pay for parts incorporated into a Lyte computer system, as well as labor costs of our employees directly attributable to building computer systems and shipping. Demand may exceed available supply at times, which may hamper our ability to deliver computer systems timely and may increase the costs at which we can obtain inventory needed for computer builds. Customizable solutions we offer our customers may also vary from time to time. As a result, computer hardware revenue and gross profit may fluctuate from period to period. Although we plan to invest in Lyte for future growth, we may experience revenue and gross profit fluctuations as a result of seasonality.

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 platform and hardware revenue.

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 6 "*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 June 30, 2022	Three Months Ended June 30, 2021	Change Amount	Change %
Net Revenues				
Platform revenue	$ 1,628	$ 1,436	$ 192	13.4 %
Hardware revenue	3,857	—	3,857	100.0 %
Net revenues	$ 5,485	$ 1,436	$ 4,049	282.0 %
Platform revenue as percentage of total revenue	29.7 %	100.0 %		
Hardware revenue as percentage of total revenue	70.3 %	— %		

(in thousands, except percentages)	Six Months Ended June 30, 2022	Six Months Ended June 30, 2021	Change Amount	Change %
Net Revenues				
Platform revenue	$ 4,120	$ 3,082	$ 1,038	33.7 %
Hardware revenue	8,143	—	8,143	100.0 %
Net revenues	$ 12,263	$ 3,082	$ 9,181	297.9 %
Platform revenue as percentage of total revenue	33.6 %	100.0 %		
Hardware revenue as percentage of total revenue	66.4 %	— %		

Net revenues increased $4.0 million, or 282.0%, for the three months ended June 30, 2022 compared to the corresponding period in 2021.

Platform revenue increased $0.2 million, or 13.4%, for the three months ended June 30, 2022, compared to the corresponding period in 2021, primarily due to PhunToken sales of $0.6 million, as we commenced the sale of PhunToken in the second quarter of 2021. These increases were partially offset by lower platform revenues for development, licensing and support services provided to a customer in 2021, as compared to 2022. This customer is identified as "*Customer F"* in Note 4, *Revenue*, in the notes to the condensed consolidated financial statements included in Part I, Item 1 of this quarterly report on Form 10-Q.

Hardware revenue of $3.9 million for the three months ended June 30, 2022, was a result of the acquisition of Lyte, in October 2021.

Net revenues increased $9.2 million, or 297.9%, for the six months ended June 30, 2022 compared to the corresponding period in 2021.

Platform revenue increased $1.0 million, or 33.7%, for the six months ended June 30, 2022, compared to the corresponding period in 2021, primarily due to PhunToken sales of $1.5 million, as we commenced the sale of PhunToken in the second quarter of 2021 and $0.5 million from an increase in advertising campaigns. These increases were partially offset by greater platform revenues for development, licensing and support services provided to two customers in 2021, as compared to 2022. These customers are identified as "*Customer E" and* "*Customer F"* in Note 4, *Revenue*, in the notes to the condensed consolidated financial statements included in Part I, Item 1 of this quarterly report on Form 10-Q.

Hardware revenue of $8.1 million for the six months ended June 30, 2022, was a result of the acquisition of Lyte, in October 2021.

Cost of Revenues, Gross Profit and Gross Margin

(in thousands, except percentages)	Three Months Ended June 30, 2022	2021	Change Amount	%
Cost of Revenues				
Platform revenue	$ 572	$ 1,124	$ (552)	(49.1)%
Hardware revenue	3,393	—	3,393	100.0 %
Total cost of revenues	$ 3,965	$ 1,124	$ 2,841	252.8 %
Gross Profit				
Platform revenue	$ 1,056	$ 312	$ 744	238.5 %
Hardware revenue	464	—	464	100.0 %
Total gross profit	$ 1,520	$ 312	$ 1,208	387.2 %
Gross Margin				
Platform revenue	64.9 %	21.7 %		
Hardware revenue	12.0 %	— %		
Total gross margin	27.7 %	21.7 %		

(in thousands, except percentages)	Six Months Ended June 30, 2022	2021	Change Amount	%
Cost of Revenues				
Platform revenue	$ 1,639	$ 1,816	$ (177)	(9.7)%
Hardware revenue	7,333	—	7,333	100.0 %
Total cost of revenues	$ 8,972	$ 1,816	$ 7,156	394.1 %
Gross Profit				
Platform revenue	$ 2,481	$ 1,266	$ 1,215	96.0 %
Hardware revenue	810	—	810	100.0 %
Total gross profit	$ 3,291	$ 1,266	$ 2,025	160.0 %
Gross Margin				
Platform revenue	60.2 %	41.1 %		
Hardware revenue	9.9 %	— %		
Total gross margin	26.8 % %	41.1 %		

Total gross profit increased $1.2 million, or 387.2% and $2.0 million, or 160.0%, for the three and six months ended June 30, 2022, when compared to the corresponding period of 2021, due to the revenue items described above.

Operating Expenses

(in thousands, except percentages)	Three Months Ended June 30, 2022		Three Months Ended June 30, 2021		Change Amount		Change %
Operating expenses							
Sales and marketing	$	1,928	$	639	$	1,289	201.7 %
General and administrative		5,251		3,021		2,230	73.8 %
Research and development		1,876		846		1,030	121.7 %
Total operating expenses	$	9,055	$	4,506	$	4,549	101.0 %

(in thousands, except percentages)	Six Months Ended June 30, 2022		Six Months Ended June 30, 2021		Change Amount		Change %
Operating expenses							
Sales and marketing	$	3,413	0 $	1,195	$	2,218	185.6 %
General and administrative		9,556		5,779		3,777	65.4 %
Research and development		2,879		1,898		981	51.7 %
Total operating expenses	$	15,848	$	8,872	$	6,976	78.6 %

Sales and Marketing

Sales and marketing expense increased $1.3 million, or 201.7% for the three months ended June 30, 2022 compared to the corresponding period of 2021, primarily due to an increase of $1 million of marketing related expenditures mostly related to Lyte and PhunToken. Other increases of $0.3 million of employee compensation costs due to higher headcount.

Sales and marketing expense increased $2.2 million, or 185.6% for the six months ended June 30, 2022 compared to the corresponding period of 2021, primarily due to an increase of $1.8 million of marketing related expenditures mostly related to Lyte and PhunToken. Other increases of $0.6 million of employee compensation costs due to higher headcount. These increases were offset by the decrease in stock-based compensation of $0.2 million.

General and Administrative

General and administrative expense increased $2.2 million, or 73.8% for the three months ended June 30, 2022 compared to the corresponding period of 2021, primarily due to an increase of $0.9 million in payroll costs mainly related to employee retention credit received during 2021, $0.7 million in legal fees, $0.2 million related to amortization of trade name related to Lyte acquisition and $0.5 million in other general and administrative expenses. This increase was minimally offset by in decrease in stock-based compensation.

General and administrative expense increased $3.8 million, or 65.4% for the six months ended June 30, 2022 compared to the corresponding period of 2021, primarily due to an increase of $1.5 million in payroll costs mainly related to employee retention credit received during 2021, $1.1 million in legal fees, $0.3 million related to amortization of trade name related to Lyte acquisition, $0.3 million in bad debt recoveries that occurred in 2021 and $0.6 million in other general and administrative expenses. This increase was minimally offset by in decrease in stock-based compensation.

Research and Development

Research and development expense increased $1.0 million, or 121.7% and $1.0 million, or 51.7%, for the three and six months ended June 30, 2022, compared to the corresponding period of 2021, respectively, primarily for increased headcount dedicated to research and development projects. This increase was minimally offset by in decrease in stock-based compensation.

Other expense

(in thousands, except percentages)	Three Months Ended June 30, 2022	2021	Change Amount	%
Other income (expense)				
Interest expense	$ (273)	$ (1,845)	$ 1,572	(85.2)%
Loss on extinguishment of debt	—	(2,184)	2,184	(100.0)%
Impairment of digital assets	(12,158)	(776)	(11,382)	1,466.8 %
Fair value adjustment of warrant liability	2,682	1,180	1,502	127.3 %
Other income (expense)	213	43	170	395.3 %
Total other expense	$ (9,536)	$ (3,582)	$ (5,954)	166.2 %

(in thousands, except percentages)	Six Months Ended June 30, 2022	2021	Change Amount	%
Other income (expense)				
Interest expense	$ (654)	$ (4,064)	$ 3,410	(83.9)%
Loss on extinguishment of debt	—	(7,952)	7,952	(100.0)%
Impairment of digital assets	(21,511)	(776)	(20,735)	2,672.0 %
Fair value adjustment of warrant liability	2,469	(1,649)	4,118	(249.7)%
Other income (expense)	265	(36)	301	(836.1)%
Total other expense	$ (19,431)	$ (14,477)	$ (4,954)	34.2 %

Other expense increased $6.0 million and $5.0 million for the three and six months ended June 30, 2022, compared to the corresponding period of 2021, respectfully, primarily due to an impairment of our digital asset holdings. These losses were offset due to losses on extinguishment of debt related to payments on our 2020 Convertible Notes in 2021, fair value adjustment of our outstanding warrant issued to the holder of our 2020 Convertible Notes and a decrease in interest expense, as we had paid off multiple debt obligations in 2021.

Refer to Note 2, "Summary of Significant Accounting Policies" of the notes to the condensed consolidated financial statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q for further discussion regarding our digital asset holdings. Further, reference is made to Note 6 "Debt" of the notes to the condensed consolidated financial statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q for further discussion on our debt holdings.

Liquidity and Capital Resources

As of June 30, 2022, we held total cash of $2.7 million, all of which was held in the United States. 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.

We may, if needed, sell our digital asset holdings for cash to fund our ongoing operations. As of June 30, 2022, we held 653 bitcoins and 780 ethereum, of which consist of the majority of the digital assets recorded on our balance sheet. The digital asset market historically has been characterized by significant volatility in its price, limited liquidity and trading volumes compared to sovereign currencies markets, relative anonymity, a developing regulatory landscape, susceptibility to market abuse and manipulation, and various other risks inherent in its entirely electronic, virtual form and decentralized network. During times of instability in the digital asset market, we may not be able to sell our digital asset holdings at reasonable prices, or at all. As a result, our digital assets are less liquid than our existing cash and cash equivalents and may not be able to serve as a source of liquidity for us to the same extent as cash and cash equivalents.

On October 18, 2021, we closed the acquisition of Lyte with an adjusted purchase price of approximately $11.0 million (subject to an earn-out provision). Pursuant to terms of the stock purchase agreement, future cash payments of up to $1.25 million on the first anniversary of closing, as an earn-out payment based upon Lyte achieving certain annual revenue milestones as provided in the purchase agreement. We currently believe Lyte will achieve the annual revenue milestone and we will owe the full amount of the contingent consideration on the first annual anniversary of closing.

In connection with the acquisition of Lyte, we entered into a note purchase agreement and completed the sale of an unsecured promissory note with an original principal amount of $5.2 million in a private placement that closed on October 18, 2021. After deducting all transaction cost, net cash proceeds to the Company were $4.7 million. No interest will accrue on the promissory note unless and until the occurrence of an event of default (as defined in the promissory note). We may prepay outstanding balance of the promissory note earlier than it is due with a prepayment premium of 110%. Beginning on January 15, 2022 and on the same day of each month thereafter until the promissory note is paid in full, we are required to make a monthly amortization payments in the amount of $574 thousand which are considered prepayments subject to the prepayment premium.

On February 1, 2022, we filed a Form S-3, which was subsequently declared effective by the SEC on February 9, 2022, pursuant to which we may issue up to $200 million in common stock, preferred stock, warrants and units. Contained therein, was a prospectus supplement in which we may sell up to $100 million of our common stock in an “at the market offering” pursuant to an At Market Issuance Sales Agreement we entered into with H.C. Wainwright & Co., LLC on January 31, 2022. To date, we have not sold any shares of our common stock under the sales agreement with H.C. Wainwright or issued any securities under our Form S-3 filed on February 1, 2022.

On July 6, 2022, we entered into a note purchase agreement and completed the sale of an unsecured promissory note with an original principal amount of $12.8 million in a private placement with the same investor of the note described above. After deducting all transaction fees paid by us at closing, net cash proceeds to us at closing were $11.8 million. No interest will accrue on the promissory note unless and until the occurrence of an event of default (as defined in the promissory note). Beginning on November 1, 2022 and on the same day of each month thereafter until the promissory note is paid in full, we are required to make a monthly amortization payments in the amount of $1.6 million until the maturity date of July 1, 2022, which is subject to adjustment for any payment deferrals we elect. We may prepay any or all outstanding balance of the promisory note earlier than it is due with a prepayment premium of 110%. The prepayment premium also applies to the monthly amortization payments.

As a result of the financing events described above, while our liquidity risk continues as a result of continued losses and the ongoing and evolving effects of the COVID-19 pandemic, management believes it has sufficient cash on hand for at least one year following the filing date of this Quarterly Report on Form 10-Q.

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 pace at which we can scale Lyte, 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 financings, or issue securities subject to the effective registration statement described above. 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:

(in thousands, except percentages)	Six Months Ended June 30, 2022	Six Months Ended June 30, 2021	Change Amount	Change %
Consolidated statement of cash flows				
Net cash used in operating activities	$ (14,989)	$ (14,371)	$ (618)	4.3 %
Net cash used in investing activities	$ (2,206)	$ (1,497)	$ (709)	47.4 %
Net cash (used) provided by financing activities	$ (3,116)	$ 14,626	$ (17,742)	(121.3)%

Operating Activities

The primary source of cash from operating activities is receipts from sales of our various product and service offerings 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, payments to vendors for the costs of inventory related to the assembly and shipping of Lyte computers, sales and marketing expenses and general operating expenses.

We utilized $15.0 million of cash from operating activities during the six months ended June 30, 2022, primarily resulting from a net loss of $32.0 million. The net loss included non-cash charges of $20.9 million, primarily consisting of impairment of digital assets, fair value adjustment of our outstanding warrant and stock-based compensation. In addition, certain changes in our operating assets and liabilities resulted in significant cash (decreases) as follows: $0.5 million from an increase in accounts payable and accrued expenses, as well as $(4.4) million from other working capital changes, primarily an increase in inventory purchases and decrease in deferred revenue.

We utilized $14.4 million of cash from operating activities during the six months ended June 30, 2021, primarily resulting from a net loss of $20.7 million. The net loss included non-cash charges of $15.7 million, primarily consisting of the loss on the extinguishment and amortization of debt issuance costs related to our 2020 Convertible Notes, fair value adjustment of our outstanding warrant and stock-based compensation. In addition, certain changes in our operating assets and liabilities resulted in significant cash (decreases) as follows: $(6.1) million from a decrease in accounts payable, accrued expenses and an installment payment to Uber related to the settlement of our lawsuit, as well as $(1.9) million from other working capital changes, primarily a decrease in deferred revenue.

Investing Activities

Investing activities for the six months ended June 30, 2022 and 2021, consisted of the purchase of digital assets and payments for acquisition of Lyte Technology, Inc.

Financing Activities

Our financing activities during the six months ended June 30, 2022 primarily consisted of payments on debt. We had payments on debt of $3.1 million, of which all were payments on the 2021 Promissory Note. Refer to the notes to the condensed consolidated financial statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q for information on the Company's financing activities.

Our financing activities during the six months ended June 30, 2021 consisted of proceeds from equity financings and debt borrowings offset by payments on debt. We acquired $14.6 million of cash from financing activities resulting primarily 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 $25.1 million of payments on debt, a majority of which were payments on the 2020 Convertible Notes.

Contractual Obligations

Information set forth in Note 7, *Leases*, in the notes to the condensed consolidated financial statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q is incorporated herein by reference.

Off-Balance Sheet Arrangements

Through June 30, 2022, 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

None.

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 included in Item I, Part I of this Quarterly Report on Form 10-Q, 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, 2021 filed with the SEC on April 7, 2022.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Not applicable.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

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 (as defined below), or persons performing similar functions, as appropriate, to allow timely decisions regarding required disclosure.

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.

Changes in Internal Control over Financial Reporting

As previously disclosed, we identified a material weakness in internal control over financial reporting related to the accounting for an adjustment in certain terms of an outstanding warrant issued in connection with our 2020 Convertible Notes. A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of our annual or interim financial statements will not be prevented, or detected and corrected on a timely basis.

In response to this material weakness, we implemented a remediation plan previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2021. The remediation actions we implemented included a control to create and review on a quarterly basis a summary schedule of material terms of all outstanding debt and equity instruments and a control to review all existing financing agreements in conjunction with any new financing arrangements. We have tested the related internal controls and have concluded, through testing, that the newly implemented controls are operating effectively, and the material weakness previously identified has been remediated as of June 30, 2022.

Other than the changes made to remediate the material weakness described above, 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 8, "*Commitments and Contingencies*" in the notes to the condensed consolidated financial statements included in Part I, Item 1 of this Quarterly 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 April 7, 2022 for the year ended December 31, 2021, as supplemented by the "Risk Factors" sections in our registration statement on Form S-3 filed with the SEC on February 1, 2022, our registration statement on Form S-3, as amended, filed with the SEC on April 27, 2022 and the information set forth below or contained elsewhere in this Report. The risks and uncertainties described within our Form 10-K for the year ended December 31, 2021 and the registration statements, as amended, are not the only risks we face. Additional risks and uncertainties that we are unaware of, or that we currently believe are not material, may also become important factors that adversely affect our business or results of operations.

Our business is subject to evolving corporate governance and public disclosure regulations and expectations that have increased both our compliance costs and the risk of noncompliance, which could have an adverse effect on our stock price.

We are subject to changing rules and regulations promulgated by a number of governmental and self-regulatory organizations, including the SEC, the Nasdaq Stock Market and the FASB. These rules and regulations continue to evolve in scope and complexity, making compliance more difficult and uncertain. In addition, increasingly regulators, customers, investors, employees and other stakeholders are focusing on environmental, social and governance (ESG) matters and related disclosures. These changing rules, regulations and stakeholder expectations have resulted in, and are likely to continue to result in, increased general and administrative expenses and increased management time and attention spent complying with or meeting such regulations and expectations. For example, developing and acting on ESG initiatives, and collecting, measuring and reporting ESG information and metrics can be costly, difficult and time consuming and is subject to evolving reporting standards, including the SEC's recently proposed climate-related reporting requirements. These initiatives and related reporting requirements may present operational, reputational, financial, legal and other risks, which could have a material impact on us.

We are currently operating in a period of significant macro-economic uncertainty, including supply-chain disruptions, COVID-related lockdowns and inflationary pressures. Weakened economic conditions may have an adverse impact on our business and results of operations.

Adverse macroeconomic conditions, including inflation, slower growth or recession, new or increased tariffs, changes to fiscal and monetary policy, tighter credit, higher interest rates, high unemployment and currency fluctuations could materially adversely affect demand for our products and services. Inflationary pressures and supply chain disruptions could impact the price at which we acquire components required in the assembly of Lyte by Phunware computer systems. Our principal operating expense is compensation related costs. Inflation rates, particularly in the United States, have increased recently to levels not seen in years, and increased inflation may result in decreased demand for our products and services, increases in our operating costs (including our labor costs), reduced liquidity and limits on our ability to access credit or otherwise raise capital. In addition, the effects of inflation on consumers budgets could result in the reduction of our customers' spending plans. These and other economic factors could materially adversely affect our business, results of operations and financial condition.

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).
10.1	At Market Issuance Sales Agreement, by and between Phunware, Inc. and HC Wainwright & Co., LLC (Incorporated by reference to Exhibit 1.2 of the Registrants Form S-3 (File No. 333-262461) filed with the SEC on February 1, 2022).
10.2	Lease Agreement, dated March 15, 2022, between Phunware, Inc. and Jonsson ATX Warehouse, LLC (Incorporated by reference to Exhibit 10.1 of the Registrants Form 8-K (File No. 001-37862) filed with the SEC on March 18, 2022).
10.3	Lease Agreement, dated June 3, 2022, between Phunware, Inc. and ATX Acquisitions, LLC (Incorporated by reference to Exhibit 10.1 of the Registrants Form 8-K (File No. 001-37862) filed with the SEC on June 10, 2020).
10.4	Note Purchase Agreement, dated July 6, 2022, between Phunware, Inc. and Streeterville Capital, LLC (Incorporated by reference to Exhibit 10.1 of the Registrants Form 8-K (File No. 001-37862) filed with the SEC on June 8, 2022).
10.5	Promissory Note, dated July 6, 2022, between Phunware, Inc. and Streeterville Capital, LLC (Incorporated by reference to Exhibit 10.1 of the Registrants Form 8-K (File No. 001-37862) filed with the SEC on June 8, 2022).
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*
104	Cover Page Interactive Data File*

* 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.

August 15, 2022

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.;

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: August 15, 2022

/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: August 15, 2022

/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 knowledge:

1. The Company's Quarterly Report on Form 10-Q for the period ended June 30, 2022, 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.

August 15, 2022

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."