

## Research Report – Update

*Investors should consider this report as only a single factor in making their investment decision.*

### Phunware, Inc.

**Rating: Speculative Buy**

Howard Halpern

November 14, 2023

### PHUN \$0.15 — (NASDAQ)

	2021 A	2022 A	2023 E	2024 E
Revenue (in millions)	\$10.6	\$21.8	\$12.3	\$6.2
Earnings (loss) per share	(\$0.71)*	(\$0.51)**	(\$0.32)	(\$0.09)
52-Week range	\$1.56 – \$0.145		Fiscal year ends:	December
Shares outstanding a/o 11/9/23	135.4 million		Revenue/shares (ttm)	\$0.15
Approximate float	126.1 million		Price/Sales (ttm)	1.0X
Market Capitalization	\$20.3 million		Price/Sales (2024) E	3.6X
Tangible Book value/shr	(\$0.09)		Price/Earnings (ttm)	NMF
Price/Book	NMF		Price/Earnings (2024) E	NMF

\* Includes (\$0.43) per share in net charges from extinguishment of debt, impairment of digital currencies and warrant liabilities

\*\* Includes approximately (\$0.23) per share in impairment of digital currencies and a \$0.03 per share gain from fair value warrant liabilities adjustment

Phunware Inc., headquartered in Austin, Texas, offers a fully integrated software platform that equips companies with the products, solutions and services necessary to engage, manage and monetize their anytime, anywhere users worldwide through its location-based software-as-a-service platform that provides an entire mobile lifecycle of applications and media in one login through one procurement relationship.

#### Key Investment Considerations:

*Maintaining our Speculative Buy rating and establishing a 12-month price target of \$0.45 per share as the company transitions its operations to a recurring revenue technology platform model utilizing its location-based and wayfinding offerings.*

*Phunware has growth potential for its location-based and wayfinding software-as-a-service technology platform that includes its patented location based service technology and service offerings within markets such as healthcare, hospitality, smart cities, and corporate campuses. Analysts project the worldwide mobile apps market could reach \$140 billion in 2030, up from \$59.7 billion in 2021 for annualized growth of 13.4%.*

*In October 2023, PHUN elevated its Chief Revenue Officer, Mike Snavelly to Chief Executive Officer with the task of expanding its customer base and generate recurring revenue from its established technology platform offerings. At November 9, 2023, PHUN announced it had \$8 million in total contract value in the pipeline. The company announced it will wind down its Lyte operations.*

*PHUN reported (on 11-9-23) a 3Q23 loss of (\$0.16) per share revenue of \$2.8 million compared to \$4.8 million in 3Q22. The loss per share was (\$0.08) in 3Q22. The current period included a \$13.2 charge for goodwill impairment. We projected a (\$0.04) per share loss on revenue of \$3.3 million.*

*For 2023, we project a loss of (\$0.32) per share on revenue of \$12.3 million. We previously projected a loss per share of (\$0.18) on revenue of \$16 million. The decrease in our revenue forecast reflects 3Q23 results, the wind-down of Lyte operations, and \$16.4 million impairment charge.*

*For 2024, we project a loss of (\$0.09) per share on recurring software revenue of \$6.2 million compared to an estimated \$5.2 million in recurring software revenue in 2024. We anticipate average shares outstanding to increase to approximately 164 million compared to an estimated 115 million in 2023. We anticipate the company adjusted EBITDA improving to \$6.1 million from an estimated \$20.2 million in 2023.*

**Please view our Disclosures pages 14 – 16.**

## ***Appreciation Potential***

**Maintaining our Speculative Buy rating and establishing a 12-month price target of \$0.45 per share as the company transitions its operations to a recurring revenue technology platform model utilizing its location-based and wayfinding offerings.** Our rating and price target should be supported by the company being focused on its high margin recurring revenue technology platform offerings and reduction in operating cost to align revenue and expenses. The company reduced its workforce to 28 professionals from 81 earlier in 2023. At November 9, 2023, PHUN announced it had \$8 million in total contract value in the pipeline. We anticipate by 4Q24, the company's annual revenue run-rate should exceed \$7 million, up from an estimated \$5.1 million in 4Q23.

**Our 12-month price target of \$0.45 per share implies shares could triple over the next twelve months.** According to finviz, the average trailing twelve-month price-to-sales multiple for companies in the Software – Application and Infrastructure sectors is 11.8X. PHUN's trailing twelve-month price-to-sales multiple is 1X. We anticipate investors are likely to accord PHUN the sector multiple. We applied a price-to-sales multiple of 11.8X to our 2024 sales per share forecast of \$0.042, discounted for execution risks to obtain a year-ahead price target of approximately \$0.45 per share.

A higher valuation of Phunware is likely to be supported by revenue growth from its recurring revenue customer-base, a narrowing of operating losses, and a reduction in cash losses. In 2024, we forecast PHUN's operating losses should narrow to \$14.1 million from an estimated loss of \$24 million (excludes estimated impairment charges of \$16.4 million) in 2023. We anticipate PHUN's cash loss of an estimated \$15.9 million in 2023 should narrow to an estimated cash loss of \$6.3 million in 2024.

**We believe Phunware, Inc. is most suitable for highly risk tolerant investors seeking exposure to an emerging growth company that provides a location-based recurring revenue mobile technology platform to its customer base.**

## ***Overview***

Phunware Inc., headquartered in Austin, Texas, offers a fully integrated software platform that equips companies with the products, solutions and services necessary to engage, manage and monetize their anytime, anywhere users worldwide through its location-based software-as-a-service platform that provides an entire mobile lifecycle of applications and media in one login through one procurement relationship. PHUN's technology includes its patented location based service technology that provides real-time unique features that include indoor and offshore tracking (as well as outdoor and onshore tracking) on the ground, in large buildings, and in the air. The offering meets the needs of the hearing and visually impaired and people that are in wheelchairs.

The company's mission is to deploy technology at the intersection of mobile, cloud, big data, and blockchain in order to help any brand in any industry improve the engagement, management and monetization of their global audiences and communities.

In October 2021, PHUN completed the acquisition of Lyte Technology that provides customers' high performance computer systems. In November 2023, the company announced it will be winding-down the operations of Lyte before December 31, 2023.

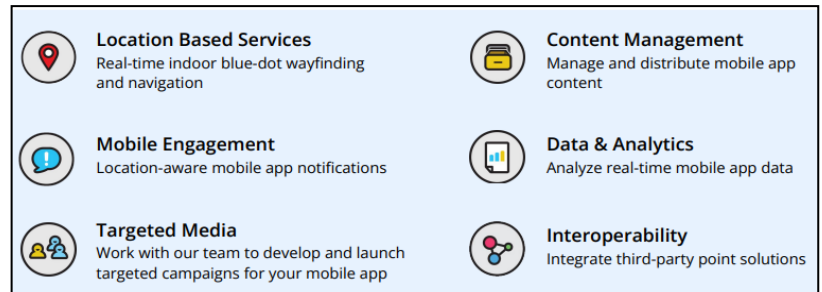
## ***Recent Developments***

**In October 2023**, PHUN's board of directors elevated Chief Revenue Officer, Mike Snavely to the position of Chief Executive Officer. Mr. Snavely has over 20 years of leadership experience at technology companies, having previously led the software operations at Phunware and other technology companies such as Sonic Foundry, Mutual Mobile and Bazaarvoice. His mission is to augment the company's revenue model by broadening ways of directly and indirectly monetizing the existing portfolio of patents and other intellectual property, which includes the artificial intelligence modules of its product offerings, as well as strengthening and leveraging its software distribution network with channel, distribution, and integration partners such as Cox Business and Siemens Connect.

In November 2023, the company announced the wind down of operations of its Lyte Technology subsidiary. The choice to wind-down Lyte operations follows an assessment of that business in the context of Phunware’s future direction that will be focused on selling its recurring revenue software technology platform offerings. The benefits of winding-down Lyte’s operations is that it will eliminate inventory carrying costs and operational staff expenses, reducing cash burn by at least \$2 million annually.

### Technology Platform

PHUN’s location-based software-as-a-service cloud-based technology platform and services are designed for its customer to engage, manage and monetize their anytime, anywhere users worldwide throughout an entire mobile lifecycle of applications and media in one login through one procurement relationship. Pictured on the right (company’s April 2023 presentation) are the key elements of the company’s value proposition. These modules are designed to assist PHUN’s customers in better understand their users, by providing the tools to engage them at the right time and in the right context.



Phunware offerings should generate a stream of recurring revenue through the licensing of its technology platforms and services. The higher margin recurring revenue subscription model is offered to customers typically on one, three, or five year contracts.

### Location-based Services

A critical element for the company’s future deployments and customer growth is its location-based services technology and service offerings. This module includes mapping, navigation, wayfinding, workflow, asset management and policy enforcement. A key differentiator of Phunware’s location-based services is the ability to track (a mobile device) indoors and offshore within a hospital, buildings, stadiums/arenas, cruise ships, and airplane. The company’s real-time blue-dot position uses Bluetooth Low Energy beacons, or Wi-Fi, GPS and/or Li-Fi (wireless communication utilizing light to transmit data and position between devices). Its location-based services comply with the Americans with Disability Act (i.e., for the wheelchair bound and visually impaired).

### Blockchain Ecosystem

In 2019, the company launched PhunToken that acts as a medium of exchange within its blockchain technology enabled rewards marketplace and data exchange. In November 2023, PHUN began evaluating the evolving business and regulatory landscapes to determine the appropriate evolution and expansion of its digital asset ecosystem for contextual engagements.

### Growth Strategy

The company’s growth strategy reflects the new CEO vision of improving the features and scalability of PHUN’s offerings to not only increase customer adoption and shorten sales cycle, but enhance the overall margin profile of each technology deployment.

### Customer Base

The company aims to grow its customer base through an expansion of its go-to-market strategy with indirect sales and channel partners and partnerships. The company is seeking more active partnerships. On November 9, 2023, PHUN announced it had \$8 million in total contract value in the pipeline with approximately one-third of those customer contracts coming from channel partners such as Cox Business, Siemens Connect, and others. The company anticipates its pipeline and partner strength are good indicators of future bookings.

The company’s has three significant reference customers, Gaylord Hotels by Marriott, Atlantis Resort in the Bahamas, and Thumper Pond Resort in Minnesota.

By expanding its number of partnerships and achievements, the company should be able to have its location-based technology platform and service offerings marketed to a broad base of potential new customers.

### Hospitality

In 3Q23, Phunware announced it negotiated an outcome with Marriott about the branding of the Wailea Beach Resort on Maui, which should provide a strategic opportunity for additional business within Marriott branded properties. During the company's 3Q23 earning call, management announced PHUN was conducting pilot programs with a couple of large resorts and expect those deals to consummate in 1Q24. Also, PHUN was in the final stages of negotiations with certain large resort properties under major hospitality brands, and smaller regionally managed properties.

### Healthcare

We anticipate the mobile and virtual healthcare market is likely to be a key growth vertical for the company. In 3Q23, PHUN announced a customer renewal of the Virginia Hospital Center a member of the Mayo Clinic Care Network for a five-year term and a renewal at Mayo Clinic in Rochester through the company's HID partner. Going forward the company healthcare customer pipeline is solid with substantial upsell potential as existing customers request deployment of PHUN's solution into new buildings or wings, and to create new integrations into other software used to operate their businesses.

## ***Projections***

### Basis of Forecast

We anticipate PHUN's focus through 2024 will be to drive higher margin revenue growth in its recurring location-based technology platform offerings and accelerate initiatives to reduce operating costs that commenced in 3Q23, as well as the elimination of revenues and expenses from the company's Lyte subsidiary. At November 9, 2023, PHUN announced it had \$8 million in total contract value in the pipeline. We anticipate by 4Q24, the company's annual revenue run-rate should exceed \$7 million, up from an estimated \$5.1 million in 4Q23.

### Operations – 2023

We project revenue of \$12.3 million (prior was \$18 million). Our reduced forecast reflects 3Q23 results and elimination of revenue from the Lyte subsidiary. Our forecast is comprised of recurring platform revenue of \$5.2 million.

Gross profit should decrease to \$1.7 million from nearly \$5.1 million due primarily to lower sales and gross margin compression to 13.4% compared to 23.3% in 2022. Gross margin compression reflects approximately \$500,000 related to a non-cash write-down of Lyte inventory.

We project the operating loss of to \$40.4 million compared to a loss of \$29.5 million in 2022 due primarily to non-cash inventory write-down and \$16.4 million impairment charge along with other one-time expenses stemming from the wind-down of Lyte operations. We anticipate total operating expenses including the impairment charge of \$42 million. We project G&A expense decreasing by \$3.6 million to \$16 million, sales and marketing expenses decreasing by \$2.2 million to \$4.7 million, and R&D expense decreasing by \$1.1 million to \$5 million.

We project interest expense decreasing to \$1.6 million from \$2.4 million in 2022 due to a lower average debt balance. Based on 9M23 results, we anticipate the company recording a \$5.6 million gain on sale of digital assets and other, as well as a \$256,000 positive change in fair value adjustment for warrant liabilities, partly offset by a \$50,000 digital currencies impairment. The current period also includes a \$237,000 loss on extinguishment of debt.

We project a net loss of \$36.4 million or (\$0.32) per share on average shares outstanding of 114.6 million. We previously projected a net loss of \$20.5 million or (\$0.18) per share on average shares outstanding of 106 million. Our loss forecast includes one-time charges related to the wind-down of Lyte operations.

Finances – 2023

We project a cash loss of \$15.9 million and a decrease in working capital of \$1.2 million. We anticipate proceeds from the sale of digital currencies and issuance of nearly \$7.3 million in common stock is likely to cover cash used in operations of \$14.6 million and repayment of debt. Cash should increase \$1.4 million to \$3.3 million at December 31, 2023.

Operations – 2024

We project revenue (exclusively recurring platform sales) of \$6.2 million compared to an estimated \$5.2 million in platform sales in 2023. We anticipate recurring platform sales growth of 19.9% to \$6.2 million driven by an increase in customer deployments during the 2H24.

Gross profit should reach \$3.1 million, up from an estimated \$1.7 million in 2023, due to platform revenue growth, gross margin improving to 50% compared to an estimated 13.4% in 2023. Gross margin improvement should be due to sustained recurring revenue growth and elimination of Lyte segment operations.

We project an operating loss of \$14.1 million based on recurring revenue platform sales growth and gross margin of 50%, restrained in part by operating expense margin of 277%. We anticipate operating expenses of \$17.1 million based on a cost reduction program initiated in 3Q23 and streamlining of operations including a revamped sales and marketing effort should lead to the building of a sustained pipeline of recurring revenue platform projects.

We project interest expense of \$325,000 compared to an estimated \$1.6 million in 2023 due primarily to the elimination of debt obligations through repayment or conversion into common stock by the end of 1H24. We are not recording any change in warrant liabilities, impairment of digital currencies, or proceeds from sale of digital currencies.

We project a net loss of \$14.4 million or (\$0.09) per share on average shares outstanding of 163.8 million. We previously projected a net loss of \$15.2 million or (\$0.12) per share on average shares outstanding of 126.7 million.

Finances – 2024

We project a cash loss of \$6.3 million and a decrease in working capital of \$1.4 million. We anticipate the company's issuance of common stock is unlikely to cover cash used in operations of \$4.8 million and repayment of debt. Cash should decrease by \$2.4 million to \$934,000 at December 31, 2024.

**3Q23 and 9M23 Results**

3Q23

Revenue was \$2.8 million compared to \$4.8 million in 3Q22. Platform revenue was flat at \$1.3 million compared to the year-ago period. The operations of Lyte decreased by \$2 million to \$1.5 million compared to last year due to lower orders volumes. As previously notes Lyte's operations are in the process of winding down should not have a meaningful contribution to future revenues.

Gross profit was \$195,000 compared to \$795,000 in 3Q22. In the current period, gross profit was negatively impacted by a charge recorded for obsolete Lyte inventory of approximately \$500,000. Gross margin from the platform segment was 50.4% compared to 53.5% in 3Q22.

Operating expenses excluding an impairment charge of \$13.2 million in 3Q23 (no such charge was recorded in the year-ago period) decreased to \$5.5 million from nearly \$8 million in the year-ago period. G&A expenses decreased to \$3.5 million from \$4.8 million last year due primarily to due to a \$1.1 million decrease in legal fees and \$400,000 decrease in compensation reflecting a reduced headcount. R&D expense decreased to \$1 million from \$1.6 million last year reflecting lower compensation costs. Sales and marketing expenses decreased to \$1 million from \$1.6 million in 3Q22 reflecting reduced marketing expenditures for its Lyte operations.

Non-operating expense was \$439,000 million compared to an expense of \$140,000 in 3Q22. In the current period, PHUN reported a \$62,000 gain in other that was more than offset by interest expense of \$264,000 and a \$237,000

loss related to extinguishment of debt. In the year-ago period, the company reported interest expense of \$991,000 partly offset by a \$797,000 positive adjustment related to the fair value adjustment for warrant liabilities and \$54,000 gain on other income.

The net loss was \$19 million or (\$0.16) per share on 120 million outstanding average shares. Excluding the impairment charge of \$13.2 million the net loss would have approximated \$5.9 million or (\$0.05) per share. We forecasted a net loss of \$5.1 million or (\$0.04) per share on revenue of \$3.3 million.

### 9M23

Revenue decreased 35.2% to \$11 million from \$17 million in 9M22 due primarily to reduced hardware sales from the company's Lyte operations.

Gross profit decreased to \$1 million from \$4.1 million in the year-ago period due to reduced revenue and gross margin contraction to 9.2% from 24% last year. Gross margin contraction reflects a mismatch of cost of goods sold and associated revenue recognized in the period along with a charges related to obsolete inventory.

Operating expenses excluding a \$14.4 million impairment charge in the current period, decreased to \$20.6 million compared to \$24.5 million in the year-ago period. The decrease reflects lower legal fees and reduced compensation costs reflecting a lower headcount.

Non-operating income was \$4.2 million compared to an expense of \$19.6 million in 9M22. In the current period, PHUN reported a \$5.6 million gain on sale of digital assets and other, as well as a \$256,000 positive change in fair value adjustment for warrant liabilities, partly offset by interest expense of \$1.4 million, a \$50,000 digital currencies impairment, and \$237,000 loss on extinguishment of debt. In the year-ago period, the company reported interest expense of \$1.6 million and \$21.5 million impairment of digital currency, partly offset by a \$3.3 million positive adjustment related to the fair value adjustment for warrant liabilities and \$318,000 gain on sale of digital assets and other.

The net loss was \$29.8 million or (\$0.27) per share on 109.4 million outstanding average shares. In the year-ago period the company reported a net loss of \$40 million or (\$0.41) per share.

### Finances

In 9M23, cash burn of \$14.2 million and a \$1.6 million increase in working capital resulted in cash used in operations of \$15.9 million. Proceeds of \$15.4 million from the sales of digital currencies and \$6.9 million from the issuance of common stock covered cash used in operations and repayment of debt. Cash increased by \$902,000 to \$2.9 million at September 30, 2023.

### Capital Structure

At September 30, 2023, the company had total outstanding debt (all short-term) of \$5.6 million. The company also has \$1.2 million PhunCoin rights listed as short-term deposits on its balance sheet. At September 30, 2023, the company had a digital currency asset balance of \$75,000 (compared to \$10.1 million at December 31, 2022). PHUN has essential sold nearly of its digital assets.

In February 2022, the company's prospectus was declared effective by the SEC, pursuant to which PHUN may issue up to \$200 million in common stock, preferred stock, warrants and units. It is a supplement to its prior commitment

	in \$ thousands		
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<b>Total Revenue</b>	\$ 11,026	\$ 17,021	<b>(35.2%)</b>
Total Cost of Sales	10,014	12,935	<b>(22.6%)</b>
Gross Profit	<u>\$ 1,012</u>	<u>\$ 4,086</u>	<b>(75.2%)</b>
Total Operating Expenses	35,000	24,521	<b>42.7%</b>
<b>Operating Income (loss)</b>	(33,988)	(20,435)	<b>66.3%</b>
Total Other Income (Expense)	4,216	(19,571)	<b>NMF</b>
<b>Pre-Tax Income</b>	(29,772)	(40,006)	<b>(25.6%)</b>
Income tax expense	-	-	
<b>Net Income (loss)</b>	<u><u>\$(29,772)</u></u>	<u><u>\$(40,006)</u></u>	<b>39.9%</b>
<b>Earnings (loss) per share</b>	(\$0.27)	(\$0.41)	
Avg Shares Outstanding	109,430	97,803	
Margins			
Gross margin - combined	9.2%	24.0%	
Source: company reports			

to sell up to \$100 million of common stock in an at the market offering pursuant to an At Market Issuance Sales Agreement entered into with H.C. Wainwright on January 31, 2022. As of September 30, 2023, \$88.4 million common shares remains issuable pursuant to the sales agreement with Wainwright.

On August 14, 2023, PHUN entered into an amendment to the 2022 promissory note, which extends the maturity date to June 1, 2024 and provides that effective August 1, 2023, a requirement to make monthly amortization payments of at least \$800 commencing on August 31, 2023 until the note is paid-in-full. The amendment removed the required payment of nearly \$1.8 million that was due on August 1, 2023. The company granted the note holder certain limited conversion rights, subject to advance payment and volume conditions. The amendment also provides that the outstanding balance shall accrue interest at a rate of 8% beginning on August 1, 2023, and payment deferrals are no longer permitted.

On August 22, 2023, PHUN entered into a common stock purchase agreement with Lincoln Park Capital Fund, LLC, where the company has the right, but not the obligation, to sell to Lincoln Park up to \$30 million in value of shares of common stock from time to time over the 24-month term. Lincoln Park's committed obligation under any single regular purchase is subject to certain exceptions, and cannot exceed \$1 million. Pursuant to the agreement, Phunware entered into a registration rights agreement with Lincoln Park. During the nine months ended September 30, 2023, PHUN sold over 1.7 million shares of its common stock for net cash proceeds of \$88,000. At September 30, 2023, \$29.9 million in value of shares of common stock remains issuable pursuant to the Lincoln Park purchase agreement.

Subsequent to the end of 3Q23 to November 9, 2023, approximately a total of 2.3 million shares of common stock were sold pursuant to the terms of the At Market Issuance Sales Agreement with Wainwright and purchase agreement with Lincoln Park for aggregate combined net cash proceeds of \$396,000.

On January 5, 2023, a stock repurchase program was approved for the repurchase of up to \$5 million worth of the company's outstanding common shares. In 1H23, 506,500 shares of PHUN's common stock was repurchased at an aggregate price of \$502,000.

## ***Mobile Markets***

### **Mobile Applications Market**

Grandview Research forecasts that the global mobile apps market could approach \$140 billion in 2030, up from \$59.7 billion in 2021 for annualized growth of approximately 13.4%. Growth should be driven by the rapid increase in global Internet usage, as well as the arrival of 5G and the introduction of advanced mobile capabilities.

### **Location-based Services**

In July 2022, Meticulous Research published a report projecting the global location-based services market to reach \$239.7 billion in 2029, up from an estimated \$89 billion in 2022 for annualized growth of 15.1%. Primary drivers are expected to be increased smartphone usage as the United Nations reported that approximately 41.5% of the total world population used a smartphone in 2019. As technology advances, industries seem to be willing to adopt new systems, primarily to improve their efficiency. Driving location-based services growth should be increased usage within the healthcare sector.

### **Healthcare**

In 2022, Precedence Research (a market intelligence firm) published a report indicating that the global mHealth (mobile) Solutions Market could grow annually by 18.2% reaching \$243.6 billion in 2030 from nearly \$54.3 billion in 2021. The mHealth market should be driven by the increases in the adoption of smartphones, penetration of 3G/4G networks, as well as the adoption of 5G technology, utilization of connected devices, and mHealth apps for the management of chronic diseases.

## ***Competitive Landscape***

The mobile applications technology and solutions market is highly competitive and fragmented. The introduction of new technologies and the potential entry of new competitors into the market would result in increased competition.

PHUN competes primarily with companies offering cloud-based software solutions for location-based services, mobile marketing automation, content management, analytics and audience monetization, as well as data and advocacy solution offerings for audience building and engagement used for political or other types of rallies. Primary publicly trading competitors include Adobe and Oracle, along with private companies such as Urban Airship, Chaotic Moon, and Adroll.

Phunware's competitors are likely to have the ability to devote greater resources to the development, promotion and sale of their products and services. The major competitive factors in this market include product features and functionality, location accuracy, customer satisfaction, deployment options and hardware flexibility, functionality, implementation services and customer support, as well as total cost of ownership.

## ***Risks***

In our view, these are the principal risks underlying the stock.

### Operating Losses – Going Concern

Phunware Inc. has yet to generate an operating profit. At September 30, 2023, the company's accumulated deficit was approximately \$280 million, up from \$102 million in 2017. Losses are likely to continue but diminish through our forecast period. The lack of operating profits could result in the company's inability to execute its growth strategy and diminish its operations and continue as a going concern. Common stock offerings in 2021, 2022, and through November 9, 2023 provided proceeds of more than \$100 million and the July 2022 promissory note offering for net proceeds of \$11.8 million, as well as projected issuances of common stock and/or debt, should allow for the company to execute its growth strategy during our forecast period.

### Delisting/Default

On April 13, 2023, PHUN was notified that the closing bid price of its common stock had been below \$1.00 for the last 30 consecutive business days meaning it was not in compliance with the minimum bid price requirement for continued inclusion on the Nasdaq Capital Market. The company has until April 8, 2024, to regain compliance with the minimum bid price requirement, which call for the closing bid price of PHUN's common stock to be at least \$1.00 for a minimum of ten consecutive business days. To regain compliance the company may have to implement a reverse stock split, subject to approval of its board of directors and stockholders. If a delisting were to occur it would likely negatively impact trading volume, the number and type of investors willing to hold or acquire stock in the company, as well as ability to raise additional capital.

Also, if PHUN's common stock were to be removed from listing on NASDAQ, it would trigger a default under its 2022 Promissory Note, and the outstanding balance would be immediately due and payable in cash at the mandatory default amount.

### Legal Proceedings

On February 18, 2022, certain stockholders filed a lawsuit against Phunware. The plaintiffs invested in various early rounds of financing while the company was private and claim Phunware should not have subjected their shares to a 180-day lock up period. Plaintiffs allege that Phunware's stock price dropped significantly during the lock up period and seek damages, costs and professional fees. On June 16, 2023, the court ruled on the motions without filing a written opinion and granted Phunware's motion to dismiss on the Texas law-based claims and denied both the motion to dismiss and partial motion for summary judgment on the Delaware law claims. The parties engaged in mediation in July 2023 and are scheduled for further mediation in late August 2023. PHUN will defend against this lawsuit and any appeals.

### Intellectual Property

The company protects its intellectual property through trade secrets law, patents, copyrights, trademarks and contracts, as well as the establishment of business procedures designed to maintain the confidentiality of proprietary information such as the use of its licenses with customers and use of confidentiality agreements and intellectual property assignment agreements with employees, consultants, business partners, etc.



In the US, PHUN has 16 patents issued and 5 non-provisional patent applications that expire between 2027 and 2037.

Third parties may infringe on or misappropriate IP rights, or otherwise independently develop substantially equivalent products and/or services. The loss of intellectual property protection or the inability to secure or enforce intellectual property protection could harm its business and/or ability to compete.

#### Cyber Security

PHUN operates large and complex technology networks and systems to process, transmit and securely store electronic information and to communicate among locations and customers that contain significant amounts of client data. Unauthorized third parties could attempt to gain entry to its computer systems for the purpose of stealing data or disrupting the systems. The company believes appropriate measures are in place to protect client data from intrusion, and will constantly work to improve and enhance its computer systems. However, if its systems prove not to be secure, the company could suffer significant harm since client contracts typically contain provisions that require their data to remain confidential.

#### Shareholder Control

Executive officers and directors combined, own 1.2% of the outstanding voting stock (November 2023).

#### Miscellaneous Risk

The company's financial results and equity values are subject to other risks and uncertainties, including competition, operations, financial markets, regulatory risk, and/or other events including the wind-down of Lyte operations. These risks may cause actual results to differ from expected results.

#### Trading Volume

Based on our calculations, the average daily-volume in 2021 was 14.3 million shares, which decreased to 6.2 million in 2022. During the three months period ending November 13, 2023, volume decreased to 1.6 million. The company has a float of 126.1 million shares and shares outstanding of 135.4 million as November 9, 2023.

Phunware, Inc.  
Consolidated Balance Sheets  
FY2020A – FY2024E  
(in thousands)

	FY20A	FY21A	FY22A	3Q23A	FY23E	FY24E
<b>ASSETS</b>						
Current assets:						
Cash	\$ 3,940	\$ 23,137	\$ 1,955	\$ 2,857	\$ 3,310	\$ 934
Accounts receivable, net	664	967	958	1,053	1,025	861
Inventory	-	2,636	2,780	899	-	-
Digital currencies	-	32,581	10,137	75	75	75
Prepaid expenses and other current assets	304	686	1,033	599	554	300
<b>Total current assets</b>	<u>4,908</u>	<u>60,007</u>	<u>16,863</u>	<u>5,483</u>	<u>4,964</u>	<u>2,170</u>
Property and equipment, net	13	-	221	165	160	155
Goodwill	25,900	33,260	31,113	16,731	14,000	12,000
Intangible assets, net	111	3,213	2,524	2,023	1,736	586
Deferred tax asset - long term	537	1,278	-	-	-	-
Restricted cash	91	-	-	-	-	-
Right-of-use asset	-	1,260	3,712	3,041	3,041	1,041
Other assets	276	276	402	367	367	367
<b>Total assets</b>	<u>\$ 31,836</u>	<u>\$ 99,294</u>	<u>\$ 54,835</u>	<u>\$ 27,810</u>	<u>\$ 24,268</u>	<u>\$ 16,319</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>						
Current liabilities:						
Accounts payable	8,462	6,589	7,699	7,969	9,322	6,458
Accrued expenses	5,353	9,621	2,895	946	1,231	2,170
Accrued legal settlement	3,000	-	-	-	-	-
Lease liability	-	399	954	1,008	1,008	1,008
Deferred revenue	2,397	3,973	2,904	1,516	1,600	3,000
PhunCoin deposits	1,202	1,202	1,202	1,202	1,202	1,202
Current portion of long-term debt, net	4,435	4,904	9,667	5,563	4,363	-
Warrant liability	1,614	3,605	256	-	-	-
<b>Total current liabilities</b>	<u>26,463</u>	<u>30,293</u>	<u>25,577</u>	<u>18,204</u>	<u>18,726</u>	<u>13,838</u>
Debt	3,762	-	-	-	-	-
Debt - related party	195	-	-	-	-	-
Deferred tax liabilities	537	1,278	-	-	-	-
Deferred revenue	2,678	1,299	1,274	743	1,000	2,500
Deferred rent	180	-	-	-	-	-
Lease liability	-	1,147	3,103	2,308	2,308	1,000
<b>Stockholders' equity:</b>						
Common stock, \$.0001 par value; authorized 1,00,000,000 shares;	6	10	10	13	13	13
Treasury stock at cost	-	-	-	(502)	(502)	(502)
Additional paid-in capital	144,156	264,944	275,562	287,498	289,812	301,312
Accumulated other comprehensive	(338)	(352)	(472)	(463)	(463)	(841)
Retained earnings (accumulated deficit)	(145,803)	(199,325)	(250,219)	(279,991)	(286,626)	(301,001)
<b>Total stockholders' equity</b>	<u>(1,979)</u>	<u>65,277</u>	<u>24,881</u>	<u>6,555</u>	<u>2,234</u>	<u>(1,019)</u>
<b>Total liabilities and stockholders' equity</b>	<u>\$ 31,836</u>	<u>\$ 99,294</u>	<u>\$ 54,835</u>	<u>\$ 27,810</u>	<u>\$ 24,268</u>	<u>\$ 16,319</u>
SHARES OUT	56,380	96,752	103,153	128,556	138,000	155,000

Source: Company reports and Taglich Brothers estimates

Phunware, Inc.  
Annual Income Statement  
FY2020 – FY2024E  
(in thousands)

	<u>FY20 A</u>	<u>FY21 A</u>	<u>FY22 A</u>	<u>FY23 E</u>	<u>FY24 E</u>
Net revenues	\$ 10,001	\$ 10,643	\$ 21,794	\$ 12,306	\$ 6,200
Cost of sales	<u>3,357</u>	<u>7,030</u>	<u>16,718</u>	<u>10,654</u>	<u>3,100</u>
<b>Gross Profit</b>	<u>6,644</u>	<u>3,613</u>	<u>5,076</u>	<u>1,652</u>	<u>3,100</u>
<b>Operating Expenses:</b>					
Sales and marketing	1,653	3,022	6,814	4,652	3,900
General and administrative	15,361	13,256	19,554	15,956	10,475
Research and development	2,628	4,179	6,149	5,026	2,775
Legal settlement / impairments - goodwill/Lyte	4,500	-	2,061	16,391	-
Total Operating Expenses	<u>24,142</u>	<u>20,457</u>	<u>34,578</u>	<u>42,025</u>	<u>17,150</u>
<b>Operating Income (loss)</b>	(17,498)	(16,844)	(29,502)	(40,373)	(14,050)
Interest (expense) income	(3,413)	(4,481)	(2,406)	(1,604)	(325)
Gain (loss) on extinguishment of debt (PPP forgiveness)	(2,158)	(5,102)	-	(237)	-
Fair value adjustment for warrant liabilities	872	(18,139)	3,349	256	-
Impairment of digital currencies	-	(9,383)	(22,911)	(50)	-
Other income (expense) includes sale of digital assets	<u>-</u>	<u>1</u>	<u>580</u>	<u>5,601</u>	<u>-</u>
Total Other Income (expense)	<u>(4,699)</u>	<u>(37,104)</u>	<u>(21,388)</u>	<u>3,966</u>	<u>(325)</u>
<b>Pre-Tax Income (loss)</b>	(22,197)	(53,948)	(50,890)	(36,407)	(14,375)
Income Tax Expense (Benefit)	<u>2</u>	<u>(426)</u>	<u>4</u>	<u>-</u>	<u>-</u>
Net income (loss)	<u>(22,199)</u>	<u>(53,522)</u>	<u>(50,894)</u>	<u>(36,407)</u>	<u>(14,375)</u>
<b>Earning (loss) per share</b>	<u>\$ (0.50)</u>	<u>\$ (0.71)</u>	<u>\$ (0.51)</u>	<u>\$ (0.31)</u>	<u>\$ (0.10)</u>
Avg Shares Outstanding	44,269	75,447	98,982	115,823	149,375
Adjusted EBITDA	\$ (8,353)	\$ (11,662)	\$ (23,506)	\$ (20,215)	\$ (6,050)
<b>Margin Analysis</b>					
Gross margin	66.4%	33.9%	23.3%	13.4%	50.0%
Sales and marketing	16.5%	28.4%	31.3%	37.8%	62.9%
General and administrative	153.6%	124.6%	89.7%	129.7%	169.0%
Research and development	26.3%	39.3%	28.2%	40.8%	44.8%
Operating margin	(175.0%)	(158.3%)	(135.4%)	(328.1%)	(226.6%)
Pre-tax margin	(221.9%)	(506.9%)	(233.5%)	(295.8%)	(231.9%)
Tax rate	(0.0%)	0.8%	(0.0%)	0.0%	0.0%
<b>YEAR / YEAR GROWTH</b>					
Total Revenues	(47.8%)	6.4%	104.8%	(43.5%)	(49.6%)

Source: Company reports and Taglich Brothers estimates

Phunware, Inc.  
Income Statement Model  
Quarters FY2022A – 2024E  
(in thousands)

	Q1 22 A	Q2 22 A	Q3 22 A	Q4 22 A	FY22 A	Q1 23 A	Q2 23 A	Q3 23 A	Q4 23 E	FY23 E	Q1 24 E	Q2 24 E	Q3 24 E	Q4 24 E	FY24 E
Net revenues	\$ 6,778	\$ 5,485	\$ 4,758	\$ 4,773	\$ 21,794	\$ 4,747	\$ 3,487	\$ 2,792	\$ 1,280	\$ 12,306	\$ 1,300	\$ 1,500	\$ 1,625	\$ 1,775	\$ 6,200
Cost of sales	5,007	3,965	3,963	3,783	16,718	4,386	3,031	2,597	640	10,654	650	750	810	890	3,100
<b>Gross Profit</b>	<b>1,771</b>	<b>1,520</b>	<b>795</b>	<b>990</b>	<b>5,076</b>	<b>361</b>	<b>456</b>	<b>195</b>	<b>640</b>	<b>1,652</b>	<b>650</b>	<b>750</b>	<b>815</b>	<b>885</b>	<b>3,100</b>
<b>Operating Expenses:</b>															
Sales and marketing	1,485	1,928	1,819	1,582	6,814	1,128	1,472	1,027	1,025	4,652	950	965	985	1,000	3,900
General and administrative	4,305	5,251	5,189	4,809	19,554	4,712	4,766	3,478	3,000	15,956	2,500	2,625	2,650	2,700	10,475
Research and development	1,003	1,876	1,665	1,605	6,149	1,772	1,212	1,042	1,000	5,026	800	700	650	625	2,775
Legal settlement / impairments - goodwill/Lyte	-	-	-	2,061	2,061	-	1,203	13,188	2,000	16,391	-	-	-	-	-
Total Operating Expenses	6,793	9,055	8,673	10,057	34,578	7,612	8,653	18,735	7,025	42,025	4,250	4,290	4,285	4,325	17,150
<b>Operating Income (loss)</b>	<b>(5,022)</b>	<b>(7,535)</b>	<b>(7,878)</b>	<b>(9,067)</b>	<b>(29,502)</b>	<b>(7,251)</b>	<b>(8,197)</b>	<b>(18,540)</b>	<b>(6,385)</b>	<b>(40,373)</b>	<b>(3,600)</b>	<b>(3,540)</b>	<b>(3,470)</b>	<b>(3,440)</b>	<b>(14,050)</b>
Interest (expense) income	(381)	(273)	(991)	(761)	(2,406)	(537)	(553)	(264)	(250)	(1,604)	(200)	(125)	-	-	(325)
Gain (loss) on extinguishment of debt (PPP forgiveness)	-	-	-	-	-	-	-	(237)	-	(237)	-	-	-	-	-
Fair value adjustment for warrant liabilities	(213)	2,682	797	83	3,349	253	3	-	-	256	-	-	-	-	-
Impairment of digital currencies	(9,353)	(12,158)	-	(1,400)	(22,911)	(50)	-	-	-	(50)	-	-	-	-	-
Other income (expense) includes sale of digital assets	52	213	54	261	580	3,316	2,223	62	-	5,601	-	-	-	-	-
Total Other Income (expense)	(9,895)	(9,536)	(140)	(1,817)	(21,388)	2,982	1,673	(439)	(250)	3,966	(200)	(125)	-	-	(325)
<b>Pre-Tax Income (loss)</b>	<b>(14,917)</b>	<b>(17,071)</b>	<b>(8,018)</b>	<b>(10,884)</b>	<b>(50,890)</b>	<b>(4,269)</b>	<b>(6,524)</b>	<b>(18,979)</b>	<b>(6,635)</b>	<b>(36,407)</b>	<b>(3,800)</b>	<b>(3,665)</b>	<b>(3,470)</b>	<b>(3,440)</b>	<b>(14,375)</b>
Income Tax Expense (Benefit)	-	-	-	4	4	-	-	-	-	-	-	-	-	-	-
Net income (loss)	(14,917)	(17,071)	(8,018)	(10,888)	(50,894)	(4,269)	(6,524)	(18,979)	(6,635)	(36,407)	(3,800)	(3,665)	(3,470)	(3,440)	(14,375)
<b>Earning (loss) per share</b>	<b>\$ (0.15)</b>	<b>\$ (0.17)</b>	<b>\$ (0.08)</b>	<b>\$ (0.11)</b>	<b>\$ (0.51)</b>	<b>\$ (0.04)</b>	<b>\$ (0.06)</b>	<b>\$ (0.16)</b>	<b>\$ (0.05)</b>	<b>\$ (0.31)</b>	<b>\$ (0.03)</b>	<b>\$ (0.02)</b>	<b>\$ (0.02)</b>	<b>\$ (0.02)</b>	<b>\$ (0.10)</b>
Avg Shares Outstanding	96,844	97,742	98,822	102,520	98,982	103,169	105,133	119,989	135,000	115,823	145,000	147,500	150,000	155,000	149,375
Adjusted EBITDA	\$ (4,246)	\$ (6,602)	\$ (6,741)	\$ (5,917)	\$ (23,506)	\$ (5,599)	\$ (5,217)	\$ (4,264)	\$ (5,135)	\$ (20,215)	\$ (1,600)	\$ (1,540)	\$ (1,470)	\$ (1,440)	\$ (6,050)
<b>Margin Analysis</b>															
Gross margin	26.1%	27.7%	16.7%	20.7%	23.3%	7.6%	13.1%	7.0%	50.0%	13.4%	50.0%	50.0%	50.2%	49.9%	50.0%
Sales and marketing	21.9%	35.2%	38.2%	33.1%	31.3%	23.8%	42.2%	36.8%	80.1%	37.8%	73.1%	64.3%	60.6%	56.3%	62.9%
General and administrative	63.5%	95.7%	109.1%	100.8%	89.7%	99.3%	136.7%	124.6%	234.4%	129.7%	192.3%	175.0%	163.1%	152.1%	169.0%
Research and development	14.8%	34.2%	35.0%	33.6%	28.2%	37.3%	34.8%	37.3%	78.1%	40.8%	61.5%	46.7%	40.0%	35.2%	44.8%
Operating margin	(74.1%)	(137.4%)	(165.6%)	(190.0%)	(135.4%)	(152.7%)	(235.1%)	(664.0%)	(498.8%)	(328.1%)	(276.9%)	(236.0%)	(213.5%)	(193.8%)	(226.6%)
Pre-tax margin	(220.1%)	(311.2%)	(168.5%)	(228.0%)	(233.5%)	(89.9%)	(187.1%)	(679.8%)	(518.4%)	(295.8%)	(292.3%)	(244.3%)	(213.5%)	(193.8%)	(231.9%)
Tax rate	0.0%	0.0%	0.0%	(0.0%)	(0.0%)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
<b>YEAR / YEAR GROWTH</b>															
Total Revenues	311.8%	282.0%	120.3%	(11.6%)	104.8%	(30.0%)	(36.4%)	(41.3%)	(73.2%)	(43.5%)	(72.6%)	(57.0%)	(41.8%)	38.7%	(49.6%)

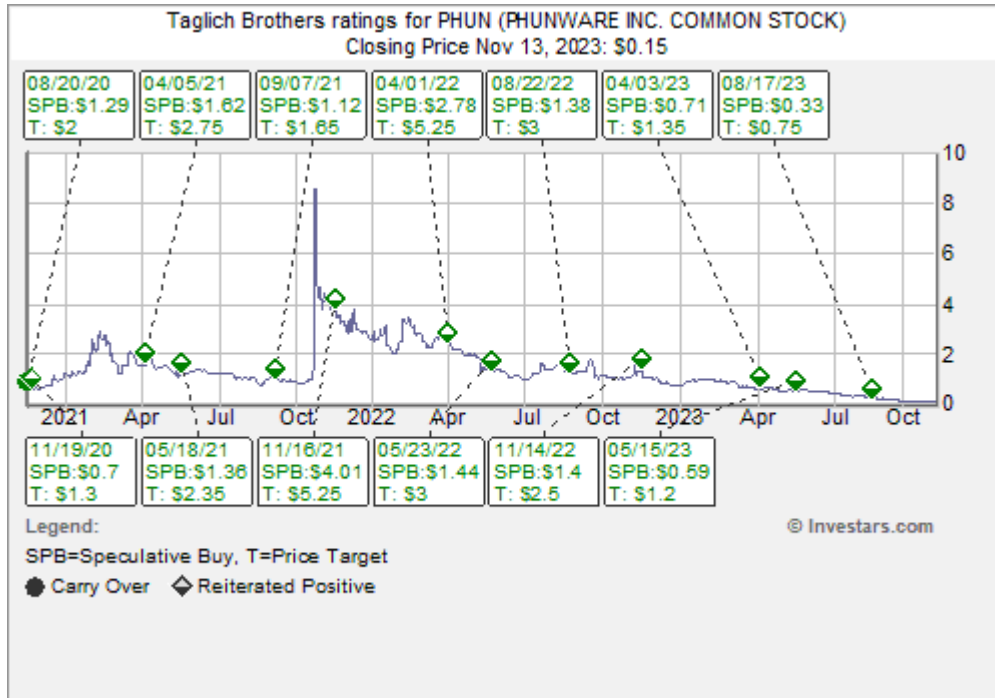
Source: Company reports and Taglich Brothers estimates

Phunware, Inc.  
Cash Flow Statement  
FY2020 – FY2024E  
(in thousands)

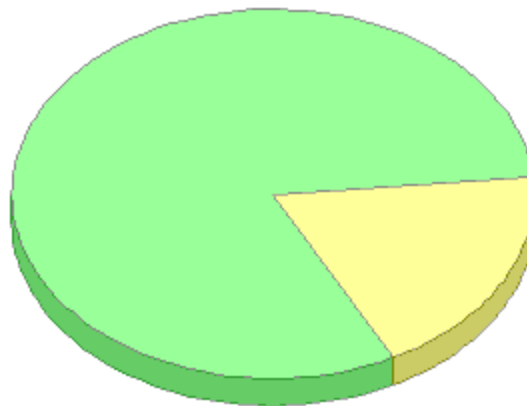
	<u>FY2020A</u>	<u>FY2021A</u>	<u>FY2022A</u>	<u>9 Mos23A</u>	<u>FY2023E</u>	<u>FY2024E</u>
<i>Cash Flows from Operating Activities</i>						
Net Income (loss)	\$ (22,199)	\$ (53,522)	\$ (50,894)	\$ (29,772)	\$ (36,407)	\$ (14,375)
Depreciation and amortization	11	-	-	-	-	-
Impairment of goodwill	-	-	2,061	14,391	16,391	-
Bad debt expense (recovery)	205	-	-	-	-	-
Amortization of intangibles and right-of-use asset	142	-	-	-	-	-
Amortization of debt discount and deferred financing costs	2,185	2,942	1,034	832	1,110	1,110
Loss on extinguishment of debt	2,158	7,952	-	237	237	-
Gain on forgiveness of PPP Loan	-	(2,850)	-	-	-	-
Non-cash interest expense	55	-	-	-	-	-
Change in fair value of warrants	(872)	18,139	(3,349)	(256)	(256)	-
Impairment of digital currencies and right-of-use asset	-	9,383	22,911	50	50	-
Settlement of accounts payable	(453)	-	-	-	-	-
Stock-based compensation	4,492	4,941	3,009	3,662	6,375	7,000
Deferred income taxes and other and sale of digital assets	-	(478)	1,466	(3,365)	(3,365)	-
Cash earnings (burn)	<u>(14,276)</u>	<u>(13,493)</u>	<u>(23,762)</u>	<u>(14,221)</u>	<u>(15,865)</u>	<u>(6,265)</u>
<i>Changes In:</i>						
Accounts receivable	796	(16)	4	(122)	(67)	164
Inventory	-	(949)	(412)	1,470	2,780	-
Prepaid expenses and other assets	65	(383)	(476)	583	479	254
Accounts payable	427	(1,568)	1,111	269	1,623	(2,864)
Accrued expenses	1,064	(1,131)	(1,258)	(921)	(1,664)	939
Accrued legal settlement	3,000	(3,000)	-	-	-	-
Lease liability	-	(802)	(905)	(1,008)	(345)	-
Deferred revenue	<u>(2,049)</u>	<u>(1,172)</u>	<u>(1,129)</u>	<u>(1,919)</u>	<u>(1,578)</u>	<u>2,900</u>
(Increase)/decrease in Working Capital	<u>3,303</u>	<u>(9,021)</u>	<u>(3,065)</u>	<u>(1,648)</u>	<u>1,228</u>	<u>1,394</u>
<b>Net cash provided (used in) Operations</b>	<u>(10,973)</u>	<u>(22,514)</u>	<u>(26,827)</u>	<u>(15,869)</u>	<u>(14,637)</u>	<u>(4,871)</u>
<i>Cash Flows from Investing Activities</i>						
Proceeds received from sale of digital currencies	-	-	1,282	15,390	15,390	-
Purchase of digital currencies	-	(41,284)	(923)	-	-	-
Acquisitions, net of cash acquired	-	(5,101)	(2,375)	-	-	-
Capital expenditures	-	-	(271)	(7)	(10)	(10)
<b>Cash flow provided (used in) Investing Activities</b>	<u>-</u>	<u>(46,385)</u>	<u>(2,287)</u>	<u>15,383</u>	<u>15,380</u>	<u>(10)</u>
<i>Cash Flows from Financing Activities</i>						
Net proceeds (payment) from factoring agreement	(1,077)	-	-	-	-	-
Proceeds (payment) on debt net	14,815	14,711	11,795	-	-	-
Bridge loans - related parties	560	-	-	-	-	-
Payments on senior convertible note	(8,418)	(26,243)	(8,066)	(5,056)	(6,270)	(2,094)
Payments on related party notes	(560)	-	-	-	-	-
Proceeds from common stock, net of issuance costs	9,177	94,737	4,298	6,879	7,275	4,500
Proceeds from exercise of options to purchase common stock	99	179	28	58	100	100
Payment for stock repurchase	-	-	-	(502)	(502)	-
<b>Net cash provided (used) by Financing</b>	<u>14,596</u>	<u>88,019</u>	<u>8,055</u>	<u>1,379</u>	<u>603</u>	<u>2,506</u>
<b>Effect of exchange rates</b>	46	(14)	(123)	9	9	-
Net change in Cash and restricted cash	3,669	19,106	(21,182)	902	1,355	(2,375)
Cash and restricted cash Beginning of Period	<u>362</u>	<u>4,031</u>	<u>23,137</u>	<u>1,955</u>	<u>1,955</u>	<u>3,310</u>
Cash (and restricted) End of Period	<u>\$ 4,031</u>	<u>\$ 23,137</u>	<u>\$ 1,955</u>	<u>\$ 2,857</u>	<u>\$ 3,310</u>	<u>\$ 934</u>

Source: Company reports and Taglich Brothers estimates

**Price Chart**



**Taglich Brothers Current Ratings Distribution**



81.25 % Buy | 18.75 % Hold

Investment Banking Services for Companies Covered in the Past 12 Months		
Rating	#	%
Buy	2	11
Hold		
Sell		
Not Rated		

**Important Disclosures**

As of the date of this report, we, our affiliates, any officer, director or stockholder, or any member of their families do not have a position in the stock of the company mentioned in this report. Taglich Brothers, Inc. does not currently have an Investment Banking relationship with the company mentioned in this report and was not a manager or co-manager of any offering for the company with in the last three years.

All research issued by Taglich Brothers, Inc. is based on public information. In April 2020, the company paid Taglich Brothers a monetary fee of \$4,500 (USD) representing payment for the creation and dissemination of research reports for three months. In September 2020, the company began paying Taglich Brothers a monthly monetary fee of \$1,500 (USD) for the creation and dissemination of research reports.

**General Disclosures**

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**Analyst Certification**

**I, Howard Halpern, the research analyst of this report, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities and issuers; and that no part of my compensation was, is, or will be directly or indirectly related to the specific recommendations or views contained in this report.**

**Public Companies mentioned in this report:**

Adobe, Inc.

(NASDAQ: ADBE)

CISCO Systems, Inc. (NASDAQ: CSCO)

**Meaning of Ratings**

**Buy** – The growth prospects, degree of investment risk, and valuation make the stock attractive relative to the general market or comparable stocks.

**Speculative Buy** – Long-term prospects of the company are promising but investment risk is significantly higher than it is in our BUY-rated stocks. Risk-reward considerations justify purchase mainly by high risk-tolerant accounts. In the short run, the stock may be subject to high volatility and could continue to trade at a discount to its market.

**Neutral** – Based on our outlook the stock is adequately valued. If investment risks are within acceptable parameters, this equity could remain a holding if already owned.

**Sell** – Based on our outlook the stock is significantly overvalued. A weak company or sector outlook and a high degree of investment risk make it likely that the stock will underperform relative to the general market.

**Discontinued** – Research coverage discontinued due to the acquisition of the company, termination of research services (includes non-payment for such services), diminished investor interest, or departure of the analyst.

**Some notable Risks within the Microcap Market**

**Stocks in the Microcap segment of the market have many risks that are not as prevalent in Large-cap, Blue Chips or even Small-cap stocks. Often it is these risks that cause Microcap stocks to trade at discounts to their peers. The most common of these risks is liquidity risk, which is typically caused by small trading floats and very low trading volume which can lead to large spreads and high volatility in stock price. In addition, Microcaps tend to have significant company-specific risks that contribute to lower valuations. Investors need to be aware of the higher probability of financial default and higher degree of financial distress inherent in the microcap segment of the market.**

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From time to time our analysts may choose to withhold or suspend a rating on a company. We continue to publish informational reports on such companies; however, they have no ratings or price targets. In general, we will not rate any company that has too much business or financial uncertainty for our analysts to form an investment conclusion, or that is currently in the process of being acquired.