
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-Q

(Mark one)

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

For the quarterly period ended December 31, 2019

OR

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: 001-36827

Anterix Inc.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
Incorporation or organization)

33-0745043
(I.R.S. Employer
Identification No.)

3 Garret Mountain Plaza
Suite 401
Woodland Park, New Jersey
(Address of principal executive offices)

07424
(Zip Code)

(973) 771-0300

(Registrant's telephone number, including area code)

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

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

Title of each class	Trading symbol	Name of Each Exchange on which registered
Common Stock, \$0.0001 par value	ATEX	The NASDAQ Stock Market LLC

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
Non-accelerated filer
Emerging growth company

Accelerated filer
Smaller reporting 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

At January 31, 2020, 17,166,282 shares of the registrant's common stock were outstanding.

Anterix Inc.
FORM 10-Q
For the quarterly period ended December 31, 2019

TABLE OF CONTENTS

<u>PART I. FINANCIAL INFORMATION</u>		
<u>Item 1.</u>	<u>Consolidated Financial Statements</u>	4
	<u>Consolidated Balance Sheets as of December 31, 2019 (Unaudited) and March 31, 2019 (Audited)</u>	4
	<u>Unaudited Consolidated Statements of Operations for the three and nine months ended December 31, 2019 and December 31, 2018</u>	5
	<u>Unaudited Consolidated Statement of Stockholders' Equity for the three and nine months ended December 31, 2019</u>	6
	<u>Unaudited Consolidated Statement of Stockholders' Equity for the three and nine months ended December 31, 2018</u>	7
	<u>Unaudited Consolidated Statements of Cash Flows for the nine months ended December 31, 2019 and December 31, 2018</u>	8
	<u>Notes to Unaudited Consolidated Financial Statements</u>	9
<u>Item 2.</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	24
<u>Item 3.</u>	<u>Quantitative and Qualitative Disclosures about Market Risk</u>	32
<u>Item 4.</u>	<u>Controls and Procedures</u>	33
<u>PART II. OTHER INFORMATION</u>		
<u>Item 1.</u>	<u>Legal Proceedings</u>	34
<u>Item 1A.</u>	<u>Risk Factors</u>	34
<u>Item 2.</u>	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	34
<u>Item 3.</u>	<u>Defaults Upon Senior Securities</u>	34
<u>Item 4.</u>	<u>Mine Safety Disclosures</u>	34
<u>Item 5.</u>	<u>Other Information</u>	34
<u>Item 6.</u>	<u>Exhibits</u>	35
<u>SIGNATURES</u>		
36		

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q (the “Form 10-Q”) includes statements of our expectations, intentions, plans, and beliefs that constitute “forward-looking statements.” These forward-looking statements are principally, but not solely, contained in the section captioned “Management’s Discussion and Analysis of Financial Condition and Results of Operations.” These statements include, but are not limited to, statements about our strategies, plans, objectives, expectations, intentions, expenditures and assumptions and other statements contained herein that are not historical facts. Our forward-looking statements are generally, but not always, accompanied by words such as “estimate,” “project,” “predict,” “believe,” “expect,” “anticipate,” “potential,” “should,” “will,” “may,” “plan,” “goal,” “can,” “could,” “continuing,” “ongoing,” “intend” or other words that convey the uncertainty of future events or outcomes. We have based these forward-looking statements on our current expectations and projections about future events and financial, market and business trends. The matters discussed in these forward-looking statements are subject to risks, uncertainties and other factors that could cause our actual results to differ materially from those projected, anticipated or implied in the forward-looking statements. Many of these risks, uncertainties and other factors are beyond our ability to control, influence, or predict. The most significant of these risks, uncertainties and other factors are described in “Item 1A—Risk Factors” in Part II of this Form 10-Q, in our Quarterly Report on Form 10-Q for the period ended June 30, 2019 filed with the Securities and Exchange Commission (the “SEC”) on August 8, 2019 and in our Annual Report on Form 10-K for the year ended March 31, 2019 filed with the SEC on May 20, 2019. As a result, investors are urged not to place undue reliance on any forward-looking statements. These forward-looking statements reflect our views and assumptions only as of the date such forward-looking statements were made. Except to the limited extent required by applicable law, we undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

PART I. FINANCIAL INFORMATION

Item 1: Consolidated Financial Statements

Anterix Inc.
Consolidated Balance Sheets
(dollars in thousands, except share data)

	December 31, 2019 (Unaudited)	March 31, 2019 (Audited)
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 150,243	\$ 76,722
Accounts receivable, net of allowance for doubtful accounts of \$15 and \$77, respectively	83	444
Prepaid expenses and other current assets	2,011	1,180
Total current assets	152,337	78,346
Property and equipment, net	8,088	9,830
Right of use assets, net	6,841	—
Intangible assets	108,335	107,548
Capitalized patent costs, net	—	184
Equity method investment	40	—
Other assets	188	845
Total assets	\$ 275,829	\$ 196,753
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued expenses	\$ 4,478	\$ 5,106
Restructuring reserve	1,179	2,758
Due to related parties	106	183
Operating lease liabilities	1,706	—
Deferred revenue	747	792
Total current liabilities	8,216	8,839
Noncurrent liabilities		
Operating lease liabilities	7,442	—
Deferred revenue	2,915	3,466
Deferred income tax	1,279	685
Other liabilities	723	2,999
Total liabilities	20,575	15,989
Commitments and contingencies		
Stockholders' equity		
Preferred stock, \$0.0001 par value per share, 10,000,000 shares authorized and no shares outstanding at December 31, 2019 and March 31, 2019	—	—
Common stock, \$0.0001 par value per share, 100,000,000 shares authorized and 17,146,680 shares issued and outstanding at December 31, 2019 and 14,739,145 shares issued and outstanding at March 31, 2019	2	1
Additional paid-in capital	449,428	349,227
Accumulated deficit	(194,176)	(168,464)
Total stockholders' equity	255,254	180,764
Total liabilities and stockholders' equity	\$ 275,829	\$ 196,753

See accompanying notes to consolidated financial statements.

Anterix Inc.
Consolidated Statements of Operations
(dollars in thousands, except share data)
(Unaudited)

	Three months ended December 31,		Nine months ended December 31,	
	2019	2018	2019	2018
Operating revenues				
Service revenue	\$ 178	\$ 1,155	\$ 690	\$ 3,798
Spectrum revenue	183	183	547	547
Other revenue	—	164	—	854
Total operating revenues	361	1,502	1,237	5,199
Operating expenses				
Direct cost of revenue (exclusive of depreciation and amortization)	631	974	2,248	3,599
General and administrative	4,740	5,216	14,145	14,310
Sales and support	949	620	2,922	3,110
Product development	610	647	1,846	1,846
Depreciation and amortization	1,135	695	2,412	2,140
Stock compensation expense (exclusive of restructuring related costs)	1,404	1,459	4,393	4,419
Restructuring costs	35	418	195	8,540
Impairment of long-lived assets	33	200	33	730
Total operating expenses	9,537	10,229	28,194	38,694
Loss from operations	(9,176)	(8,727)	(26,957)	(33,495)
Interest income	517	393	1,505	1,079
Other income (expenses)	2	(16)	154	(16)
Loss on equity method investment	(23)	—	(8)	—
Loss before income taxes	(8,680)	(8,350)	(25,306)	(32,432)
Income tax expense	131	—	594	—
Net loss	\$ (8,811)	\$ (8,350)	\$ (25,900)	\$ (32,432)
Net loss per common share basic and diluted	\$ (0.52)	\$ (0.57)	\$ (1.60)	\$ (2.23)
Weighted-average common shares used to compute basic and diluted net loss per share	17,093,133	14,614,793	16,167,845	14,539,377

See accompanying notes to consolidated financial statements.

Anterix Inc.
 Consolidated Statement of Stockholders' Equity
 (dollars in thousands, except share data)
 (Unaudited)

	Number of Shares		Preferred stock series AA	Common stock	Additional paid-in capital	Accumulated deficit	Total
	Preferred stock series AA	Common stock					
Balance at September 30, 2019	—	17,125,938	\$ —	\$ 2	\$ 447,845	\$ (185,365)	\$ 262,482
Equity based compensation*	—	13,259	—	—	1,404	—	1,404
Stock option exercises	—	8,000	—	—	200	—	200
Shares withheld for taxes	—	(517)	—	—	(21)	—	(21)
Net loss	—	—	—	—	—	(8,811)	(8,811)
Balance at December 31, 2019	—	17,146,680	\$ —	\$ 2	\$ 449,428	\$ (194,176)	\$ 255,254
Balance at March 31, 2019	—	14,739,145	\$ —	\$ 1	\$ 349,227	\$ (168,464)	\$ 180,764
Cumulative effect of change in accounting principle	—	—	—	—	(188)	188	—
Balance at April 1, 2019	—	14,739,145	—	1	349,039	(168,276)	180,764
Issuance of stock during July 2019 follow-on offering, net of closing costs	—	2,222,223	—	1	94,243	—	94,244
Equity based compensation*	—	93,956	—	—	4,393	—	4,393
Stock option exercises	—	102,323	—	—	2,220	—	2,220
Shares withheld for taxes	—	(10,967)	—	—	(467)	—	(467)
Net loss	—	—	—	—	—	(25,900)	(25,900)
Balance at December 31, 2019	—	17,146,680	\$ —	\$ 2	\$ 449,428	\$ (194,176)	\$ 255,254

* includes restricted shares

See accompanying notes to consolidated financial statements.

Anterix Inc.
 Consolidated Statement of Stockholders' Equity
 (dollars in thousands, except share data)
 (Unaudited)

	Number of Shares		Preferred stock series AA	Common stock	Additional paid-in capital	Accumulated deficit	Total
	Preferred stock series AA	Common stock					
Balance at September 30, 2018	—	14,573,267	\$ —	\$ 1	\$ 343,930	\$ (150,553)	\$ 193,378
Equity based compensation*	—	18,014	—	—	1,459	—	1,459
Stock option exercises	—	85,127	—	—	1,739	—	1,739
Shares withheld for taxes	—	—	—	—	—	—	—
Net loss	—	—	—	—	—	(8,350)	(8,350)
Balance at December 31, 2018	—	14,676,408	\$ —	\$ 1	\$ 347,128	\$ (158,903)	\$ 188,226

Balance at March 31, 2018 (As Restated)	—	14,487,650	\$ —	\$ 1	\$ 335,767	\$ (127,239)	\$ 208,529
Cumulative effect of change in accounting principle	—	—	—	—	—	768	768
Balance at April 1, 2018	—	14,487,650	—	1	335,767	(126,471)	209,297
Equity based compensation*	—	68,082	—	—	8,936	—	8,936
Stock option exercises	—	125,976	—	—	2,564	—	2,564
Shares withheld for taxes	—	(5,300)	—	—	(139)	—	(139)
Net loss	—	—	—	—	—	(32,432)	(32,432)
Balance at December 31, 2018	—	14,676,408	\$ —	\$ 1	\$ 347,128	\$ (158,903)	\$ 188,226

* includes restricted shares

See accompanying notes to consolidated financial statements.

Anterix Inc.
Consolidated Statements of Cash Flows
(dollars in thousands)
(Unaudited)

	Nine months ended December 31,	
	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	\$ (25,900)	\$ (32,432)
Adjustments to reconcile net loss to net cash used by operating activities		
Depreciation and amortization	2,412	2,140
Non-cash compensation expense attributable to stock awards	4,393	8,936
Deferred income taxes	594	—
Bad debt expense	45	280
Loss on disposal of assets	75	31
Loss on disposal of capitalized patent costs	140	—
Impairment of long-lived assets	33	730
Equity method investment	8	—
Changes in operating assets and liabilities		
Accounts receivable	439	72
Inventory	—	173
Prepaid expenses and other assets	(176)	(530)
Right of use assets	1,063	—
Accounts payable and accrued expenses	(511)	354
Restructuring reserve	(2,098)	3,305
Due to related parties	(77)	347
Operating lease liabilities	(1,044)	—
Deferred revenue	(595)	(611)
Other liabilities	(72)	245
Net cash used by operating activities	(21,271)	(16,960)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of intangible assets	(792)	(937)
Purchases of equipment	(413)	(497)
Net cash used by investing activities	(1,205)	(1,434)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net proceeds from July 2019 follow-on offering	94,244	—
Proceeds from stock option exercises	2,220	2,564
Payments of withholding tax on net issuance of restricted stock	(467)	(139)
Net cash provided by financing activities	95,997	2,425
Net change in cash and cash equivalents	73,521	(15,969)
CASH AND CASH EQUIVALENTS		
Beginning of the year	76,722	98,318
End of the year	\$ 150,243	\$ 82,349
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the period:		
Taxes paid	\$ 25	\$ 12
Non-cash investing activity:		
Capitalized change in estimated asset retirement obligations	\$ 503	\$ —
Contribution of patent to TeamConnect LLC	\$ 34	\$ —
Contribution of capital equipment to TeamConnect LLC	\$ 14	\$ —

See accompanying notes to consolidated financial statements.

Anterix Inc.
Notes to Consolidated Financial Statements
(Unaudited)

1. Nature of Operations

Anterix Inc. (formerly known as pdvWireless, Inc., the “Company”) is a wireless communications company focused on empowering the modernization of critical infrastructure and enterprise business communications by enabling broadband connectivity. The Company’s foundational spectrum provides the ability to transform its customers’ operations to meet new business complexities while achieving higher levels of performance and safety. The Company is the largest holder of licensed spectrum in the 900 MHz band (896-901/935-940 MHz) with nationwide coverage throughout the contiguous United States, Hawaii, Alaska and Puerto Rico. On average, the Company holds approximately 60% of the channels in the 900 MHz band in the top 20 metropolitan market areas in the United States. The Company is currently pursuing a regulatory proceeding at the Federal Communications Commission (the “FCC”) that seeks to modernize and realign the 900 MHz band by allowing it to be utilized for the deployment of broadband networks, technologies and solutions.

The Company was originally incorporated in California in 1997 and reincorporated in Delaware in 2014. In November 2015, the Company changed its name from Pacific DataVision, Inc. to pdvWireless, Inc. On August 6, 2019, the Company changed its name from pdvWireless, Inc. to Anterix Inc. The Company maintains offices in Woodland Park, New Jersey and McLean, Virginia.

Historically, the Company generated revenue principally from its pdvConnect and TeamConnect businesses. pdvConnect is a mobile communication and workforce management solution. The Company historically marketed pdvConnect primarily through two Tier 1 carriers in the United States. In Fiscal 2016, it began offering a commercial push-to-talk (“PTT”) service, which was marketed as TeamConnect, in seven major metropolitan areas throughout the United States, including Atlanta, Baltimore/Washington, Chicago, Dallas, Houston, New York and Philadelphia. It primarily offered the TeamConnect service to customers indirectly through third-party sales representatives who were primarily selected from Motorola’s nationwide dealer network.

In June 2018, the Company announced its plan to restructure its business to align and focus its business priorities on its spectrum initiatives aimed at modernizing and realigning the 900 MHz band to increase its usability and capacity, including for the future deployment of broadband and other advanced technologies and services. In December 2018, the Company’s board of directors approved the transfer of the Company’s TeamConnect business and support for its pdvConnect business.

In July 2019, the Company completed a registered follow-on offering in which it sold 2,222,223 shares of its common stock at a purchase price to the public of \$45.00 per share. Net proceeds were approximately \$94.2 million after deducting \$5.5 million in underwriting discounts and commissions, and \$0.3 million in offering expenses.

2. Summary of Significant Accounting Policies

Basis of Presentation and Use of Estimates

The unaudited consolidated financial statements and accompanying notes are prepared in accordance with accounting principles generally accepted in the United States of America (“US GAAP”) for interim financial information. Pursuant to the rules and regulations of the U.S. Securities and Exchange Commission (the “SEC”), certain information and footnote disclosures normally included in annual consolidated financial statements prepared in accordance with US GAAP have been condensed or omitted.

Because certain information and footnote disclosures have been condensed or omitted, these unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements and related notes in the Company’s Annual Report on Form 10-K for the fiscal year ended March 31, 2019, as filed on May 20, 2019 with the SEC. In the Company’s opinion all normal and recurring adjustments considered necessary for a fair presentation of the financial position, results of operations and cash flows for the periods presented have been included. The Company believes that the disclosures made in the unaudited consolidated interim financial statements are adequate to make the information not misleading. The results of operations for the interim periods presented are not necessarily indicative of the results for the year. The Company is also required to make certain estimates with regard to the valuation of awards and forfeiture rates for its share-based award programs. New estimates in the period relate to determining the Company’s estimated incremental borrowing rate in recognizing right of use assets and operating lease liabilities. Estimates and assumptions are reviewed periodically, and the effects of revisions are reflected in the financial statements in the applicable period. Accordingly, actual results could materially differ from those estimates.

Table of Contents

The accompanying consolidated financial statements include the accounts of the Company and its subsidiaries, including PDV Spectrum Holding Company, LLC formed in April 2014. All significant intercompany accounts and transactions have been eliminated in consolidation.

Reclassifications

Certain prior year amounts have been reclassified to conform to the presentation of the corresponding amounts in the financial statements for the three and nine months ended December 31, 2019. These reclassifications had no effect on previously reported net loss or net loss per common share basic and diluted.

Cash and Cash Equivalents

All highly liquid investments with maturities of three months or less at the time of purchase are considered cash equivalents. Cash equivalents are stated at cost, which approximates the quoted market value and include amounts held in money market funds.

Property and equipment

Property and equipment is stated at cost. Depreciation is computed using the straight-line method over the shorter of the estimated useful lives of the assets or the applicable lease term. The carrying amount at the balance sheet date of long-lived assets under construction in process includes assets purchased, constructed or being developed internally that are not yet in service. Depreciation commences when the assets are placed in service. Depreciation rates for assets are updated periodically to account for changes, if any, in the estimated useful lives of the assets, lease terms, management's strategic objectives, estimated residual values or obsolescence. Changes in estimates will result in adjustments to depreciation expense prospectively.

Accounting for Asset Retirement Obligations

An asset retirement obligation is evaluated and recorded as appropriate on assets for which the Company has a legal obligation to retire. The Company records a liability for an asset retirement obligation and the associated asset retirement cost at the time the underlying asset is acquired and put into service. Subsequent to the initial measurement of the asset retirement obligation, the obligation is adjusted at the end of each period to reflect the passage of time and changes, if any, in the estimated future cash flows underlying the obligation. Over time, the liability is accreted to its present value and the capitalized cost is depreciated over the estimated useful life of the asset.

The Company enters into long-term leasing arrangements primarily for tower site locations. The Company constructs assets at these locations and, in accordance with the terms of many of these agreements, the Company is obligated to restore the premises to their original condition at the conclusion of the agreements, generally at the demand of the other party to these agreements. The Company recognizes the fair value of a liability for an asset retirement obligation and capitalizes that cost as part of the cost basis of the related asset, depreciating it over the useful life of the related asset. Upon settlement of the obligation, any difference between the cost to retire the asset and the recorded liability is recognized in the Consolidated Statement of Operations.

As of December 31, 2019, the Company revised its asset retirement obligations accrual to \$0.8 million based on estimated future cash flows.

Changes in the liability for the asset retirement obligations for December 31, 2019 and March 31, 2019 are summarized below (in thousands):

	Asset Retirement Obligations
Balance at March 31, 2019	\$ 328
Revision of estimate	503
Accretion expense	—
Balance at December 31, 2019	831
Less amount classified as current – included in accounts payable and accrued expenses	164
Noncurrent liabilities - included in other liabilities	<u>\$ 667</u>

Intangible Assets

Intangible assets are wireless licenses that will be used to provide the Company with the exclusive right to utilize designated radio frequency spectrum to provide wireless communication services. While licenses are issued for only a fixed time, generally

ten years, such licenses are subject to renewal by the FCC. License renewals have occurred routinely and at nominal cost in the past. There are currently no legal, regulatory, contractual, competitive, economic or other factors that limit the useful life of the Company's wireless licenses. As a result, the Company has determined that the wireless licenses should be treated as an indefinite-lived intangible asset. The Company will evaluate the useful life determination for its wireless licenses each year to determine whether events and circumstances continue to support their treatment as an indefinite useful life asset.

The licenses are tested for impairment annually on an aggregate basis, as the Company will be utilizing the wireless licenses on an integrated basis as part of developing broadband. In Fiscal 2019, the Company performed a step one quantitative impairment test to determine if the fair value is greater than carrying value. Estimated fair value is determined using a market-based approach. There are no triggering events indicating impairment in the nine months ended December 31, 2019.

Patent Costs

Costs to acquire a patent on certain aspects of the Company's technology have been capitalized. These amounts are amortized, subject to periodic evaluation for impairment, over statutory lives following award of the patent. Gross patent costs are approximately \$572,000 at March 31, 2019 and the associated accumulated amortization amounted to approximately \$388,000. As of December 31, 2019, the Company completed the transfer of the intellectual property rights with a net book value of \$174,000 in exchange for a 19.5% ownership interest to TeamConnect LLC ("LLC"). Amortization expense was approximately \$10,000 for the nine months ended December 31, 2019 and December 31, 2018, respectively.

Long-Lived Asset and Right of Use Asset Impairment

The Company evaluates long-lived assets, including right of use assets, other than intangible assets with indefinite lives, for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset group may not be recoverable. Asset groups are determined at the lowest level for which identifiable cash flows are largely independent of cash flows of other groups of assets and liabilities. When the carrying amount of the asset groups are not recoverable and exceeds its fair value, an impairment loss is recognized equal to the excess of the asset group's carrying value over the estimated fair value. During the nine months ended December 31, 2019, the Company recorded a \$33,000 non-cash impairment charge for long-lived assets consisting of \$22,000 for property and equipment and \$11,000 for a right of use asset to reduce the carrying values to zero. During the nine months ended December 31, 2018, the Company recorded a \$0.7 million non-cash charge for long-lived asset impairment of its radio assets to reduce the carrying value to the estimated recoverable amount.

Equity Method Investment

The Company's 19.5% investment in LLC for which the Company is not the primary beneficiary and does not influence or control the activities that most significantly impact the LLC's economic performance, are not consolidated and are accounted for under the equity method of accounting. Under the equity method of accounting, the LLC's accounts are not reflected within the Company's consolidated balance sheets and statements of operations. The Company's share of the earnings of the LLC is reported as income (loss) on equity method investment in the Company's consolidated statements of operations. The Company's carrying value in an equity method investment is reported as equity method investment on the Company's consolidated balance sheets.

If the Company's carrying value in an equity method is reduced to zero, no further losses are recorded in the Company's consolidated financial statements unless the Company guarantees obligations of the LLC or commits additional funding. When the LLC subsequently reports income, the Company will not record its share of such income until it equals the amount of its share of losses not previously recognized.

Leases

Leases in which the Company is the lessee are comprised of corporate office space and tower space. Substantially all of the leases are classified as operating leases. The Company is obligated under certain lease agreements for office space with lease terms expiring on various dates from October 14, 2025 through June 30, 2027, which includes a ten-year lease extension for its corporate headquarters. The Company entered into multiple lease agreements for tower space related to its spectrum holdings.

In accordance with Financial Accounting Standards Board, ("FASB") Accounting Standards Update ("ASU") 2016-02 *Leases* ("ASC 842"), the Company recognized right of use ("ROU") assets and corresponding lease liabilities on its Consolidated Balance Sheet for its operating lease agreements. The Company elected the package of practical expedients for its long-term operating leases, which permits the Company not to reassess under the new standard the prior conclusions about lease identification, lease classification and initial direct costs. See Note 9 – Leases for further discussion, including the impact on the Company's consolidated financial statements and required disclosures.

Income Taxes

The Company utilizes the asset and liability method of accounting for income taxes. Under this method, deferred tax assets and liabilities are recognized for the expected future tax consequences of temporary differences between the carrying amounts and the tax basis of assets and liabilities as well as from net operating loss and tax credit carryforwards. The effect on deferred tax assets and liabilities from a change in income tax rates is recognized in operations in the period that includes the enactment date. A valuation allowance is established when it is estimated that it is more likely than not that the tax benefit of a deferred tax asset will not be realized.

Revenue Recognition

Revenues are recognized when a contract with a customer exists and control of the promised goods or services is transferred to the customers, in an amount that reflects the consideration the Company expects to be entitled to in exchange for those goods or services and the identified performance obligation has been satisfied.

A performance obligation is a promise in a contract to transfer a distinct good or service to the customer and is the unit of account in Accounting Standards Update 2014-09, *Revenue from Contracts with Customers*, (“ASC 606”). A contract’s transaction price is allocated to each distinct performance obligation and is recognized as revenue when, or as, the performance obligation is satisfied, which typically occurs when the services are rendered. Determining whether products and services are considered distinct performance obligations that should be accounted for separately versus together may require significant judgment. The Company’s contracts with customers may include multiple performance obligations. For such arrangements, the Company allocates revenue to each performance obligation based on its relative standalone selling price. It generally determines standalone selling prices based on the prices charged to customers under contracts involving only the relevant performance obligation. Judgment may be used to determine the standalone selling prices for items that are not sold separately, including services provided at no additional charge. Most of the Company’s performance obligations are satisfied over time as services are provided.

The Company recognizes an asset for the incremental costs of obtaining a contract with a customer if it expects the benefit of those costs to be longer than one year. The Company has determined that certain sales commissions meet the requirements to be capitalized and have been recorded as an asset upon the Company’s adoption of ASC 606. As a result of the customers being assigned to A BEEP and Goosetown (see Note 3 below), the Company’s capitalized sales commissions were impaired on April 1, 2019.

Stock Compensation

The Company accounts for stock options in accordance with US GAAP, which requires the measurement and recognition of compensation expense, based on the estimated fair value of awards granted to consultants, employees and directors. The Company estimates the fair value of share-based awards on the date of grant using an option-pricing model. The value of the portion of the award that is ultimately expected to vest is recognized as expense in the Company’s statements of operations over the requisite service periods. In the event the participant’s employment by or engagement with (as a director or otherwise) the Company terminates before exercise of the options granted, the stock options granted to the participant shall immediately expire and all rights to purchase shares thereunder shall immediately cease and expire and be of no further force or effect, other than applicable exercise rights for vested shares that may extend past the termination date as provided for in the participant’s applicable option award agreement. Additionally, the Compensation Committee adopted an Executive Severance Plan (the “Severance Plan”) in February 2015, which was amended in February 2019, and the Company subsequently entered into Severance Plan Participation Agreements with its executive officers and certain key employees. In addition to providing participants with severance payments, the Severance Plan provides for accelerated vesting and extends the exercise period for outstanding equity awards if the Company terminates a participant’s service for reasons other than cause, death or disability or the participant terminates his or her service for good reason, whether before or after a change of control (each of such terms as defined in the Severance Plan).

To calculate option-based compensation, the Company uses the Black-Scholes option-pricing model. The Company’s determination of fair value of option-based awards on the date of grant using the Black-Scholes model is affected by assumptions regarding a number of subjective variables.

The fair value of restricted stock, restricted stock units and performance units are measured based upon the quoted closing market price for the stock on the date of grant. The compensation cost for the restricted stock and restricted stock units is recognized on a straight-line basis over the vesting period. The compensation cost for the performance units is recognized when the performance criteria are expected to be complete.

No tax benefits have been attributed to the share-based compensation expense because the Company maintains a full valuation allowance for all net deferred tax assets.

Accounting for Uncertainty in Income Taxes

The Company recognizes the effect of tax positions only when they are more likely than not to be sustained. Management has determined that the Company had no uncertain tax positions that would require financial statement recognition or disclosure. The Company is no longer subject to U.S. federal, state or local income tax examinations for periods prior to 2016. The Company recognizes interest and penalties related to unrecognized tax benefits as a component of income tax expense.

Net Loss Per Share of Common Stock

Basic net loss per common share is calculated by dividing the net loss attributable to common stockholders by the weighted-average number of common shares outstanding during the period, without consideration for potentially dilutive securities. For purposes of the diluted net loss per share calculation, preferred stock, stock options, restricted stock and warrants are considered to be potentially dilutive securities. Because the Company has reported a net loss for the three months and nine months ended December 31, 2019 and 2018, respectively, diluted net loss per common share is the same as basic net loss per common share for those periods.

Common stock equivalents resulting from potentially dilutive securities approximated 1,396,000 and 1,386,000 at December 31, 2019 and 2018, respectively, and have not been included in the dilutive weighted average shares of common stock outstanding, as their effects are anti-dilutive.

Recently Issued Accounting Pronouncements

In June 2016, the FASB issued ASC 326, *Financial Instruments - Credit Losses* and has subsequently modified several areas of the standard in order to provide additional clarity and improvements. The new standard requires entities to use a Current Expected Credit Loss impairment model based on expected losses rather than incurred losses. Under this model, an entity would recognize an impairment allowance equal to its current estimate of all contractual cash flows that the entity does not expect to collect from financial assets measured at amortized cost within the scope of the standard. The entity's estimate would consider relevant information about past events, current conditions and reasonable and supportable forecasts, which will result in recognition of lifetime expected credit losses. As a smaller reporting company, the standard will be effective for the Company's fiscal year beginning January 2023, including interim reporting periods within that fiscal year, although early adoption is permitted. The Company is evaluating the potential impact that ASC 326 and subsequent modifications may have on its consolidated financial statements.

Other accounting standards that have been issued or proposed by the FASB or other standard-setting bodies that do not require adoption until a future date are not expected to have a material impact on the Company's consolidated financial statements upon adoption.

Recently Adopted Accounting Pronouncements

Accounting for Leases

In February 2016, the FASB issued ASC 842, which sets out the principles for the recognition, measurement, presentation and disclosure of leases for both lessees and lessors. Originally, entities were required to adopt ASU 2016-02 using a modified retrospective approach at the beginning of the earliest comparative period presented in the financial statements and the recognition of a cumulative-effect adjustment to the opening balance of retained earnings. The FASB subsequently issued ASU 2018-10 and ASU 2018-11 in July 2018, which provide clarifications and improvements to ASU 2016-02 (collectively, the "new lease standard"). ASU 2018-11 also provides the optional transition method which allows companies to apply the new lease standard at the adoption date instead of at the earliest comparative period presented and continue to apply the provisions of the previous lease standard in its annual disclosures for the comparative periods. The new lease standard requires lessees to present a ROU asset and a corresponding lease liability on the balance sheet. Lessor accounting is substantially unchanged compared to the current accounting guidance. Additional footnote disclosures related to leases will also be required.

On April 1, 2019, the Company adopted the new lease standard using the optional transition method. The comparative financial information will not be restated and will continue to be reported under the previous lease standard in effect during those periods. In addition, the new lease standard provides a number of optional practical expedients in transition. The Company elected the package of practical expedients. As such, the Company will not reassess whether expired or existing contracts are or contain a

lease; will not need to reassess the lease classifications or reassess the initial direct costs associated with expired or existing leases. The Company did not elect the use of hindsight or the practical expedient pertaining to land easements; the latter not being applicable to the Company.

The new lease standard also provides practical expedients for an entity's ongoing accounting. The Company elected the short-term lease recognition exemption for all leases that qualify. This means, for those leases that qualify, the Company will not recognize ROU assets or lease liabilities, including not recognizing ROU assets or lease liabilities for existing short-term leases of those assets in transition. The Company elected the practical expedient to not separate lease and non-lease components for certain classes of assets (office buildings).

On April 1, 2019, the Company recognized ROU assets of \$7.1 million and lease liabilities of approximately \$9.4 million, derecognized deferred rent liabilities of approximately \$2.3 million and did not record an adjustment to accumulated deficit. As of March 31, 2019, deferred rent liabilities were reported under accounts payable and accrued expenses – other amounting to \$0.2 million and non-current other liabilities amounting to \$2.1 million. When measuring lease liabilities for leases that were classified as operating leases, the Company discounted lease payments using its estimated incremental borrowing rate at April 1, 2019. The weighted average incremental borrowing rate applied was 13%. The Company's adoption of the new lease standard did not impact its consolidated statements of operations and its statements of cash flows. No cumulative effect adjustment was recognized as the amount was not material. See Note 9 – Leases for further discussion, including the impact on the Company's consolidated financial statements and required disclosures.

Stock Compensation

In June 2018, the FASB issued ASU No. 2018-07, *Compensation – Stock Compensation (Topic 718) – Improvements to Nonemployee Share-based Payment Accounting*. ASU 2018-07 addresses several aspects of the accounting for nonemployee share-based payment transactions, including share-based payment transactions for acquiring goods and services from nonemployees. ASU 2018-07 is effective for the Company's fiscal year 2020 beginning April 1, 2019. As a result of adopting the ASU on April 1, 2019, the Company reduced its accumulated deficit by \$188,000. See Note 11 – Stock Acquisition Rights, Stock Options and Warrants for further discussion, including the impact on the Company's consolidated financial statements and required disclosures.

3. Revenue

On April 1, 2018, the Company adopted ASC 606 using the modified retrospective method and recognized the cumulative effect of initially applying the guidance as an adjustment to the opening balance of retained deficit. The Company applied the new revenue standard to new and existing contracts that were not complete as of the date of initial application. As a result of applying this standard using the modified retrospective method, the Company has presented financial results and applied its accounting policies for the period beginning April 1, 2018 under ASC 606, while prior period results and accounting policies have not been adjusted and are reflected under legacy GAAP pursuant to Accounting Standard Codification 605.

In December 2018, the Company's board of directors approved the transfer of its TeamConnect business and support for its pdvConnect business to help reduce operating costs and to allow the management team and the Company to focus on its FCC initiatives and future broadband opportunities. Specifically, the Company entered into: (i) a Customer Acquisition and Resale Agreement with A BEEP LLC ("A BEEP") on January 2, 2019, (ii) a Customer Acquisition, Resale and Licensing Agreement with Goosetown Enterprises, Inc. ("Goosetown") on January 2, 2019 and (iii) a memorandum of understanding ("MOU") with the principals of Goosetown on December 31, 2018. Under the A BEEP and Goosetown Agreements, the Company agreed to: (i) transfer its TeamConnect customers located in the Atlanta, Chicago, Dallas, Houston and Phoenix metropolitan markets to A BEEP, (ii) transfer its TeamConnect customers located in the Baltimore/Washington DC, Philadelphia and New York metropolitan markets to Goosetown, (iii) provide A BEEP and Goosetown with access to the TeamConnect Metro and Campus Systems (the, "MotoTRBO Systems ") and (iv) grant A BEEP and Goosetown the right to resell access to the MotoTRBO Systems pursuant to separate Mobile Virtual Network Operation arrangements for a two-year period. The Company also granted Goosetown a license to sell the business applications the Company developed for its TeamConnect service. On March 31, 2019, the agreements were amended to formally set the transition date for the businesses as April 1, 2019 and to clarify the responsibilities between the parties.

Under these agreements, A BEEP and Goosetown agreed to provide customer care, billing and collection services for their respective acquired customers. The Company continued to provide these services through April 1, 2019 to help facilitate the transitioning of the acquired customers. Additionally, the Company is required to maintain and pay all site lease, backhaul and utility costs required to operate the MotoTRBO Systems for a two-year period. As part of the Company's efforts to clear the 900 MHz spectrum for broadband use, A BEEP and Goosetown are required to migrate the acquired customers off the

MotoTRBO Systems over the two-year period. In consideration for the customers and rights the Company transferred, A BEEP and Goosetown are required to pay a certain portion of the recurring revenues they receive from the acquired customers ranging from 100% to 20% during the terms of the agreements. Additionally, A BEEP is required to pay the Company a portion of recurring revenue from customers who utilize A BEEP's push-to-talk Diga-talk Plus application service ranging from 35% to 15% for a period of two years. Goosetown is required to pay the Company 20% of recurring revenues from the TeamConnect applications it licensed for a period of two years.

Service Revenue. The Company has historically derived its service revenue from a fixed monthly recurring unit price per user, with 30-day payment terms, for the pdvConnect, TeamConnect and Diga-talk service offerings.

pdvConnect is a proprietary cloud-based mobile resource management solution which has historically been sold as a separate software-as-a-service offering for dispatch-centric business customers who utilize Tier 1 cellular networks, and to a lesser extent, who utilize land mobile radio networks not operated by the Company. *pdvConnect* was historically sold directly by the Company or through two Tier 1 domestic carriers. The service is contracted and billed on a month-to-month basis, and the Company satisfies its performance obligation over time as the services are delivered.

TeamConnect combines *pdvConnect* with push-to-talk ("PTT") mobile communication services involving digital network architecture and mobile devices. The contract period for the *TeamConnect* service varies from a month-to-month basis to 24 months. The customer is billed at the beginning of each month of the contract term. The Company recognizes revenue as it satisfies its performance obligation over time as the services are delivered. On April 1, 2019, these customers were transitioned to A BEEP and Goosetown. A BEEP and Goosetown agreed to pay the Company a certain portion of the recurring revenues during the term of the agreements. While the customer remains on the Company's MotoTRBO Systems, the portion of recurring revenues paid by A BEEP and Goosetown is recorded as revenue.

Diga-talk is a mobile communications offering that was being resold by the Company for the three and nine months ended December 31, 2018. The service was contracted and billed on a month-to-month basis. The determination was made that the Company was the principal in this reseller arrangement since the customer viewed the Company as fulfilling the performance obligations and therefore, recorded revenue on a gross basis over time upon delivery of the services. On April 1, 2019, these customers were transferred to A BEEP and the Company no longer has revenue for this offering.

Spectrum Revenue. In September 2014, Motorola paid the Company an upfront, fully-paid fee of \$7.5 million in order to use a portion of the Company's wireless spectrum licenses. The payment of the fee is accounted for as deferred revenue on the Company's consolidated balance sheets and is recognized ratably as the service is provided over the contractual term of approximately ten years. The revenue recognized for the three and nine months ended December 31, 2019 and 2018 were approximately \$183,000 and \$547,000, respectively.

Other Revenue. The Company historically derived other revenue primarily from either the sale of radios and accessories for *TeamConnect* and *Diga-talk* as well as the rental of radios for *TeamConnect* based on 30-day payment terms. The Company recognized radio and accessory revenue when a customer takes possession of the device. As of April 1, 2019 and the transition of customers to A BEEP and Goosetown, the Company no longer sells radios and accessories nor rents radios for *TeamConnect*.

Contract Assets. Contract assets includes the portion of the Company's future service invoices which has been allocated to the discounted price of the radios and amortized as a reduction against service revenue over the contract period.

The Company also recognized a contract asset for the incremental costs of obtaining a contract with a customer. These costs include commissions for sales people and commissions paid to third-party dealers. These costs are amortized ratably using the portfolio approach over the estimated customer contract period. The Company reviews the contract asset on a periodic basis to determine if an impairment exists. If it is determined that there was an impairment, the contract asset will be expensed. Under the previous accounting standard, the Company expensed commissions as incurred.

As a result of the customers being transferred to A BEEP and Goosetown, all contract and contract acquisition costs were impaired. The Company increased direct cost of revenue amounting to \$178,000 for the nine months ended December 31, 2019, and sales and support expense amounting to \$258,000 for the nine months ended December 31, 2019.

[Table of Contents](#)

The following table presents the activity for the Company's contract assets (in thousands):

	Contract Assets	
Balance at March 31, 2019	\$	436
Impairment		(436)
Balance at December 31, 2019	\$	—

Contract liabilities. Contract liabilities primarily relate to advance consideration received from customers for spectrum services, for which revenue is recognized over time, as the services are performed. These contract liabilities are recorded as deferred revenue on the balance sheet. The related liability as of March 31, 2019 of \$4.2 million has been reduced by revenue recognized in the nine months ended December 31, 2019 of \$0.6 million leaving a remaining liability of \$3.6 million as of December 31, 2019.

4. Property and Equipment

Property and equipment consists of the following at December 31, 2019 and March 31, 2019 (in thousands):

	<u>Estimated useful life</u>	<u>December 31, 2019</u>	<u>March 31, 2019</u>
Network sites and equipment	5-10 years	\$ 16,187	\$ 15,954
Furniture and fixture and other equipment	2-5 years	291	1,026
Computer equipment	5-7 years	143	140
Computer software	1-7 years	480	28
Leasehold improvements	Shorter of the lease term or 10 years	234	351
		<u>17,335</u>	<u>17,499</u>
Less accumulated depreciation		<u>9,333</u>	<u>7,952</u>
		8,002	9,547
Construction in process		86	283
Property and equipment, net		<u>\$ 8,088</u>	<u>\$ 9,830</u>

Depreciation expense for the three months ended December 31, 2019 and 2018 amounted to \$1.1 million and \$0.7 million, respectively. The depreciation expense for the nine months ended December 31, 2019 and 2018 amounted to \$2.4 million and \$2.1 million, respectively. During the three months ended December 31, 2019, the Company adjusted the estimated asset retirement obligations and useful life for its network sites, resulting in additional non-cash capitalized costs in network sites amounting to \$0.5 million and depreciation expense of \$0.5 million for the three and nine months ended December 31, 2019.

During the nine months ended December 31, 2018, the Company recorded a \$0.7 million non-cash charge for long-lived asset impairment of its radio assets to reduce the carrying value to the estimated recoverable amount. During the three and nine months ended December 31, 2019, the Company recorded a \$22,000 non-cash impairment charge for network sites and equipment to reduce the carrying values to zero.

Computer software includes software developed or obtained for internal use during the application development stage with an estimated useful life of 5 to 7 years. Leasehold improvements include certain allowances for tenant improvements related to the expansion of the Company's corporate headquarters.

On September 30, 2019, the Company transferred network, computer and other equipment with a net book value of \$72,000 used to support the pdvConnect application services in exchange for a 19.5% ownership interest to the LLC.

5. Intangible Assets

Wireless licenses are considered indefinite-lived intangible assets. Indefinite-lived intangible assets are not subject to amortization but instead are tested for impairment annually, or more frequently if an event indicates that the asset might be impaired. There were no impairment charges related to the Company's indefinite-lived intangible assets during the three and nine months ended December 31, 2019 and 2018.

During the nine months ended December 31, 2019, the Company entered into an agreement with a third party to acquire wireless licenses for cash consideration of \$0.8 million, upon FCC approval.

Intangible assets consist of the following at December 31, 2019 and March 31, 2019 (in thousands):

	<u>Wireless Licenses</u>	
Balance at March 31, 2019	\$	107,548
Acquisitions		792
Reclassified to property and equipment		(5)
Balance at December 31, 2019	\$	<u>108,335</u>

6. Equity Method Investment

In connection with the transfer of its TeamConnect business and support for its pdvConnect business, the Company entered into a memorandum of understanding (“MOU”) with the principals of Goosetown on December 31, 2018. Under the MOU, the Company agreed to assign the intellectual property rights to its pdvConnect application to the LLC, a new entity formed by the principals of Goosetown, in exchange for a 19.5% ownership interest in the LLC, effective April 30, 2019. The Goosetown principals have agreed to fund the future operations of the LLC, subject to certain limitations. The LLC has assumed the Company’s software support and maintenance obligations under the Goosetown and A BEEP Agreements. The LLC has also assumed customer care services related to the Company’s pdvConnect application. The Company provided transition services to the LLC through April 1, 2019 to facilitate an orderly transition of the customer care services.

As of September 30, 2019, the Company transferred network, computer and other equipment with a net book value of \$72,000, and recorded an investment in the LLC amounting to \$14,000 and loss on disposal of assets amounting to \$58,000 relating to the transfer of the assets as of such date. As of December 31, 2019, the Company also completed the transfer of the intellectual property rights with a net book value of \$174,000 to the LLC and recorded an investment in the LLC amounting to \$34,000 and loss on disposal of capitalized patent costs amounting to \$140,000 relating to the transfer of the intellectual property.

During the nine months ended December 31, 2019, the change in the carrying value of the investment in the LLC is summarized as follows (in thousands):

	<u>Equity Method Investment</u>	
Equity method investment carrying value at March 31, 2019	\$	—
Contribution		48
Share of net loss from LLC		(8)
Equity method investment carrying value at December 31, 2019	\$	<u>40</u>

7. Related Party Transactions

As of March 31, 2019, the Company owed \$5,000 to a consultant firm who is an affiliate of a significant holder of the Company. No such services were provided and owed to the consulting firm for the three and nine months ending December 31, 2019. During the three and nine months ended December 31, 2018, the Company incurred \$136,000 in consulting fees to a consultant firm who is an affiliate of a significant shareholder of the Company.

The Company purchased \$11,000 of equipment from Motorola for the nine months ended December 31, 2019. The Company did not purchase any equipment for the three months ended December 31, 2019. The Company purchased \$0.2 million and \$0.4 million of equipment from Motorola for the three and nine months ended December 31, 2018, respectively. The Motorola revenue recognized for the three and nine months ended December 31, 2019 and 2018 were approximately \$183,000 and \$547,000, respectively. As of December 31, 2019 and March 31, 2019, the Company owed \$90,000 and \$60,000 to Motorola, respectively.

Under the terms of the MOU, the Company is obligated to pay the LLC a monthly service fee for a 24-month period ending on January 7, 2021 for its assumption of the Company’s support obligations under the A BEEP and Goosetown agreements. The Company is also obligated to pay the LLC a certain portion of the billed revenue received by the Company from pdvConnect customers for a 48-month period. For the three and nine months ended December 31, 2019, the Company incurred \$215,000 and \$729,000 under the MOU, respectively. As of December 31, 2019 and March 31, 2019, the Company owed \$16,000 and \$118,000 to the LLC, respectively.

8. Impairment and Restructuring Charges

Long-lived Assets and Right of Use Assets Impairment.

During the nine months ended December 31, 2018, the Company reviewed assets designated for its TeamConnect business. As a result of the Company’s transfer of the TeamConnect business, it determined that the carrying value of radios and related accessories were not fully recoverable. As a result, the Company recorded a non-cash asset impairment charge of \$0.2 million and \$0.7 million in the three and nine months ending December 31, 2018, respectively, to reduce the carrying value of these assets to zero.

During the three and nine months ended December 31, 2019, the Company recorded a \$33,000 non-cash impairment charge for long-lived assets consisting of \$22,000 for property and equipment and \$11,000 for a right of use asset to reduce the carrying values to zero.

Restructuring Charges.

April 2018 and June 2018 restructuring activities. In April 2018, the Company announced a shift in its focus and resources in order to pursue its regulatory initiatives at the FCC and prepare for the future deployment of broadband and other advanced technologies and services. In light of this shift in focus, the Company’s board of directors also approved a chief executive officer transition plan, under which, John Pescatore, the Company’s chief executive officer and president, transitioned to the position of vice chairman and Morgan O’Brien, the Company’s then-current vice chairman, assumed the position as the new chief executive officer. In connection with the transition, the Company and Mr. Pescatore entered into a Continued Service, Consulting and Transition Agreement and a separate Consulting Agreement (the “CEO Transition Agreements”) and the Company also entered into additional consulting and transition agreements with several other key employees.

On June 1, 2018, the Company’s board of directors approved an initial plan to restructure its business aimed at reducing the operating costs of its TeamConnect and pdvConnect businesses and better aligning and focusing its business priorities on its spectrum initiatives. As part of the restructuring plan, the Company eliminated approximately 20 positions, or 20% of its workforce, primarily from its TeamConnect and pdvConnect businesses. In August 2018, the Company continued with its restructuring efforts and eliminated approximately seven additional positions.

For the nine months ended December 31, 2019, total accrued restructuring charges for the April 2018 and June 2018 restructuring activities were as follows (in thousands):

	Restructuring Activities
Balance at March 31, 2019	\$ 2,655
Cash payments	(1,577)
Balance at December 31, 2019 (classified as current liabilities - restructuring reserve)	<u>\$ 1,078</u>

December 2018 cost reductions. On December 31, 2018, the Company’s board of directors approved the following cost reduction actions: (i) the elimination of approximately 20 positions, or 30% of the Company’s workforce and (ii) the closure of its office in San Diego, California (collectively, the “December 2018 Cost-Reduction Actions”). For the three and nine months ended December 31, 2019, the Company recorded an additional restructuring charge relating to the December 2018 Cost-Reduction Actions amounting to \$34,000 and \$206,000, respectively, related to employee severance and benefit costs. For the nine months ended December 31, 2019, the Company reduced the facility exit costs accrual for our San Diego, California office by approximately \$28,000. An additional \$57,000 of restructuring charges will be incurred approximately through the third quarter of fiscal 2021 related to employee retention costs. The Company completed the cost reduction and restructuring actions in July 31, 2019, and the related cash payments for severance costs was completed by the end of August 31, 2019.

For the nine months ended December 31, 2019, total December 2018 cost reduction charges were as follows (in thousands):

	Restructuring Activities
Balance at March 31, 2019	\$ 679
Severance costs	206
Facility exit	(28)
Cash payments	(699)
Balance at December 31, 2019	<u>158</u>
Less amount classified as current liabilities - restructuring reserve	101
Noncurrent liabilities - included in other liabilities	<u>\$ 57</u>

9. Leases

A lease is defined as a contract that conveys the right to control the use of identified property, plant or equipment for a period of time in exchange for consideration. On April 1, 2019, the Company adopted ASC 842 and it primarily affected the accounting treatment for operating lease agreements in which the Company is the lessee.

Substantially all of the leases in which the Company is the lessee are comprised of corporate office space and tower space. The Company is obligated under certain lease agreements for office space with lease terms expiring on various dates from October 14, 2025 through June 30, 2027, which includes a ten-year lease extension for its corporate headquarters. The Company entered into multiple lease agreements for tower space related to its TeamConnect business. The lease expiration dates range from April 16, 2020 to June 30, 2026.

Substantially all of the Company's leases are classified as operating leases, and as such, were previously not recognized on the Company's Consolidated Balance Sheet. With the adoption of Topic 842, operating lease agreements are required to be recognized on the Consolidated Balance Sheet as ROU assets and corresponding lease liabilities.

On April 1, 2019, the Company recognized ROU assets of \$7.1 million and lease liabilities of approximately \$9.4 million, and derecognized deferred rent liabilities of approximately \$2.3 million. As of March 31, 2019, deferred rent liabilities were reported under accounts payable and accrued expenses – other amounting to \$0.2 million and non-current other liabilities amounting to \$2.1 million. The Company elected not to recognize ROU assets and lease liabilities arising from short-term office leases, leases with initial terms of twelve months or less (deemed immaterial) on the Consolidated Balance Sheets.

ROU assets include any prepaid lease payments and exclude any lease incentives and initial direct costs incurred. Lease expense for minimum lease payments is recognized on a straight-line basis over the lease term. The lease terms may include options to extend or terminate the lease if it is reasonably certain that the Company will exercise that option.

During the three and nine months ended December 31, 2019, the Company recorded a \$11,000 non-cash charge impairment for an ROU asset to reduce the carrying value to zero. The lease relating to the ROU asset impaired will expire on June 2020.

When measuring lease liabilities for leases that were classified as operating leases, the Company discounted lease payments using its estimated incremental borrowing rate at April 1, 2019. The weighted average incremental borrowing rate applied was 13%. As of December 31, 2019, the Company's leases had a remaining weighted average term of 5.19 years.

Rent expense amounted to approximately \$0.7 million and \$2.0 million for the three and nine months ended December 31, 2019, respectively. Total rent expense amounted to approximately \$0.6 million and \$2.0 million for the three and nine months ended December 31, 2018 respectively.

The following table presents net lease cost (in thousands):

	Three Months Ended	Nine Months Ended
	December 31, 2019	December 31, 2019
Lease cost		
Operating lease cost (cost resulting from lease payments)	\$ 662	\$ 1,952
Short term lease cost	10	42
Sublease income	(4)	(13)
Net lease cost	<u>\$ 668</u>	<u>\$ 1,981</u>

The following table presents other supplemental lease information (in thousands):

	Nine Months Ended
	December 31, 2019
Operating lease - operating cash flows (fixed payments)	\$ 2,012
Operating lease - operating cash flows (liability reduction)	\$ 1,044
Right of use assets obtained in exchange for new operating lease liabilities	\$ 7,904
Non-current assets - right of use assets, net	\$ 6,841
Current liabilities - operating lease liabilities	\$ 1,706
Non-current liabilities - operating lease liabilities	\$ 7,442

Future minimum payments under non-cancelable leases for office and tower spaces (exclusive of real estate tax, utilities, maintenance and other costs borne by the Company), for the remaining terms of the leases following the nine months ended December 31, 2019 are as follows (in thousands):

Fiscal Year	Operating
	Leases
2020 (excluding the nine months ended December 31, 2019)	\$ 710
2021	2,670
2022	2,265
2023	2,098
2024	1,893
After 2024	3,061
Total future minimum lease payments	12,697
Amount representing interest	(3,549)
Present value of net future minimum lease payments	\$ 9,148

10. Income Taxes

On December 22, 2017, new federal tax provisions under the Tax Cuts and Jobs Act of 2017 (“TCJA”) were signed into law. The TCJA includes numerous changes to existing corporate income tax laws. These changes include, among others, a permanent reduction in the federal corporate income tax rate from the highest marginal rate of 35% to a fixed rate of 21%, effective as of January 1, 2018, and a provision that federal net operating losses (“NOLs”) incurred in tax years ending after December 31, 2017 may be carried forward indefinitely. As a result, the Company may now consider indefinite lived assets and the associated deferred tax liability as a source of future taxable income when assessing the potential to realize future tax deductions from indefinite carryforwards of NOLs and interest expense.

As of March 31, 2018, the Company had federal and state NOL carryforwards of approximately \$125.7 million and \$51.3 million, respectively, expiring in various amounts from 2019 through 2037, to offset future taxable income. Per the TCJA, federal and TCJA-adhering state NOLs of approximately \$34.1 million and \$4.4 million, respectively, generated in fiscal year ended March 31, 2018 can be carried forward indefinitely and are not subject to the 80% of taxable income NOL deduction limitation. As of March 31, 2019, the Company had federal and state NOL carryforwards of approximately \$164.0 million and \$74.0 million, respectively, expiring in various amounts from 2020 through 2037, to offset future taxable income. Federal and state NOLs of approximately \$72.6 million and \$10.3 million, respectively, can be carried forward indefinitely but a portion of federal and state NOLs of approximately \$38.5 million and \$6.0 million, respectively, is limited to 80% of future taxable income when used. For the nine months ended December 31, 2019, the Company incurred federal and state operating losses of approximately \$28.6 million and \$17.0 million, respectively, to offset future taxable income, of which \$33.0 million can be carried forward indefinitely, but can only offset 80% of taxable income when used.

The Company used a discrete effective tax rate method to calculate taxes for the three- and nine-month ended December 31, 2019. The Company determined that applying an estimate of the annual effective tax rate would not provide a reasonable estimate as small changes in estimated “ordinary” loss would result in significant changes in the estimated annual effective tax rate. Accordingly, for the nine months ending December 31, 2019, the Company recorded a total deferred tax expense of \$594,000 due to the inability to use some portion of federal and state NOL carryforwards against the deferred tax liability created by the amortization of indefinite-lived intangibles.

11. Stock Acquisition Rights, Stock Options and Warrants

The Company established the 2014 Stock Plan (the “2014 Stock Plan”) to attract, retain and reward individuals who contribute to the achievement of the Company’s goals and objectives. This 2014 Stock Plan superseded previous stock plans although under such previous plans, 23,550 stock option shares were outstanding and vested as of December 31, 2019.

The Company’s board of directors has reserved 3,805,223 shares of common stock for issuance under its 2014 Stock Plan as of December 31, 2019, of which 801,273 shares are available for future issuance. The number of shares will continue to automatically increase each January 1 through January 1, 2024 by an amount equal to the lesser of (i) 5% of the number of shares of common stock issued and outstanding on the immediately preceding December 31 or (ii) a lesser amount determined by the board of directors. Effective January 1, 2020, the board of directors elected to increase the shares authorized under the 2014 Stock Plan by 342,762 shares which represented 2% of the of the common stock issued and outstanding as of December 31, 2019.

Restricted Stock and Restricted Stock Units

A summary of non-vested restricted stock activity for the nine months ended December 31, 2019 is as follows:

	Restricted Stock	Weighted Average Grant Day Fair Value
Non-vested restricted stock outstanding at March 31, 2019	279,212	\$ 28.71
Granted	175,068	42.10
Forfeited	(2,163)	(22.85)
Vested	(99,533)	(28.51)
Non-vested restricted stock outstanding at December 31, 2019	<u>352,584</u>	<u>\$ 35.45</u>

The Company recognizes compensation expense for restricted stock on a straight-line basis over the explicit vesting period. Vested restricted stock units are settled and issuable upon the earlier of the date the employee ceases to be an employee of the Company or a date certain in the future. Stock compensation expense related to restricted stock was approximately \$1.1 million and \$3.1 million for the three and nine months ended December 31, 2019, respectively. Stock compensation expense related to restricted stock was approximately \$0.7 million and \$3.4 million for the three and nine months ended December 31, 2018, respectively, which included \$1.4 million of expense related to the modification of restricted stock held by the Company’s former chief executive officer and president and several other key employees which were accounted for in restructuring costs.

In June 2018, the FASB issued ASU No. 2018-07, *Compensation – Stock Compensation (Topic 718) – Improvements to Nonemployee Share-based Payment Accounting*. ASU 2018-07 addresses several aspects of the accounting for nonemployee share-based payment transactions, including share-based payment transactions for acquiring goods and services from nonemployees. ASU 2018-07 is effective for the Company’s fiscal year 2020 beginning April 1, 2019. As a result of adopting the ASU on April 1, 2019, the Company reduced its accumulated deficit by \$14,000 relating to restricted stock.

Stock compensation expense for restricted stock is accounted for in general and administrative expense in the Company’s Consolidated Statement of Operations. At December 31, 2019, there was \$9.8 million of unvested compensation expense for restricted stock, which is expected to be recognized over a weighted average period of 2.95 years.

Performance Stock Units

During the three and nine months ended December 31, 2019, the Company awarded 11,307 performance stock units under the 2014 Stock Plan. Outstanding performance stock units represent the number of shares of the Company’s common stock that the recipient would receive upon the Company’s attainment of the applicable performance goals. The performance goals are: prior to January 13, 2020, (A) issuance of a Final Order from the FCC providing for the creation and allocation of licenses for spectrum in the 900 MHz band consisting of paired blocks of contiguous spectrum, each containing at least 3 MHz of contiguous spectrum, authorized for broadband wireless communications uses and (B) the lack of objection by the Company’s board of directors to the terms and conditions (including, but not limited to, the rebanding, clearing and relocation procedures, license assignment and award mechanisms, and technical and operational rules) set forth or referenced in the Final Order. These awards do not forfeit.

A summary of the performance stock unit activity for the nine months ended December 31, 2019 is as follows:

	Performance Stock	Weighted Average Grant Day Fair Value
Performance stock outstanding at March 31, 2019	109,138	\$ 23.80
Granted	11,307	38.67
Forfeited	—	—
Vested	—	—
Performance stock outstanding at December 31, 2019	120,445	\$ 25.19

For the three and nine months ended December 31, 2019 and 2018, there was no stock compensation expense recognized for the performance units. At December 31, 2019, there was approximately \$3.0 million of unvested compensation expense related to the outstanding performance stock units.

Stock Options

A summary of stock option activity for the nine months ended December 31, 2019 is as follows:

	Options	Weighted Average Exercise Price
Options outstanding at March 31, 2019	1,923,634	\$ 23.64
Options granted	—	—
Options exercised	(97,323)	(21.78)
Options forfeited/expired	(10,875)	(48.23)
Options outstanding at December 31, 2019	1,815,436	\$ 23.54

There were no options granted for the three and nine months ended December 31, 2019.

Performance Stock Options

A summary of the performance stock options as of December 31, 2019 is as follows:

	Performance Options	Weighted Average Exercise Price
Performance Options outstanding at March 31, 2019	179,945	\$ 25.83
Performance Options granted	—	—
Performance Options exercised	—	—
Performance Options forfeited/expired	—	—
Performance Options outstanding at December 31, 2019	179,945	\$ 25.83

The performance options will vest in full immediately upon attainment of the performance goals. The performance goals are: prior to January 13, 2020, (A) issuance of a Final Order from the FCC providing for the creation and allocation of licenses for spectrum in the 900 MHz band consisting of paired blocks of contiguous spectrum, each containing at least 3 MHz of contiguous spectrum, authorized for broadband wireless communications uses and (B) the lack of objection by the Company's Board of Directors to the terms and conditions (including, but not limited to, the rebanding, clearing and relocation procedures, license assignment and award mechanisms, and technical and operational rules) set forth or referenced in the Final Order.

Stock compensation expense related to the amortization of the fair value of stock options (other than the performance stock options) issued was approximately \$0.3 million and \$1.3 million for the three and nine months ended December 31, 2019. For the three and nine months ended December 31, 2018, the comparable stock compensation expense was approximately \$0.7 million and \$5.6 million, respectively, which included \$1.1 million of expense related to the consulting and transition agreements and \$2.1 million of expense related to the modification of option grants held by the Company's former chief executive officer and president. The stock compensation expense is included in general and administrative expense in the accompanying Consolidated Statement of Operations.

In June 2018, the FASB issued ASU No. 2018-07, *Compensation – Stock Compensation (Topic 718) – Improvements to Nonemployee Share-based Payment Accounting*. ASU 2018-07 addresses several aspects of the accounting for nonemployee

share-based payment transactions, including share-based payment transactions for acquiring goods and services from nonemployees. ASU 2018-07 is effective for the Company's fiscal year 2020 beginning April 1, 2019. As a result of adopting the ASU on April 1, 2019, the Company reduced its accumulated deficit by \$174,000 relating to stock options.

As of December 31, 2019, there was approximately \$2.8 million of unrecognized compensation cost related to non-vested stock options granted under the Company's stock option plans, of which \$2.0 million pertains to the non-performance based stock options which is expected to be recognized over a weighted-average period of 2 years.

Motorola Investment

On September 15, 2014, Motorola invested \$10.0 million to purchase 500,000 Class B Units of the Company's subsidiary, PDV Spectrum Holding Company, LLC (at a price equal to \$20.00 per unit). The Company owns 100% of the Class A Units in this subsidiary. Motorola has the right at any time to convert its 500,000 Class B Units into 500,000 shares of the Company's common stock. The Company also has the right to force Motorola's conversion of these Class B Units into shares of its common stock at its election. Motorola is not entitled to any assets, profits or distributions from the operations of the subsidiary. In addition, Motorola's conversion ratio from Class B Units to shares of the Company's common stock is fixed on a one-for-one basis, and is not dependent on the performance or valuation of either the Company or the subsidiary. The Class B Units have no redemption or call provisions and can only be converted into shares of the Company's common stock. Management has determined that this investment does not meet the criteria for temporary equity or non-controlling interest due to the limited rights that Motorola has as a holder of Class B Units, and accordingly has presented this investment as part of its permanent equity within Additional Paid-in Capital in the accompanying consolidated financial statements.

12. Contingencies

Litigation

From time to time, the Company may be involved in litigation that arises from the ordinary operations of the business, such as contractual or employment disputes or other general actions. The Company is not involved in any material legal proceedings at this time.

13. Concentrations of Credit Risk

Financial instruments that potentially expose the Company to concentrations of credit risk consist primarily of cash and cash equivalents and trade accounts receivable.

The Company places its cash and temporary cash investments with financial institutions for which credit loss is not anticipated.

As of December 31, 2019, the Company sells its pdvConnect product and extends credit predominately to one third-party carrier. The Company maintains allowances for doubtful accounts based on factors surrounding the write-off history, historical trends, and other information.

14. Business Concentrations

For the three and nine months ended December 31, 2019, the Company had one domestic carrier and one reseller that accounted for approximately 23% of total operating revenues, respectively. For the three and nine months ended December 31, 2018, the Company had one domestic carrier that accounted for approximately 21% and 28% of operating revenues, respectively.

As of December 31, 2019, the Company had one domestic carrier and one reseller that accounted for approximately 87% of total accounts receivable. As of March 31, 2019, the Company had one domestic carrier that accounted for approximately 31% of accounts receivable.

Item 2: Management’s Discussion and Analysis of Financial Condition and Results of Operations

This discussion and analysis of the financial condition and results of operations of Anterix Inc. (“Anterix,” the “Company,” “we,” “us,” or “our”) should be read in conjunction with our financial statements and notes thereto included in this Quarterly Report on Form 10-Q (the “Form 10-Q”) and the audited financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended March 31, 2019, filed with the SEC on May 20, 2019 (the “Annual Report”). In addition to historical information, this discussion and analysis contains forward-looking statements that involve risks, uncertainties, and assumptions. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of certain factors including, but not limited to, those identified or referenced in “Item 1A—Risk Factors” in Part II of this Form 10-Q. As a result, investors are urged not to place undue reliance on any forward-looking statements. Except to the limited extent required by applicable law, we do not undertake any obligation to update forward-looking statements to reflect events or circumstances occurring after the date of this Form 10-Q.

Overview

We are a wireless communications company focused on empowering the modernization of critical infrastructure and enterprise businesses communications by enabling broadband connectivity. Our foundational spectrum provides the ability to transform our customers operations to meet new business complexities while achieving higher levels of performance and safety. We are the largest holder of licensed spectrum in the 900 MHz band (896-901/935-940 MHz) with nationwide coverage throughout the contiguous United States, Hawaii, Alaska and Puerto Rico. On average, we hold approximately 60% of channels in the 900 MHz band in the top 20 metropolitan market areas in the United States. We are currently pursuing a regulatory proceeding at the Federal Communications Commission (“FCC”) that seeks to modernize and realign the 900 MHz band by allowing it to be utilized for the deployment of broadband networks, technologies and solutions. Our goal is to become the leading provider of broadband spectrum assets to critical infrastructure and enterprise customers. We maintain offices in Woodland Park, New Jersey and McLean, Virginia.

Our FCC Initiatives

Our spectrum is our most valuable asset. While our current licensed spectrum can support narrowband and wideband wireless services, the most significant business opportunities we have identified require contiguous spectrum that allows for greater bandwidth than allowed by the current configuration of our spectrum. As a result, our first priority is to continue to pursue our initiatives at the FCC seeking to modernize and realign a portion of the 900 MHz band to increase its usability and capacity by allowing it to accommodate the deployment of broadband networks, technologies and solutions.

On March 14, 2019, the FCC unanimously adopted a Notice of Proposed Rulemaking (“NPRM”) in WT Docket No. 17-200 (the “900 MHz Proceeding”). Comments on the NPRM were filed on May 31, 2019 and reply comments were filed on July 2, 2019.

The NPRM endorsed our objective of creating a broadband opportunity in the 900 MHz band for critical infrastructure and other enterprise users. The NPRM generally proposes our recommended band plan concept and technical rules. Importantly, the proposed technical rules include our recommended equipment specifications that would enable the use of available, globally standardized broadband LTE networks, technologies and solutions.

In the NPRM, the FCC has proposed three criteria for an applicant to secure a broadband license in a particular county within the United States: (i) the applicant must hold all 20 blocks of geographic Specialized Mobile Radio (“SMR”) licenses in the county; (ii) the applicant must reach agreement to relocate all incumbents in the broadband segment in a 1:1 voluntary channel exchange or demonstrate that the incumbents will be protected from interference; and (iii) the applicant must agree to return to the FCC all rights to geographic and site-based spectrum in the county in exchange for the broadband license.

The FCC requested comments from incumbents and other interested parties on a number of important topics in the NPRM that will have a material impact on our ability to qualify for, and the related time and costs of obtaining, broadband licenses. As noted above, the broadband applicant must hold all 20 blocks of geographic SMR licenses in the county. In certain areas, some of the SMR spectrum is being held in inventory by the FCC. In the NPRM, the FCC requested comments on how a broadband applicant could acquire the FCC’s inventory of geographic SMR allocated spectrum. Specifically, in considering whether to make its inventory of geographic SMR spectrum available to the broadband applicant, the FCC has asked whether it should do so only if the applicant meets a threshold number of its own geographic SMR licenses. The FCC also questions how to mitigate a windfall that might thereby be attributed to the broadband applicant by the FCC’s action. We have recommended that broadband applicants be able to include geographic SMR spectrum held in inventory by the FCC for purposes of eligibility, provided that they hold all licensed geographic SMR spectrum. We addressed the windfall question by identifying a number of recent instances when the FCC has authorized rule changes that improved certain licensees’ spectrum positions based on an FCC finding that doing so addressed a significant public interest consideration.

The NPRM also proposes a market-driven, voluntary exchange process for clearing the broadband spectrum. An applicant seeking a broadband license for a particular county will need to demonstrate that it has entered into agreements with incumbents or that it can protect their narrowband operations from interference. All incumbents must be accounted for before the broadband applicant can file an application with the FCC. As the FCC recognized in the NPRM, this requirement, without some mechanism for preventing holdouts, could allow a single incumbent with a license for a single channel to thwart the FCC's objective of creating a 900 MHz broadband opportunity in any county.

In the NPRM, the FCC has requested comments on different approaches to address the holdout situation. One approach is based on a "success threshold" whereby once the broadband applicant has reached voluntary agreements with incumbents holding a prescribed percentage of channels in the broadband segment, remaining incumbents would become subject to mandatory relocations. In this and other approaches set forth in the NPRM, the broadband applicant would be responsible for providing comparable facilities and paying the reasonable costs of relocation. The NPRM proposes to exempt from mandatory relocation "complex systems," with 65 or more integrated sites. There are only a small number of complex systems in the country in the broadband segment proposed by the FCC, and all of them are operated by utilities or other critical infrastructure entities. We have endorsed the proposed "success threshold" as the most efficient way to address holdouts and have reaffirmed our commitment that any system that is mandatorily retuned is entitled to comparable facilities and cost reimbursement. We also have supported the proposal that complex systems, as defined in the NPRM, be exempt from mandatory relocation.

The Association of American Railroads ("AAR") holds a nationwide geographic license for nine non-contiguous Private Land Mobile Systems for Business Users ("B/ILT") channels in the 900 MHz band, three of which are located within the FCC's proposed broadband segment. The spectrum is used by freight railroads for Advanced Train Control System ("ATCS") operations. We have recognized from the outset the importance of reaching agreement with the railroads about their relocation, and have worked with them throughout the FCC process. We and the AAR are in agreement about the optimal solution. However, this proposed solution will require an exemption from the relocation rules proposed by the FCC in the NPRM. We are continuing to coordinate our activities at the FCC with the AAR in support of securing the required exemption from the FCC and have urged the FCC to recognize AAR's unique 900 MHz spectrum position with an appropriate solution that is consistent with the future wireless requirements of the railroad industry.

The NPRM also sought comment on several different auction approaches for counties where the broadband segment cannot be cleared of incumbents, including overlay auctions that, again, would trigger mandatory relocation rights for the auction winner with the obligation of providing comparable facilities and paying reasonable relocation costs. We believe the challenge of any proposed approach is achieving the appropriate balance between protecting incumbents' rights to a minimally disruptive relocation process, and not preventing the deployment of broadband technologies on a timely and cost-effective basis. While auctions are one mechanism for addressing holdouts, they can involve lengthy delays that slow delivery of modernized capabilities. We have advised the FCC that a success threshold approach would allow broadband deployment on a more expedited schedule.

While the NPRM proposes a 6 MHz broadband segment, it also sought comment on a realignment of the entire 900 MHz band to create a 10 MHz broadband channel, citing suggestions from Southern California Edison and Duke Energy that this larger channel would better address their broadband needs.

A number of other parties filed Comments and Reply Comments as well. The number of utilities expressing an immediate need for private broadband networks has increased steadily through the course of the proceeding and the number of parties opposing realignment to create a 900 MHz band broadband option has diminished, but some incumbents continue to disagree with the NPRM proposal. Most are incumbents with systems that would be exempt from the possibility of mandatory retuning under the proposed complex system definition.

Now that the formal comment period has closed, the FCC's next step could be the issuance of a final report and order ("Report and Order"), a request for additional information, a decision to close the proceeding without further action, or some other action. There is no assurance if or when the FCC will issue a Report and Order. Further, the terms of any Report and Order may differ materially from the terms of the NPRM. Please read "Risk Factors" for a discussion of material risks related to the NPRM and FCC process.

Our Business Plans and Initiatives

Complementing our regulatory initiatives, we are engaged in a number of business activities to build demand for and to begin commercializing our spectrum assets among our targeted critical infrastructure and enterprise customers. We are identifying customers who are likely to place value on deploying and operating private broadband networks, technologies and solutions utilizing our spectrum assets. As part of this exercise, we identified and evaluated potential use cases in the electric utilities industry, especially those companies that are investigating ways to fulfill their existing and future network and communications needs.

We are also evaluating the appropriate business model for commercializing our spectrum assets, assuming our FCC initiatives are successful. Based on our analysis, and discussions with potential customers, we intend to lease our spectrum to customers for 20 year or longer terms. We intend for our customers to bear the costs of deploying and operating their private broadband networks, technologies and solutions. We believe that our licensed spectrum assets in the 900 MHz band present an attractive potential cost-savings opportunity for our initial target customers when compared to other solutions that utilize medium band spectrum. We will be responsible for the costs of securing the broadband licenses from the FCC, including the costs of acquiring sufficient spectrum to support broadband use and retuning incumbents to clear the spectrum. The timing and costs of our spectrum acquisition and retuning activities will be based on the terms of the Report and Order, if any, the FCC adopts in the 900 MHz Proceeding and these costs could be significant. We are also exploring opportunities to offer our customers value-added engineering and commercial services.

Our Strategy

Our business strategy is to continue to simultaneously pursue our FCC and business initiatives. Our FCC initiatives are focused on obtaining a Report and Order from the FCC that supports broadband services in the 900 MHz band. Our business initiatives are focused on supporting both (i) our FCC initiatives, including the timely issuance of a favorable Report and Order, and (ii) our efforts to be ready to obtain broadband licenses from the FCC and to commercialize our spectrum assets assuming the FCC issues a favorable Report and Order. Our efforts include:

- engaging with the FCC and other incumbents and interested parties in the 900 MHz band;
- business development activities with our initial target customers, including electrical utilities and other critical infrastructure entities;
- pursuing initiatives with federal and state agencies and commissions that regulate our initial target customers; and
- beginning to “retune” the 900 MHz band.

We refer to “retuning” as the process of relocating incumbents in the counties where we plan to obtain broadband licenses. Retuning involves:

- funding the relocation of incumbents that wish to continue operating 900 MHz narrowband systems to comparable 900 MHz channels outside the broadband segment;
- compensating incumbents that decide to address their wireless communications needs through non-900 MHz band solutions; and/or
- entering into agreements with incumbents that wish to implement broadband networks.

In order to relocate incumbents to alternative narrowband channels, we will need to make acquisitions of additional 900 MHz spectrum outside of the broadband segment in certain counties. We also will need to acquire spectrum assets in certain counties to satisfy the broadband license eligibility criteria proposed by the FCC in the NPRM.

Our FCC and business initiatives, including our retuning efforts, will continue to involve extensive management efforts and significant costs and expenses for the foreseeable future. We do not expect to have significant revenue and expect to incur significant operating losses until such time as we are able to obtain broadband licenses and commercialize our spectrum assets based on a Report and Order issued by the FCC, if we are able to at all. Our current estimates regarding our operating costs, including the timing and costs of our retuning process, are based on the terms of the NPRM and our assumptions regarding the terms of the Report and Order to be issued by the FCC, if at all. The accuracy of these assumptions and the timing of our regulatory initiatives with the FCC, our retuning efforts and the commercialization of our spectrum assets are subject to significant uncertainties and may cause our quarterly and annual results to be unpredictable for the foreseeable future. In addition, the adoption by the FCC of a Report and Order may be significantly delayed, may contain materially different and adverse terms than the NPRM, or may never occur and we may never be able to commercialize our spectrum assets.

Our Historical Business, TeamConnect and pdvConnect

Historically, we generated our revenue principally from our pdvConnect and TeamConnect businesses. pdvConnect is a mobile communication and workforce management solution that we historically marketed through two Tier 1 carriers in the United States. In Fiscal 2016, we began offering a commercial push-to-talk (“PTT”) service, which we marketed as TeamConnect, in seven major metropolitan areas throughout the United States, including Atlanta, Baltimore/Washington, Chicago, Dallas, Houston, New York and

Philadelphia. We primarily offered our TeamConnect service to customers indirectly through third-party sales representatives who were primarily selected from Motorola's nationwide dealer network.

In June 2018, we announced our plan to restructure the business to align and focus our business priorities on our FCC spectrum initiatives aimed at modernizing and realigning the 900 MHz band. In December 2018, our board of directors approved the transfer of our TeamConnect business and support of our pdvConnect business. Specifically, we entered into: (i) a Customer Acquisition and Resale Agreement with A BEEP LLC ("A BEEP") on January 2, 2019, (ii) a Customer Acquisition, Resale and Licensing Agreement with Goosetown Enterprises, Inc. ("Goosetown") on January 2, 2019 and (iii) a memorandum of understanding ("MOU") with the principals of Goosetown on December 31, 2018. On March 31, 2019, the agreements were amended to define the transition date as April 1, 2019 and to clarify the responsibilities between the parties.

Under the A BEEP and Goosetown Agreements, we agreed to: (i) transfer our TeamConnect customers located in the Atlanta, Chicago, Dallas, Houston and Phoenix metropolitan markets to A BEEP, (ii) transfer our TeamConnect customers located in the Baltimore/Washington DC, Philadelphia and New York metropolitan markets to Goosetown, (iii) provide A BEEP and Goosetown with access to our TeamConnect Metro and Campus Systems (the, "MotoTRBO Systems ") and (iv) grant A BEEP and Goosetown the right to resell access to our MotoTRBO Systems pursuant to separate Mobile Virtual Network Operation arrangements for a two-year period. We also granted Goosetown a license to sell the business applications we developed for our TeamConnect service.

Under these agreements, A BEEP and Goosetown agreed to provide customer care, billing and collection services for their respective acquired customers. We initially continued to provide these services through April 1, 2019 to help facilitate the transitioning of the acquired customers. Additionally, we are required to maintain and pay all site lease, backhaul and utility costs required to operate the MotoTRBO Systems for a two-year period. As part of our efforts to clear the 900 MHz spectrum for broadband use, A BEEP and Goosetown are required to migrate the acquired customers off the MotoTRBO Systems over the two-year period. In consideration for the customers and rights we transferred, A BEEP and Goosetown are required to pay us a certain portion of the recurring revenues they receive from the acquired customers ranging from 100% to 20% during the terms of the agreements. Additionally, A BEEP is required to pay us a portion of recurring revenue from customers who utilize A BEEP's push-to-talk Diga-Talk Plus application service ranging from 35% to 15% for a period of two years. Goosetown is required to pay us 20% of recurring revenues from the TeamConnect applications we licensed for a period of two years. As part of our obligations, we will continue operating the TeamConnect networks in the markets in which customers are being transferred and trunked facilities in other markets in which we hold FCC licenses.

Under the terms of the MOU, we agreed to assign the intellectual property rights to our TeamConnect and pdvConnect applications and assets to support the pdvConnect application to TeamConnect LLC (the "LLC"), a new entity formed by the principals of Goosetown, in exchange for a 19.5% ownership interest in the LLC. The Goosetown principals have agreed to fund the future operations of the LLC, subject to certain limitations. The LLC has assumed our software support and maintenance obligations under the Goosetown and A BEEP Agreements. The LLC has also assumed customer care services related to our pdvConnect application. We provided transition services to the LLC through April 1, 2019 to facilitate an orderly transition of the customer care services. As of September 30, 2019, we transferred network, computer and other equipment with a net book value of \$72,000, and recorded an investment in the LLC amounting to \$14,000 and loss on disposal of assets amounting to \$58,000 relating to the transfer of the assets as of such date. As of December 31, 2019, the Company also completed the transfer of the intellectual property rights with a net book value of \$174,000 to the LLC and recorded an investment in the LLC amounting to \$34,000 and loss on disposal of intangible asset amounting to \$140,000 relating to the transfer of the intellectual property. We are also obligated to pay the LLC a monthly services fee for a 24-month period ending on January 7, 2021 for its assumption of our support obligations under the Goosetown and A BEEP Agreements. We are also obligated to pay the LLC a certain portion of the billed revenue received by us from pdvConnect customers for a 48-month period.

Results of Operations

Comparison of the three and nine months ended December 31, 2019 and 2018

The following table sets forth our results of operations for the three and nine months ended December 31, 2019 and 2018. The period-to-period comparison of financial results is not necessarily indicative of the financial results we will achieve in future periods.

Operating revenues

(in thousands)	Three months ended December 31,		Aggregate Change		Nine months ended December 31,		Aggregate Change	
	2019	2018	Amount	%	2019	2018	Amount	%
	(Unaudited)	(Unaudited)			(Unaudited)	(Unaudited)		
Service revenue	\$ 178	\$ 1,155	\$ (977)	-85%	\$ 690	\$ 3,798	\$ (3,108)	-82%
Spectrum lease revenue	183	183	—	0%	547	547	—	0%
Other revenue	—	164	(164)	-100%	—	854	(854)	-100%
Total operating revenues	\$ 361	\$ 1,502	\$ (1,141)	-76%	\$ 1,237	\$ 5,199	\$ (3,962)	-76%

Overall operating revenues decreased by \$1.1 million, or 76%, to \$0.4 million for the three months ended December 31, 2019 from \$1.5 million for the three months ended December 31, 2018. For the nine months ended December 31, 2019, operating revenue decreased by \$4.0 million, or 76%, to \$1.2 million from \$5.2 million for the nine months ended December 31, 2018. The decrease in the three and nine month periods were attributable to the transfer of our TeamConnect customers to A BEEP and Goosetown as part of our December 2018 restructuring efforts as discussed in Note 3 above, as well as the loss of customers in our pdvConnect business.

Operating expenses

(in thousands)	Three months ended December 31,		Aggregate Change		Nine months ended December 31,		Aggregate Change	
	2019	2018	Amount	%	2019	2018	Amount	%
	(Unaudited)	(Unaudited)			(Unaudited)	(Unaudited)		
Direct cost of revenue (exclusive of depreciation and amortization)	\$ 631	\$ 974	\$ (343)	-35%	\$ 2,248	\$ 3,599	\$ (1,351)	-38%
General and administrative	4,740	5,216	(476)	-9%	14,145	14,310	(165)	-1%
Sales and support	949	620	329	53%	2,922	3,110	(188)	-6%
Product development	610	647	(37)	-6%	1,846	1,846	—	0%
Depreciation and amortization	1,135	695	440	63%	2,412	2,140	272	13%
Stock compensation expense (exclusive of restructuring related costs)	1,404	1,459	(55)	-4%	4,393	4,419	(26)	-1%
Restructuring costs	35	418	(383)	-92%	195	8,540	(8,345)	-98%
Impairment of long-lived assets	33	200	(167)	-84%	33	730	(697)	-95%
Total operating expenses	\$ 9,537	\$ 10,229	\$ (692)	-7%	\$ 28,194	\$ 38,694	\$ (10,500)	-27%

Direct cost of revenue. Direct cost of revenue decreased by \$0.3 million, or 35%, to \$0.6 million for the three months ended December 31, 2019 from \$0.9 million for the three months ended December 31, 2018. For the nine months ended December 31, 2019, direct cost of revenue decreased by \$1.4 million, or 38%, to \$2.2 million from \$3.6 million for the nine months ended December 31, 2018. The decrease in the three and nine months ended December 31, 2019 were attributable to lower costs related to radio sales as a result of the transfer of our TeamConnect customers to A BEEP and Goosetown as part of our December 2018 restructuring efforts as discussed in Note 3 above.

General and administrative expenses. General and administrative expenses for the three months ended December 31, 2019 decreased by \$0.5 million, or 9%, to \$4.7 million from \$5.2 million for three months ended December 31, 2018. For the nine months ended December 31, 2019, general and administrative expenses decreased by \$0.2 million, or 1%, to \$14.1 million from \$14.3 million for the nine months ended December 31, 2018. The decrease of \$0.5 million for the three months ended December 31, 2019 resulted mainly from lower professional services. The \$0.2 million decrease for the nine months ended December 31, 2019 resulted primarily from

[Table of Contents](#)

\$0.1 million lower professional services and \$0.6 million lower employee related costs due to lower headcount resulting from the restructuring activities in Fiscal 2019, partially offset by \$0.5 million increase in costs related to the monthly service fee for the transfer of our TeamConnect customers.

Sales and support expenses. Sales and support expenses increased by \$0.3 million, or 53%, to \$0.9 million for the three months ended December 31, 2019 from \$0.6 million for three months ended December 31, 2018. For the nine months ended December 31, 2019, sales and support expenses decreased by \$0.2 million, or 6%, to \$2.9 million from \$3.1 million for the nine months ended December 31, 2018. The increase in the three months ended December 31, 2019 was due to higher salaries and consulting costs due to the realignment of the business. The decrease in the nine months ended December 31, 2019 was attributable to the impact of the reduction in workforce that occurred in Fiscal 2019 resulting in lower headcount and related costs, partially offset by the impairment of contract costs related to the TeamConnect customers transferred to A BEEP and Goosetown.

Product development expenses. Product development expenses remained relatively flat for the three and nine months ended December 31, 2019 as compared to the three and nine months ended December 31, 2018.

Depreciation and amortization. Depreciation and amortization for the three months ended December 31, 2019 increased by \$0.4 million, or 63% to \$1.1 million from \$0.7 million for the three months ended December 31, 2018. For the nine months ended December 31, 2019, depreciation and amortization increased by \$0.3 million, or 13%, to \$2.4 million from \$2.1 million for the nine months ended December 31, 2018. During the three months ended December 31, 2019, the Company adjusted the estimated non-cash capitalized asset retirement obligations and useful life for its network sites, resulting in additional depreciation expense of \$0.5 million for the three and nine months ended December 31, 2019.

Stock compensation expense (exclusive of restructuring related costs). Stock compensation expense exclusive of restructuring related costs for the three and nine months ended December 31, 2019 remained relatively flat as compared to the three and nine months ended December 31, 2018.

As discussed in Note 11, we have outstanding performance stock units and stock options that the recipient would receive upon the Company's attainment of the applicable performance goals, which are: prior to January 13, 2020 (A) issuance of a Final Order from the FCC providing for the creation and allocation of licenses for spectrum in the 900 MHz band consisting of paired blocks of contiguous spectrum, each containing at least 3 MHz of contiguous spectrum, authorized for broadband wireless communications uses and (B) the lack of objection by the Company's board of directors to the terms and conditions (including, but not limited to, the rebanding, clearing and relocation procedures, license assignment and award mechanisms, and technical and operational rules) set forth or referenced in the Final Order. These awards do not forfeit. The unvested stock compensation expense for these performance awards was \$5.0 million as of December 31, 2019, of which \$3.0 million is related to the performance stock units and \$2.0 million is related to the performance stock options.

Restructuring costs. Restructuring costs of \$35,000 and \$195,000 were incurred in the three and nine months ended December 31, 2019 mainly for employee severance and benefit costs relating to the December 2018 cost reduction and restructuring actions related to the transfer of the TeamConnect business and the support for our pdvConnect business to A BEEP, Goosetown and the LLC.

For the three months ended December 31, 2018, \$0.4 million of restructuring costs was recorded for the cash payments under the consulting and transition agreements for other key employees. For the nine months ended December 31, 2018, \$8.5 million of the restructuring costs were incurred, as a result of the April, June and December 2018 announcements of a restructuring plan to shift our focus and resources to pursue the regulatory initiatives at the FCC and prepare for the future deployment of broadband and other advanced technologies and services.

Impairment of long-lived assets. The impairment for the three and nine months ended December 31, 2018 resulted from the carrying value of our TeamConnect radios not being fully recoverable due to the realigning of our business to focus on our spectrum initiatives. For the three and nine months ended December 31, 2019, the \$33,000 non-cash impairment charge for long-lived assets consisted of \$22,000 for property and equipment and \$11,000 for a right of use asset to reduce the carrying values to zero.

Interest income

(in thousands)	Three months ended December 31,		Aggregate Change		Nine months ended December 31,		Aggregate Change	
	2019	2018	Amount	%	2019	2018	Amount	%
	(Unaudited)	(Unaudited)			(Unaudited)	(Unaudited)		
Interest income	\$ 517	\$ 393	\$ 124	32%	\$ 1,505	\$ 1,079	\$ 426	39%

[Table of Contents](#)

Interest income increased by 32% and 39% for the three and nine months ended December 31, 2019, respectively, as compared to the three and nine months ended December 31, 2018 due to the return on the net proceeds from the July 2019 follow-on offering.

Other income (expenses)

(in thousands)	Three months ended December 31,		Aggregate Change		Nine months ended December 31,		Aggregate Change	
	2019	2018	Amount	%	2019	2018	Amount	%
	(Unaudited)	(Unaudited)			(Unaudited)	(Unaudited)		
Other income (expenses)	\$ 2	\$ (16)	\$ 18	-113%	\$ 154	\$ (16)	\$ 170	100%

For the three and nine months ended December 31, 2019, other income represents payments received in consideration for the customers and rights transferred to A BEEP and Goosetown.

Loss on equity method investment

(in thousands)	Three months ended December 31,		Aggregate Change		Nine months ended December 31,		Aggregate Change	
	2019	2018	Amount	%	2019	2018	Amount	%
	(Unaudited)	(Unaudited)			(Unaudited)	(Unaudited)		
Loss on equity method investment	\$ (23)	\$ —	\$ (23)	-100%	\$ (8)	\$ —	\$ (8)	-100%

The loss on investment for the three and nine months ended December 31, 2019 is due to the 19.5% ownership interest in TeamConnect LLC.

Income tax expense

(in thousands)	Three months ended December 31,		Aggregate Change		Nine months ended December 31,		Aggregate Change	
	2019	2018	Amount	%	2019	2018	Amount	%
	(Unaudited)	(Unaudited)			(Unaudited)	(Unaudited)		
Income tax expense	\$ 131	\$ —	\$ 131	100%	\$ 594	\$ —	\$ 594	100%

A non-cash deferred income expense of \$0.1 million and \$0.6 million was recorded for the three and nine months ended December 31, 2019, respectively. The state income tax expense portion resulted from our determination that most of our state operating loss carryforwards are not indefinite. As a result, we recorded approximately \$56,000 and \$467,000 of state deferred tax expense and additional related state deferred tax liability reflecting our inability to use the state NOL carryforward against the indefinite-lived intangible for the three and nine months ended December 31, 2019, respectively. A non-cash federal deferred income tax expense and liability of \$75,000 and \$127,000 were recorded for the three and nine months ended December 31, 2019, respectively.

For the three and nine months ended December 31, 2018, there was no income tax expense recorded as a result of the U.S. Tax Cuts and Jobs Act, (the "TCJA"), passed on December 22, 2017. The TCJA provided that federal net operating losses generated in tax years ending after December 31, 2017 are indefinite lived deferred tax assets and can be fully offset by our deferred tax liability related to our indefinite lived intangible assets.

Liquidity and Capital Resources

At December 31, 2019, we had cash and cash equivalents of \$150.2 million.

Our accounts receivable are heavily concentrated in one domestic carrier partner and one reseller. As of December 31, 2019, our net accounts receivable balance was approximately \$83,000, of which approximately \$72,000, or approximately 87%, was owed by these one domestic carrier partner and one reseller.

Cash Flows from Operating, Investing and Financing Activities

(in thousands)	Nine months ended December 31,	
	2019	2018
	(Unaudited)	(Unaudited)
Net cash used by operating activities	\$ (21,271)	\$ (16,960)
Net cash used by investing activities	\$ (1,205)	\$ (1,434)
Net cash provided by financing activities	\$ 95,997	\$ 2,425

Net cash used by operating activities. Net cash used in operating activities was \$21.3 million for the three months ended December 31, 2019, as compared to \$17.0 million for the nine months ended December 31, 2018. The majority of net cash used by operating activities during the nine months ended December 31, 2019 resulted from our net loss of \$25.9 million offset by non-cash stock-based compensation of \$4.4 million. The majority of net cash used by operating activities during the nine months ended December 31, 2018 resulted from the net loss of \$32.4 million, partially offset by non-cash stock-based compensation of \$8.9 million.

Net cash used by investing activities. Net cash used in investing activities was approximately \$1.2 million for the nine months ended December 31, 2019, as compared to \$1.4 million used for the nine months ended December 31, 2018. The net cash used during the nine months ended December 31, 2019 resulted from wireless license acquisitions amounting to \$0.8 million and purchase of equipment amounting to \$0.4 million. The net cash used during the nine months ended December 31, 2018 resulted from \$0.9 million from wireless license acquisitions and \$0.5 million from the purchase of equipment.

Net cash provided by financing activities. For the nine months ended December 31, 2019, net cash provided by financing activities was \$96.0 million primarily from the \$94.2 million net proceeds from the July 2019 follow-on offering and \$2.2 million from the proceeds from stock option exercises. For the nine months ended December 31, 2018, net cash provided by financing activities was \$2.4 million which was principally due to \$2.6 million in cash received from the proceeds from stock option exercises.

Net proceeds from July 2019 follow-on offering. In July 2019, we completed a registered follow-on offering in which it sold 2,222,223 shares of common stock at a purchase price to the public of \$45.00 per share. Net proceeds were approximately \$94.2 million after deducting \$5.5 million in underwriting discounts and commissions, and \$0.3 million in offering expenses.

In January 2019, we announced that we had entered into agreements to transfer our TeamConnect and pdvConnect businesses. Specifically, the Company entered into a (i) Customer Acquisition and Resale Agreement with A BEEP LLC (“A BEEP”) on January 2, 2019, (ii) a Customer Acquisition, Resale and Licensing Agreement with Goosetown Enterprises, Inc. (“Goosetown”) on January 2, 2019 and (iii) a memorandum of understanding with the principals of Goosetown on December 31, 2018. We will continue operating our push-to-talk networks in the markets in which customers are being transferred and trunked facilities in other markets in which we hold FCC licenses. Under the terms of the MOU, we are obligated to pay the LLC a monthly service fee for a 24-month period ending on January 7, 2021 for its assumption our support obligations under the A BEEP and Goosetown agreements. We are also obligated to pay the LLC a certain portion of the billed revenue received by the Company from pdvConnect customers for a 48-month period.

We believe our cash and cash equivalents on hand will be sufficient to meet our financial obligations through at least the next 12 months. Our future capital requirements will depend on many factors, including: the timeline and results of our FCC initiatives; activities related to the commercializing our spectrum assets and our ability to sign customer contracts; the costs to retune our spectrum and relocate incumbents to qualify for broadband licenses; the costs of any additional spectrum we elect to purchase; the costs and ongoing obligations related to our former TeamConnect and pdvConnect businesses; the revenues we generate from royalties we may receive from our agreements we entered into with the buyers of our TeamConnect and our pdvConnect businesses; and our ability to control our operating expenses.

See “Risk Factors” in this Form 10-Q for risks and uncertainties that could cause our costs to be more than we currently anticipate and/or our revenue and operating results to be lower than we currently anticipate.

Off-balance sheet arrangements

As of December 31, 2019 and March 31, 2019, we did not have and do not have any relationships with unconsolidated entities or financial partnerships that were established for the purpose of facilitating off-balance sheet arrangements, as defined in the rules and regulations of the SEC.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Our financial instruments consist of cash, cash equivalents, trade accounts receivable and accounts payable. We consider investments in highly liquid instruments purchased with original maturities of 90 days or less to be cash equivalents. Our primary exposure to market risk is interest income sensitivity, which is affected by changes in the general level of U.S. interest rates. However, because of the short-term nature of the highly liquid instruments in our portfolio, a 10% change in market interest rates would not be expected to have a material impact on our financial condition and/or results of operations.

Our operations are based in the United States and, accordingly, all of our transactions are denominated in U.S. dollars. We are currently not exposed to market risk from changes in foreign currency.

Item 4. Controls and Procedures

Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and our Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”)) as of the end of the period covered by this Quarterly Report on Form 10-Q. Based on that evaluation, our management, including our Chief Executive Officer and our Chief Financial Officer, concluded that our disclosure controls and procedures were not effective as of December 31, 2019 because of a material weakness in our internal control over financial reporting that remains in the process of being remediated as discussed below.

Material Weakness and Remedial Actions

As we previously disclosed, subsequent to filing our Form 10-K for year ended March 31, 2018 with the SEC on June 5, 2018, an error was discovered related to our interpretation and application of the effective dates of changes in the accounting treatment of our net operating losses in accordance with the new tax laws instituted by the Tax Cuts and Jobs Act of 2017, which was signed into law on December 22, 2017 (the “TCJA”). As a result of this error, we filed a Form 10-Q/A for the quarterly period ended December 31, 2017 and a Form 10-K/A for the year ended March 31, 2018 with the SEC on August 10, 2018 to amend and restate our financial statements for those periods.

In our Form 10-K/A, our management, including our Chief Executive Officer and our Chief Financial Officer, determined that this error in interpretation and application of the new tax laws instituted by the TCJA, which was not detected timely by management, was the result of an inadequate design of controls pertaining to our review and analysis of changing tax legislation. As a result, they determined that this deficiency represented a material weakness in our internal control over financial reporting. They also concluded that we did not maintain effective disclosure controls and procedures as of March 31, 2018 due to this material weakness in our internal control over financial reporting.

A material weakness is defined as a deficiency, or combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of annual or interim consolidated financial statements will not be prevented or detected on a timely basis. A material weakness will not be deemed to be remediated until management has implemented the remedial policies and procedures and there has been sufficient time to test the new controls to determine that the material weakness has been remediated.

To remediate the material weakness related to new tax laws, our management: (i) implemented new controls designed to evaluate the appropriateness of our income tax policies and procedures, (ii) put into place additional training programs focused on new tax legislation and (iii) implemented policies and procedures regarding the review and evaluation of tax guidelines published by the major accounting firms.

In evaluating our disclosure controls and procedures for the quarter ended December 31, 2019, our management, including our Chief Executive Officer and our Chief Financial Officer, believe that we have put in place the proper policies, procedures and controls to remediate the material weakness, which will be tested during our annual internal control assessment for the fiscal year ended March 31, 2020.

Inherent Limitations on Effectiveness of Controls

Our management, including our Chief Executive Officer and our Chief Financial Officer, do not expect that our disclosure controls or our internal control over financial reporting will prevent or detect all error and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system’s objectives will be met. The design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Further, because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that misstatements due to error or fraud will not occur or that all control issues and instances of fraud, if any, have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple error or mistake. Controls can also be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the controls. The design of any system of controls is based in part on certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Projections of any evaluation of controls effectiveness to future periods are subject to risks. Over time, controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with policies or procedures.

PART II – OTHER INFORMATION

Item 1. Legal Proceedings

We are not involved in any material legal proceedings.

Item 1A. Risk Factors.

In evaluating us and our common stock, we urge you to carefully consider the risks (including those disclosed below) and other information in this Quarterly Report on Form 10-Q as well as the risk factors disclosed in our Annual Report on Form 10-K for the year ended March 31, 2019, filed with the Securities and Exchange Commission (the “SEC”) on May 20, 2019 (the “Form 10-K”) and our Quarterly Report on Form 10-Q for the quarter ended June 30, 2019, filed with the SEC on August 8, 2019 (the “First Quarter Form 10-Q”). There have been no material changes from the risk factors as previously disclosed in our Form 10-K, as amended and supplemented by our First Quarter Form 10-Q. Any of the risks discussed in this Quarterly Report on Form 10-Q, in our Form 10-K or in our First Quarter Form 10-Q, as well as additional risks and uncertainties not currently known to us or that we currently deem immaterial, could materially and adversely affect our results of operations or financial condition.

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

Use of Proceeds

On May 18, 2015, we completed a public offering of our common stock in which we raised net proceeds of approximately \$64.8 million. We registered the shares of common stock issued in the offering on a Registration Statement on Form S-1 (File No. 333-203681), which the SEC declared effective on May 12, 2015. Through December 31, 2019 we have used approximately \$46.1 million of the net proceeds from this offering. We did not complete any transaction in which we paid any of these proceeds, directly or indirectly, to our directors or officers, to any person owning 10% or more of any class of our equity securities, to any associate of any of the foregoing, or to any of our affiliates. There has been no material change in the expected uses of the net proceeds from the offering as described in our Registration Statement.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information.

Not applicable.

Table of Contents

Item 6. Exhibits.

Exhibit No.	Description of Exhibit
3.1(1)	Amended and Restated Certificate of Incorporation of Anterix Inc. (the “Company”).
3.2(2)	Certificate of Amendment No. 1 to Amended and Restated Certificate of Incorporation of the Company.
3.3(3)	Certificate of Amendment No. 2 to Amended and Restated Certificate of Incorporation of the Company.
4(4)	Amended and Restated Bylaws of the Company.
4.1(1)	Form of Common Stock Certificate of the Company.
31.1	Certification of Principal Executive Officer pursuant to Rules 13a-14 and 15d-14 promulgated pursuant to the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Principal Financial Officer pursuant to Rules 13a-14 and 15d-14 promulgated pursuant to the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1*	Certification of Principal Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2*	Certification of Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

- (1) Incorporated by reference to the Registrant’s Registration Statement on Form S-1 (File No. 333-201156), filed with the SEC on December 19, 2014.
 - (2) Incorporated by reference to Exhibit 3.1 of the Registrant’s Current Report on Form 8-K (File No. 001-36827), filed with the SEC on November 5, 2015.
 - (3) Incorporated by reference to Exhibit 3.1 of the Registrant’s Current Report on Form 8-K (File No. 001-36827), filed with the SEC on August 6, 2019.
 - (4) Incorporated by reference to Exhibit 3.1 of the Registrant’s Current Report on Form 8-K (File No. 001-36827), filed with the SEC on June 27, 2017.
- * The certifications furnished in Exhibits 32.1 and 32.2 hereto are deemed to accompany this Quarterly Report on Form 10-Q and will not be deemed “filed” for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, except to the extent that the Registrant specifically incorporates it by reference.

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 hereunto duly authorized.

Anterix Inc.

Date: February 4, 2020

/s/ Morgan E. O'Brien
Morgan E. O'Brien
Chief Executive Officer
(Principal Executive Officer)

Date: February 4, 2020

/s/ Timothy A. Gray
Timothy A. Gray
Chief Financial Officer
(Principal Financial and Accounting Officer)

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER

I, Morgan E. O'Brien, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the quarter ended December 31, 2019 of Anterix 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)) 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 function):
 - 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: February 4, 2020

By: /s/ Morgan E. O'Brien

Morgan E. O'Brien

Chief Executive Officer
(Principal Executive Officer)

CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER

I, Timothy A. Gray, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the quarter ended December 31, 2019 of Anterix 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)) 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;
 - a) 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;
 - b) 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
 - c) 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 function):
 - 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: February 4, 2020

By: /s/ Timothy A. Gray

Timothy A. Gray

Chief Financial Officer
(Principal Financial and Accounting Officer)

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the quarterly report of Anterix Inc. (the "Company") on Form 10-Q for the period ended December 31, 2019 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Morgan E. O'Brien, Chief Executive Officer of the Company, certify, solely for purposes of complying with 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: February 4, 2020

By: /s/ Morgan E. O'Brien

Morgan E. O'Brien

Chief Executive Officer
(Principal Executive Officer)

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

This certification that accompanies the Report 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 Anterix 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 Report), irrespective of any general incorporation language contained in such filing.

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,

AS ADOPTED PURSUANT TO

SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the quarterly report of Anterix Inc. (the "Company") on Form 10-Q for the period ended December 31, 2019, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Timothy A. Gray, Chief Financial Officer of the Company, certify, solely for purposes of complying with 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: February 4, 2020

By: /s/ Timothy A. Gray

Timothy A. Gray

Chief Financial Officer

(Principal Financial and Accounting Officer)

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

This certification that accompanies the Report 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 Anterix 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 Report), irrespective of any general incorporation language contained in such filing.
