
**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 September 30, 2018

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

pdvWireless, 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)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

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

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

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

At November 1, 2018, 14,630,825 shares of the registrant's common stock were outstanding.

Explanatory Note

This Quarterly Report on Form 10-Q for the quarter ended September 30, 2018 (the “Form 10-Q”) contains restated financial statements and information for the fiscal year ended March 31, 2018 filed by pdvWireless Inc. (the “Company”) with the Securities and Exchange Commission (the “SEC”) on August 9, 2018 in its amended Annual Report on Form 10-K/A for the fiscal year ended March 31, 2018 (“Form 10-K/A”).

In connection with preparing the Form 10-Q for the three months ended June 30, 2018, the Company determined that it incorrectly interpreted the effective date of a change to the accounting treatment of its net operating losses (“NOLs”) instituted by the Tax Cuts and Jobs Act of 2017 (“TCJA”), which was signed into law on December 22, 2017. The TCJA, among other items: (i) increased the NOL carryforward period from 20-years to an indefinite carryforward period and (ii) limited the percentage of NOLs that may be used to offset taxable income to 80%. Under the TCJA, the 80% limitation applies to NOLs arising in taxable years “beginning after” December 31, 2017, which for the Company would be its fiscal year commencing on April 1, 2018 and ending on March 31, 2019 (“Fiscal 2019”). The TCJA, however, provides that the indefinite carryforward period applies to NOLs arising in taxable years “ending after” December 31, 2017, which for the Company would be its fiscal year beginning on April 1, 2017 and ending on March 31, 2018 (“Fiscal 2018”). Based on these dates, NOLs generated by the Company during Fiscal 2018 would both (i) not be subject to the 80% limitation and (ii) have an indefinite carryforward period.

At the time of preparing its originally filed Annual Report on Form 10-K for the fiscal year ended March 31, 2018, the Company, in consultation with its third-party tax firm, determined that it was unlikely that Congress intended to provide this double benefit to the NOLs generated by the Company during Fiscal 2018. As a result, the Company determined that an appropriate approach would be to continue to limit the carryforward period for the NOLs it incurred during Fiscal 2018 to 20 years, rather than apply an indefinite life to those NOLs.

Based on its review of available accounting literature in connection with preparing the Form 10-Q for the three months ended June 30, 2018, the Company determined that it should apply the accounting changes implemented by the TCJA in accordance with the effective dates set forth in the TCJA, despite the double benefit it could recognize for the NOLs it incurred during Fiscal 2018. Specifically, the Company determined that, based on the current language of the TCJA, the correct accounting treatment for the NOLs it generated during Fiscal 2018 is to apply an indefinite life to these NOLs and to not subject those NOLs to the 80% limitation. See Note 2 to the Consolidated Financial Statements included in Item 1 of this Form 10-Q for additional information regarding the restated financial statements and related information contained in this Form 10-Q.

pdvWireless, Inc.
FORM 10-Q
For the quarterly period ended September 30, 2018

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on 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 Quarterly Report on Form 10-Q and in our amended Annual Report on Form 10-K/A for the year ended March 31, 2018 filed with the Securities and Exchange Commission (the “SEC”) on August 9, 2018. 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

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

| | September 30, 2018 (Unaudited) | March 31, 2018 (As Restated) |
|---|--------------------------------------|---------------------------------|
| ASSETS | | |
| Current Assets | | |
| Cash and cash equivalents | \$ 85,644 | \$ 98,318 |
| Accounts receivable, net of allowance for doubtful accounts of \$137 and \$29 | 978 | 935 |
| Inventory | — | 173 |
| Prepaid expenses and other current assets | 1,102 | 850 |
| Total current assets | 87,724 | 100,276 |
| Property and equipment | 11,003 | 12,775 |
| Intangible assets | 107,542 | 106,606 |
| Capitalized patent costs, net | 191 | 197 |
| Other assets | 828 | 486 |
| Total assets | \$ 207,288 | \$ 220,340 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities | | |
| Accounts payable and accrued expenses | \$ 5,391 | \$ 4,322 |
| Accounts payable - officers | 28 | 94 |
| Deferred revenue | 804 | 813 |
| Total current liabilities | 6,223 | 5,229 |
| Noncurrent liabilities | | |
| Deferred revenue | 3,860 | 4,257 |
| Other liabilities | 3,827 | 2,325 |
| Total liabilities | 13,910 | 11,811 |
| Commitments and contingencies | | |
| Stockholders' equity | | |
| Preferred stock, \$0.0001 par value per share, 10,000,000 shares authorized and no shares outstanding at September 30, 2018 and March 31, 2018 | — | — |
| Common stock, \$0.0001 par value per share, 100,000,000 shares authorized and 14,573,267 shares issued and outstanding at September 30, 2018 and 14,487,650 shares issued and outstanding at March 31, 2018 | 1 | 1 |
| Additional paid-in capital | 343,930 | 335,767 |
| Accumulated deficit | (150,553) | (127,239) |
| Total stockholders' equity | 193,378 | 208,529 |
| Total liabilities and stockholders' equity | \$ 207,288 | \$ 220,340 |

See accompanying notes to consolidated financial statements.

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

| | Three months ended September 30, | | Six months ended September 30, | |
|---|-------------------------------------|------------|-----------------------------------|-------------|
| | 2018 | 2017 | 2018 | 2017 |
| Operating revenues | | | | |
| Service revenue | \$ 1,295 | \$ 1,163 | \$ 2,642 | \$ 2,268 |
| Spectrum revenue | 182 | 182 | 364 | 364 |
| Other revenue | 347 | 168 | 688 | 346 |
| Total operating revenues | 1,824 | 1,513 | 3,694 | 2,978 |
| Cost of revenue | | | | |
| Sales and service | 1,798 | 1,911 | 3,948 | 3,612 |
| Gross profit (loss) | 26 | (398) | (254) | (634) |
| Operating expenses | | | | |
| General and administrative | 6,590 | 4,995 | 12,155 | 9,876 |
| Sales and support | 864 | 1,703 | 2,495 | 3,390 |
| Product development | 573 | 628 | 1,211 | 1,180 |
| Restructuring costs | 4,147 | — | 8,122 | — |
| Impairment of long-lived assets | — | — | 531 | — |
| Total operating expenses | 12,174 | 7,326 | 24,514 | 14,446 |
| Loss from operations | (12,148) | (7,724) | (24,768) | (15,080) |
| Interest expense | — | (1) | — | 1 |
| Interest income | 370 | 184 | 686 | 297 |
| Other income (expense) | (1) | (2) | — | (20) |
| Loss before income taxes | (11,779) | (7,543) | (24,082) | (14,802) |
| Income tax expense | — | 656 | — | 1,305 |
| Net loss | \$ (11,779) | \$ (8,199) | \$ (24,082) | \$ (16,107) |
| Net loss per common share basic and diluted | \$ (0.81) | \$ (0.57) | \$ (1.66) | \$ (1.12) |
| Weighted-average common shares used to compute basic and diluted net loss per share | 14,521,148 | 14,447,499 | 14,501,463 | 14,442,769 |

See accompanying notes to consolidated financial statements.

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

| | Number of Shares | | Preferred Stock | Common | Additional Paid-in Capital | Accumulated Deficit | Total |
|---|--------------------|------------|--------------------|--------|----------------------------------|------------------------|------------|
| | Preferred Stock | Common | | | | | |
| | Series AA | Stock | | | | | |
| 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* | — | 50,068 | — | — | 7,477 | — | 7,477 |
| Stock option exercises | — | 40,849 | — | — | 825 | — | 825 |
| Shares withheld for taxes | — | (5,300) | — | — | (139) | — | (139) |
| Net loss | — | — | — | — | — | (24,082) | (24,082) |
| Balance at September 30, 2018 | — | 14,573,267 | \$ — | \$ 1 | \$ 343,930 | \$ (150,553) | \$ 193,378 |

* includes restricted shares

See accompanying notes to consolidated financial statements.

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

| | Six months ended | |
|--|------------------|-------------------|
| | September 30, | |
| | 2018 | 2017 |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net loss | \$ (24,082) | \$ (16,107) |
| Adjustments to reconcile net loss to net cash used by operating activities | | |
| Depreciation and amortization | 1,445 | 1,374 |
| Non-cash compensation expense attributable to stock awards | 7,477 | 2,515 |
| Deferred income taxes | — | 1,305 |
| Bad debt expense | 161 | 16 |
| Loss on disposal of assets | 14 | 26 |
| Impairment of long-lived assets | 531 | — |
| Changes in operating assets and liabilities | | |
| Accounts receivable | (204) | (93) |
| Inventory | 173 | 64 |
| Prepaid expenses and other assets | 173 | 294 |
| Accounts payable and accrued expenses | 1,069 | (722) |
| Accounts payable - officers | (66) | 2 |
| Deferred revenue | (406) | (353) |
| Other liabilities | 1,502 | 373 |
| Net cash used by operating activities | <u>(12,213)</u> | <u>(11,306)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchases of intangible assets | (936) | (1,677) |
| Purchases of equipment | (211) | (769) |
| Net cash used by investing activities | <u>(1,147)</u> | <u>(2,446)</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Proceeds from stock option exercise | 825 | 214 |
| Payments of withholding tax on net issuance of restricted stock | (139) | — |
| Net cash provided by financing activities | <u>686</u> | <u>214</u> |
| Net change in cash and cash equivalents | <u>(12,674)</u> | <u>(13,538)</u> |
| CASH AND CASH EQUIVALENTS | | |
| Beginning of the period | 98,318 | 124,083 |
| End of the period | \$ 85,644 | \$ 110,545 |
| SUPPLEMENTAL CASH FLOW INFORMATION: | | |
| Cash paid during the period: | | |
| Taxes paid | \$ 5 | \$ 9 |
| Non-cash activities: | | |
| Capital expenditures included in other liabilities | \$ — | \$ 202 |

See accompanying notes to consolidated financial statements.

pdvWireless, Inc.

**Notes to Consolidated Financial Statements
(Unaudited)**

1. Nature of Operations

pdvWireless, Inc. (the “Company”) is a private wireless communications company focused on developing and offering its spectrum assets for the deployment of next generation network and mobile communication solutions designed to meet the needs of critical infrastructure and enterprise customers. The Company is the largest holder of licensed spectrum in the Part 90 900 MHz band (i.e., 896-901 MHz paired with 935-940 MHz) throughout the contiguous United States, plus Hawaii, Alaska and Puerto Rico.

The Company’s first priority involves pursuing regulatory initiatives at the Federal Communications Commission (“FCC”) with the goal of modernizing and realigning the 900 MHz band to increase its usability and capacity, including for the future potential deployment of broadband and other advanced technologies and services. At the same time, the Company is exploring and developing network and mobile communication solutions, leveraging its spectrum to address the unmet needs of its targeted critical infrastructure and enterprise customers. For its first offering, the Company has deployed push-to-talk (“PTT”) networks and offers its Team ConnectSM, which we initially branded and marketed as DispatchPlusTM, two-way radio service to businesses in seven major metropolitan market areas throughout the United States, including Atlanta, Baltimore/Washington, Chicago, Dallas, Houston, New York and Philadelphia. TeamConnect allows enterprise customers to increase the productivity of their field-based workers and the efficiency of their dispatch and call center operations. The Company is pursuing opportunities to enable additional network and mobile communication solutions for use by critical infrastructure and enterprise customers with its existing spectrum and currently available non-broadband technologies and, if the Company is successful with its FCC efforts, utilizing its spectrum assets to enable broadband and other advanced wireless service offerings.

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. The Company maintains offices in Woodland Park, New Jersey, Reston, Virginia and San Diego, California.

During the year ended March 31, 2016, the Company began offering its TeamConnect service in seven major metropolitan areas throughout the United States. The Company developed TeamConnect to address the needs of enterprises that value a tailored PTT solution addressing the management of their mobile workforce. The operation of the Company’s TeamConnect business is separate from, and not contingent on, the initiatives it is pursuing at the FCC or its other spectrum-related activities.

The Company’s revenues are derived substantially from its TeamConnect and pdvConnectTM offerings. The TeamConnect service combines pdvConnect, a proprietary suite of mobile communication and workforce management applications, with advanced digital network architecture and mobile devices supplied by Motorola Solutions, Inc. and/or its subsidiaries (“Motorola”). Developed for dispatch-centric businesses, and historically offered principally to customers who utilize Tier 1 cellular networks, pdvConnect is an efficient mobile communication and workforce management solution that enables businesses to locate and communicate with their field workers and improve the documentation of work events and job status. Also built with the commercial dispatch customer in mind, Motorola’s digital network architecture allows the Company to provide reliable, instant and wide-area PTT communication services to its customers.

Sales of the Company’s TeamConnect service have been slower to ramp-up than initial expectations. The Company primarily markets its TeamConnect service to customers indirectly through third-party dealers selected from Motorola’s nationwide dealer network and other select wireless dealers. The Company has historically supported its indirect sales representatives by providing them with training, marketing and advertising support from its internal sales and marketing team. The Company typically enters into contracts directly with end users of its TeamConnect communication solutions, including those introduced to it through its indirect dealer network.

On June 1, 2018, the Company’s Board of Directors approved an initial plan to restructure its business aimed at reducing the future operating costs of its TeamConnect and pdvConnect businesses and better aligning and focusing its business priorities on its spectrum initiatives. Earlier in Fiscal 2019, the Company also announced that it had received information from one of its Tier 1 carrier partners that the largest customer of its pdvConnect service planned to discontinue its use of that service during Fiscal 2019. As a result of the loss of this significant customer and the Company’s implementation of the restructuring plan and the related measures taken to reduce the operating costs of our TeamConnect and pdvConnect businesses, principally in the sales and marketing areas, the operating revenues from these businesses exhibited a small decline in the current quarter, compared to the prior quarter ended June 30, 2018, and we expect that our operating revenues from these businesses will decline in future reporting periods.

2. Restatement of Previously Issued Financial Statements

In connection with preparing the Form 10-Q for the three months ended June 30, 2018, the Company determined that it incorrectly interpreted the effective date of changes in the accounting treatment of its net operating losses (“NOLs”) in accordance with the new tax provisions in the Tax Cuts and Jobs Act of 2017, which was signed into law on December 22, 2017 (the “TCJA”). The TCJA, among other items: (i) increased the NOL carryforward period from 20-years to an indefinite carryforward period and (ii) limited the percentage of NOLs that may be used to offset taxable income to 80%.

Under the TCJA, the 80% limitation applies to NOLs arising in taxable years “beginning after” December 31, 2017, which for the Company would be its fiscal year commencing on April 1, 2018 and ending on March 31, 2019 (“Fiscal 2019”). The TCJA, however, provides that the indefinite carryforward period applies to NOLs arising in taxable years “ending after” December 31, 2017, which for the Company would be its fiscal year beginning on April 1, 2017 and ending on March 31, 2018 (“Fiscal 2018”). Based on these dates, NOLs generated by the Company during Fiscal 2018 would both (i) not be subject to the 80% limitation and (ii) have an indefinite life.

In preparing its financial statements for the quarterly period ended December 31, 2017 and the year ended March 31, 2018, the Company, in consultation with its third-party tax firm, determined that it was unlikely that Congress intended to provide this double benefit to the NOLs generated by the Company during Fiscal 2018. As a result, the Company determined that an appropriate approach would be to continue to limit the carryforward period for its 2018 NOLs to 20 years, rather than apply an indefinite life to these NOLs.

Based on its review of available accounting literature in connection with preparing its financial statements for the quarter ended June 30, 2018, the Company determined that it should apply the accounting changes implemented by the TCJA in accordance with the effective dates set forth in the TCJA. Specifically, the Company determined that, based on the current language of the TCJA, the correct accounting treatment for the NOLs it generated during Fiscal 2018 is to apply an indefinite life to those NOLs.

Applying an indefinite life to the NOLs the Company generated during Fiscal 2018 enables the Company to utilize an increased amount of NOLs to offset the deferred tax liability created by the Company’s amortization of its indefinite-lived intangibles. The Company determined that it should recognize an additional deferred tax benefit of \$5.6 million for the three months ended December 31, 2017 and \$6.0 million for the fiscal year ended March 31, 2018. The Company determined that these changes had a material impact on the previously filed financial statements for the quarter ended December 31, 2017 and the fiscal year ended March 31, 2018. As a result, on August 9, 2018, the Company filed an amended Quarterly Report on Form 10-Q/A for the quarter ended December 31, 2017 and an amended Annual Report on Form 10-K/A for the year ended March 31, 2018, with restated financial statements and information for these periods.

This Form 10-Q reflects the restated financial statements and information filed by the Company with the SEC on August 9, 2018 in its previously amended Quarterly and Annual Reports.

3. 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 amended Annual Report on Form 10-K/A for the fiscal year ended March 31, 2018, as filed on August 9, 2018 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 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.

Use of Estimates

Management may be required to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The most significant estimates relate to allowance for doubtful accounts, estimated useful lives of depreciable assets, asset retirement obligations, the carrying amount of long-lived assets under construction in process, valuation allowance on the Company's deferred tax assets, and recoverability of intangible assets. Moreover, in certain circumstances, requirements associated with relevant US GAAP guidance can impact the Company's estimates and assumptions. 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. 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.

Reclassifications

Certain prior year amounts have been reclassified to conform to the presentation of the corresponding amounts in the financial statements for the three months and six months ended September 30, 2018. These reclassifications had no effect on previously reported results of operations, cash flows, assets, liabilities or equity for the periods presented.

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.

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 a part of developing its nationwide network. Before employing detailed impairment testing, the Company first evaluates the likelihood of impairment by considering relevant qualitative factors that may have a significant bearing on fair value. If it determines that it is more likely than not that the wireless licenses are impaired, it will apply a quantitative analysis including detailed testing methodologies. Otherwise, it concludes that no impairment exists. In the event a quantitative analysis is required, the Company considers estimates of valuation methods to perform the test of the fair values of the wireless licenses using, among other things, market based and discounted cash flow approaches.

Long-Lived Asset Impairment

The Company evaluates long-lived 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 a long-lived asset group is 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.

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 bases of assets and liabilities as well as from net operating loss and tax credit carryforwards. The effect on deferred tax assets and liabilities of a change in 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 Company's customers, in an amount that reflects the consideration it 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 Standard Codification ("ASC"), 606, *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 our performance obligations are satisfied at 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.

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 employees, directors, and consultants. 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, 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 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.

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 and six months ended September 30, 2018 and 2017, 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 1,179,000 and 1,002,000 at September 30, 2018 and March 31, 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 February 2016, the Financial Accounting Standards Board, (“FASB”) issued Accounting Standards Update (“ASU”) 2016-02, *Leases*. The ASU amends, among other things, the existing guidance by requiring lessees to recognize lease assets (right-of-use) and liabilities (for reasonably certain lease payments) arising from operating leases on the balance sheet. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the consolidated statements of operations. For leases with a term of twelve months or less, ASU 2016-02 permits an entity to make an accounting policy election to not recognize a right-of-use asset nor lease liability, but rather to recognize such leases as lease expense, generally on a straight-line basis over the lease term. 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. However, in July 2018, the FASB issued ASU 2018-11, *Leases (Topic 842): Targeted Improvements*, which provides an optional transition method to apply the initial application of the new accounting standard at the adoption date and the recognition of a cumulative-effect adjustment to the opening balance of retained earnings as of the beginning of the period of adoption. The Company will adopt ASU 2016-02 on April 1, 2019 and intends to elect certain practical expedients, including the optional transition method that allows for the application of the new standard at its adoption date. The comparative financial information will not be restated and will continue to be reported under the previous lease standard in effect during those periods.

While the Company has not yet completed its evaluation of the impact of ASU 2016-02 will have on its consolidated financial statements, the Company expects to recognize a material increase in lease-related assets and liabilities on its consolidated balance sheets; however, the Company does not expect that its adoption of ASU 2016-02 on April 1, 2019 will have a material impact on its consolidated statements of operations or cash flows. Upon adoption, the Company expects that its financial statement disclosures will be expanded to present additional details of its leasing arrangements. While the Company continues to evaluate the impact that ASU 2016-02 will have on its consolidated financial statements and related disclosures, the actual impact of the standard will be dependent upon the Company’s lease portfolio at adoption.

In January 2017, the FASB issued ASU 2017-04, *Intangibles - Goodwill and Other: Simplifying the Test for Goodwill Impairment*. ASU 2017-04 eliminated Step 2 from the goodwill impairment test, which required entities to compute the implied fair value of goodwill by determining the fair value of the reporting unit’s assets and liabilities as if they were assets acquired and liabilities assumed in a business combination. Instead of Step 2, entities performing their annual impairment test will recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit’s fair value. Entities will continue to have the option to perform the qualitative assessment for a reporting unit to determine if the quantitative impairment test is necessary. The adoption of ASU 2017-04 will be effective for annual, or any interim, goodwill impairment tests in fiscal years beginning after December 15, 2019. The adoption of this guidance is not expected to have an effect on the Company’s consolidated financial statements.

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. The Company is evaluating the potential impact that ASU 2018-07 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

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (“ASC 606”)*, which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers, and also requires enhanced disclosures regarding the nature, amount, timing and uncertainty of revenues and cash

flows from contracts with customers. ASC 606 replaced most existing revenue recognition guidance in U.S. GAAP. The new standard was effective for the Company on April 1, 2018. The standard permits the use of either the full retrospective or modified retrospective transition method. The Company adopted ASC 606 using the modified retrospective transition method on April 1, 2018 and applied the standard to all of its customer contracts that are not considered completed as of the adoption date. See Note 4 – Revenue for further discussion, including the impact on the Company’s consolidated financial statements and required disclosures.

In May 2017, the FASB issued ASU 2017-09, *Compensation - Stock Compensation (Topic 718) Scope of Modification Accounting*. The amendments in ASU 2017-09 provide guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting in Topic 718. The adoption of ASU 2017-09 became effective for annual periods beginning after December 15, 2017 with prospective application. The Company adopted this standard on April 1, 2018. The adoption of this standard has not had a material impact on the Company’s consolidated financial statements or related disclosures.

4. Revenue

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers*, which amended the FASB Accounting Standards Codification (“ASC”) and created a new ASC Topic 606, *Revenue from Contracts with Customers* (“ASC 606”). 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 ASC 605.

As a result of adopting ASC 606, on April 1, 2018, the Company recorded a reduction of \$0.8 million to its accumulated deficit. The most significant drivers of the adjustment included the Company’s change in accounting policy related to the deferral of costs to obtain a contract. The Company is required to capitalize certain contract acquisition costs that relate directly to a customer contract, and recognize such costs as an asset, including commissions paid to its sales team and indirect dealers, and to amortize these costs on a straight-line basis over the customer’s estimated contract period, which is an average of 24 months. The Company previously expensed these contract acquisition costs as incurred in selling, general and administrative expenses. Management assesses these costs and the related asset carrying value for impairment on a quarterly basis.

In accordance with ASC 606, when the customer purchases or receives a discounted handset in connection with entering into a contract for service, the Company allocates revenue between the handset and the service based on the relative standalone selling price. Revenue is recognized when the performance obligation which includes providing the services or transferring control of promised handsets, which are distinct to a customer, has been satisfied. Revenue is recognized in an amount that reflects the consideration the Company expects to be entitled to for those performance obligations.

The cumulative effect of the changes made to the Company’s consolidated April 1, 2018 balance sheet for the adoption of ASC 606 were as follows:

| | Balance at March 31, 2018 | Adjustments due to ASC 606 | Balance at April 1, 2018 |
|--|------------------------------|-------------------------------|-----------------------------|
| <i>Assets</i> | | | |
| Prepaid expenses and other current assets | \$ 850 | \$ 473 | \$ 1,323 |
| Other assets | 486 | 295 | 781 |
| <i>Liabilities</i> | | | |
| Deferred revenue, short-term and long-term | \$ 5,070 | \$ — | \$ 5,070 |
| <i>Stockholders' Equity</i> | | | |
| Accumulated deficit | (127,239) | 768 | (126,471) |

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

pdvConnect is the Company’s proprietary cloud-based mobile resource management solution which is 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 is 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 the Company’s push-to-talk (“PTT”) mobile communication services involving digital network architecture and mobile devices. TeamConnect gives customers the ability to instantly set up PTT communications and delivers real-time information from mobile workers to dispatch operators. It also allows customers to deliver voice messages to any computer (via the internet), any email address or to any phone in the United States as well as to communicate in real time with TeamConnect enabled smartphones on any cellular carrier network. 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.

Diga-talk is a mobile communications offering that is being resold by the Company and that provides nationwide two-way digital communication services. The service is contracted and billed on a month to month basis. The Company launched the offering in March 2018 and is a reseller of the services and related devices. The determination was made that the Company is the principal in this reseller arrangement since the customer views the Company as fulfilling the performance obligations and therefore, records revenue on a gross basis over time upon delivery of the services.

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 six months ended September 30, 2018 and September 30, 2017 was approximately \$182,000 and \$364,000, respectively.

Other Revenue. The Company derives 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 recognizes radio and accessory revenue when a customer takes possession of the device.

For TeamConnect, when the customer purchases a radio offered at a discounted price bundled with services or is provided a discount by the dealer which is paid for by the Company, the Company allocates a portion of our future service billings to the radio and recognizes revenue upon handset delivery at the inception of the contract, which results in a contract asset that is amortized as a reduction to service revenue over the expected term of the customer’s contract period, which is typically 24 months. For Diga-talk, the customer contract is month to month. As a result, when the customer purchases a radio offered at a discounted price bundled with services, the discount for the radio is taken in the first month.

Contract Assets. Contract assets include 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. As of September 30, 2018 and April 1, 2018, the Company had \$0.2 million in total contract assets, of which \$0.1 million was classified as a component of prepaid expenses and other current assets in our condensed consolidated balances sheets for both periods. The amortization of the contract asset for the three and six months ended September 30, 2018 was not significant.

The Company also recognizes 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 is an impairment, the contract asset will be expensed. Under the previous accounting standard, the Company expensed commissions as incurred. As of September 30, 2018 and April 1, 2018, the Company had \$0.5 million and \$0.6 million, respectively, of deferred costs related to expenses required to obtain or fulfill a contract. Of these total deferred costs, as of September 30, 2018 and April 1, 2018, \$0.4 million were recorded as a component of prepaid and other current assets. In addition, the Company recorded \$0.1 million and \$0.2 million resulting from the amortization of its contract assets during the three and six months ended September 30, 2018, respectively, in selling, general and administrative expenses in its consolidated statement of operations.

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

| | Contract Assets | |
|-------------------------------|-----------------|-------|
| Balance as of April 1, 2018 | \$ | 768 |
| Additions | | 256 |
| Amortization | | (307) |
| Impairment | | (23) |
| Balance at September 30, 2018 | \$ | 694 |

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, 2018 of \$4.3 million has been reduced by revenue recognized in the six months ended September 30, 2018 of \$0.4 million leaving a remaining liability of \$3.9 million as of September 30, 2018.

Adoption Impact. The following table is a comparison of the reported results of operations for the three and six months ended September 30, 2018 compared to the amounts that would have been reported had the Company not adopted ASC 606 (in thousands):

| | Impact on change in accounting policy | | | | | |
|---|--|--------------------|-----------|--|--------------------|-----------|
| | For the three months ended September 30, 2018 | | | For the six months ended September 30, 2018 | | |
| | As Reported | Impact of | | As Reported | Impact of | |
| | ASC 606 | Legacy GAAP | | ASC 606 | Legacy GAAP | |
| Service revenue | \$ 1,295 | \$ 33 | \$ 1,328 | \$ 2,642 | \$ 58 | \$ 2,700 |
| Spectrum revenue | 182 | — | 182 | 364 | — | 364 |
| Other revenue | 347 | (61) | 286 | 688 | (94) | 594 |
| Sales and support | 864 | (97) | 767 | 2,495 | (110) | 2,385 |
| Net (loss)/income | (11,779) | 69 | (11,710) | (24,082) | 74 | (24,008) |
| Net loss per common share basic and diluted | \$ (0.81) | \$ 0.00 | \$ (0.81) | \$ (1.66) | \$ 0.01 | \$ (1.66) |

The following table is a comparison of certain consolidated balance sheet captions under ASC 606 to the balance sheet results using the historical accounting method:

| | Impact on change in accounting policy | | |
|--|--|------------------|---------------------------|
| | As reported | Impact of | Legacy GAAP |
| | September 30, 2018 | ASC 606 | September 30, 2018 |
| Prepaid and other current assets | \$ 1,102 | \$ (452) | \$ 650 |
| Other assets | 828 | (242) | 586 |
| Deferred revenue, short-term and long-term | \$ 4,664 | \$ — | \$ 4,664 |
| Accumulated deficit | (150,553) | 694 | (149,859) |

5. Property and Equipment

Property and equipment consists of the following at September 30, 2018 and March 31, 2018 (in thousands):

| | Estimated useful life | September 30, 2018 | March 31, 2018 |
|---|--|-----------------------|-------------------|
| Network sites and equipment | 5-10 years | \$ 15,451 | \$ 15,263 |
| Computer equipment | 5-7 years | 153 | 184 |
| Computer software | 1-3 years | 33 | 10 |
| Furniture and fixture and other equipment | 2-5 years | 1,230 | 1,418 |
| Leasehold improvements | Shorter of the lease term or 10 years | 354 | 344 |
| | | 17,221 | 17,219 |
| Less accumulated depreciation | | 6,755 | 5,468 |
| | | 10,466 | 11,751 |
| Construction in process | | 537 | 1,024 |
| Property and equipment, net | | <u>\$ 11,003</u> | <u>\$ 12,775</u> |

Depreciation expense for the three months ended September 30, 2018 and September 30, 2017 amounted to \$0.7 million. The depreciation expense for the six months ended September 30, 2018 and September 30, 2017 was \$1.4 million. For the three and six months ended September 30, 2018 and 2017, depreciation expense was primarily classified as cost of revenue in the Company's Consolidated Statements of Operations. During the six months ended September 30, 2018, the Company recorded a \$0.5 million non-cash charge for long-lived asset impairment of its radio assets to reduce the carrying value to the estimated recoverable amount. Leasehold improvements include certain allowances for tenant improvements related to the expansion of the Company's corporate headquarters. Construction in process includes the expenditures related to the costs to establish the Company's dedicated wide-area, two-way radio dispatch networks in certain metropolitan areas.

6. 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. The Company believes that no impairment indicators existed as of September 30, 2018 for which the Company would recognize impairment.

During the six months ended September 30, 2018, the Company entered into agreements with several third parties in multiple U.S. markets to acquire wireless licenses for cash consideration, upon FCC approval.

Intangible assets consist of the following at September 30, 2018 and March 31, 2018 (in thousands):

| | Wireless Licenses |
|-------------------------------|-------------------|
| Balance at March 31, 2018 | \$ 106,606 |
| Acquisitions | 936 |
| Balance at September 30, 2018 | <u>\$ 107,542</u> |

7. Accounts Payable - officers

Accounts payable - officers represents unreimbursed expenses including travel and entertainment expenses incurred by the Company's officers. At September 30, 2018 and March 31, 2018, the accounts payable to officers amounted to approximately \$28,000 and \$94,000, respectively.

8. Note Payable

On October 23, 2015, the Company entered into a promissory note in the amount of \$1,289,013 with a third party in exchange for wireless licenses. The term of the note was through March 15, 2018 and bore a fixed rate of interest, of 0.55% per annum,

which was based on the Short Term Applicable Federal Rate on the closing date. The note payable was paid in full as of March 31, 2018.

9. Impairment and Restructuring Charges

Long-lived Asset Impairment.

During the six months ended September 30, 2018, the Company reviewed assets designated for its TeamConnect business. As a result of the Company's shift to better align and focus its business priorities on its spectrum initiatives, 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 \$0.5 million to reduce the carrying value of these assets to zero.

Restructuring Charges.

In April 2018, the Company announced a shift in its focus and resources in order to pursue the 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 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. As of September 30, 2018, the Company recorded a liability of \$3.2 million, of which \$1.9 million is reflected in accounts payable and accrued expenses, for the cash payments under both the Transition and Consulting Agreements for Mr. Pescatore and the other key employees. These payments will be made over a period of time between eighteen and twenty-four months beginning October 2018. In addition, for the three months ended September 30, 2018, the Company recorded a non-cash \$1.7 million charge for stock compensation expense due to modifications to the key employee stock grants. For the six months ended September 30, 2018, the Company recorded a non-cash \$4.5 million charge for stock compensation expense due to modifications to Mr. Pescatore's stock grants and the key employee stock grants.

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 7 additional positions. As a result, the Company recorded a restructuring charge in the three months ended September 30, 2018 of approximately \$0.1 million and \$0.4 million for the six months ended September 30, 2018, related to employee severance and benefit costs.

Total restructuring costs of \$4.1 million on the consolidated statement of operations for the three months ended September 30, 2018 consists of \$1.7 million stock compensation expense, \$2.3 million for the Continued Service, Consulting and Transition Agreements for key employees, which will be paid over 18 months, and \$0.1 million for severance and benefit costs, which was paid as of September 30, 2018. For the six months ended September 30, 2018, total restructuring costs were \$8.1 million consisting of \$4.5 million of stock compensation expense, \$3.2 million for the CEO Transition Agreements and the consulting and transition agreements, as well as \$0.4 million related to employee severance and benefit costs. As of September 30, 2018, \$1.9 million of accrued restructuring costs were accounted for in accounts payable and accrued expenses and \$1.3 million were accounted for in other liabilities on the Company's Consolidated Balance Sheets. The Company believes that the restructuring efforts will be determined by the end March 31, 2019.

For the six months ended September 30, 2018, total accrued restructuring charges were as follows (in thousands):

| | Restructure Activity |
|-------------------------------|----------------------|
| Balance at March 31, 2018 | \$ — |
| Severance costs | 527 |
| Consulting costs | 3,053 |
| Facility exit | 3 |
| Cash payments | (391) |
| Balance at September 30, 2018 | <u>\$ 3,192</u> |

10. Income Taxes

On December 22, 2017, the U.S. government enacted comprehensive tax legislation, commonly referred to as the U.S. Tax Cuts and Jobs Act (the “Act”). For tax years ending after December 31, 2017, the Company can 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 net operating losses and interest expense. Thus, the deferred tax liability from the indefinite lived intangibles is offset fully by the deferred tax assets, specifically the net operating losses that do not expire. As a result, the Company recorded no income tax expense for the three and six months ended September 30, 2018.

For the three and six months ended September 30, 2017, the Company recorded \$0.7 million and \$1.3 million in income tax expense. The Company’s tax provision for this period had an unusual relationship to the pre-tax loss from continuing operations due primarily to the existence of a full deferred tax asset valuation allowance at the beginning of the period ending September 30, 2017. The tax expense recorded in the three and six months ended September 30, 2017 resulted from \$1.8 million and \$3.6 million, respectively, of tax amortization of the Company’s indefinite-lived intangible assets (\$1.3 million net of tax) that was not available to offset existing deferred tax assets under the law prior to the Act.

In May 2018, the Company received notice from the Internal Revenue Service that it would be auditing the Company’s tax return for the period ended March 31, 2016. The audit began at the end of June 2018 and is on-going.

11. Stock Acquisition Rights, Stock Options and Warrants

The Company established the pdvWireless, Inc. 2014 Stock Plan (the “2014 Stock Plan”) to attract, retain and reward individuals who contribute to the growth of the Company. While the 2014 Stock Plan superseded previous stock plans. 23,442 stock options remained vested and outstanding as of September 30, 2018 under such previous stock plans.

The Company’s Board of Directors has reserved 3,511,695 shares of common stock for issuance under its 2014 Stock Plan as of September 30, 2018. The number of shares will continue to automatically increase each January 1st 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.

Restricted Stock and Restricted Stock Units

A summary of non-vested restricted stock activity for the six months ended September 30, 2018 is as follows:

| | Restricted Stock | Weighted Average Grant Date Fair Value |
|---|---------------------|--|
| Non-vested restricted stock outstanding at March 31, 2018 | 217,813 | \$ 24.69 |
| Granted | 145,060 | 29.73 |
| Forfeited | (22,284) | (24.39) |
| Vested | (43,800) | (23.92) |
| Non-vested restricted stock outstanding at September 30, 2018 | <u>296,789</u> | <u>\$ 24.52</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 \$1.4 million for the three months ended September 30, 2018 and approximately \$2.6 million for the six months ended September 30, 2018. For the three and six months ended September 30, 2017, stock compensation expense related to restricted stock was approximately \$0.4 million and \$0.9 million, respectively.

The Company entered into the CEO Transition Agreements on April 23, 2018. It also entered into additional consulting and transition agreements with several other key employees during the three months ended September 30, 2018. As a result of these agreements, the Company determined that 56,362 of restricted stock units should be accounted for as a Type III modification, (the award was not probable to vest prior to the modification but is probable of vesting under the modified condition) for the six months ended September 30, 2018. The expense recorded for these modifications was approximately \$0.8 million in the three months ended September 30, 2018 and \$1.4 million in the six months ended September 30, 2018 and is accounted for in restructuring costs.

Stock compensation expense of \$0.7 million and \$1.2 million for the three and six months ended September 30, 2018 for restricted stock is accounted for in general and administrative expense in the Company’s Consolidated Statement of Operations. At September 30, 2018, there was \$6.1 million of unvested compensation expense related to the restricted stock, which is expected to be recognized over a weighted average period of 3.02 years.

Performance Stock Units

A summary of the performance stock unit activity for the six months ended September 30, 2018 is as follows:

| | Performance Stock | Weighted Average Grant Date Fair Value |
|---|----------------------|---|
| Performance stock outstanding at March 31, 2018 | 109,138 | \$ 23.80 |
| Granted | — | — |
| Forfeited | — | — |
| Vested | — | — |
| Performance stock outstanding at September 30, 2018 | <u>109,138</u> | <u>\$ 23.80</u> |

The 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 goal. The units will vest in full upon attainment of the performance goals. Performance is based upon achievement, prior to January 13, 2020, of (A) 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.

For the three and six months ended September 30, 2018 and 2017, there was no stock compensation expense recognized for the performance units. At September 30, 2018, there was approximately \$2.6 million of unvested compensation expense related to the outstanding performance stock units.

Stock Options

A summary of stock option activity for the six months ended September 30, 2018 is as follows:

| | Options | Weighted Average Exercise Price |
|---|------------------|---------------------------------------|
| Options outstanding at March 31, 2018 | 1,968,374 | \$ 23.11 |
| Granted during the period | 751,484 | 29.73 |
| Exercised during the period | (42,224) | (19.31) |
| Forfeited/Expired during the period | (675,347) | (23.09) |
| Options outstanding at September 30, 2018 | <u>2,002,287</u> | <u>\$ 25.69</u> |

The Company entered into the CEO Transition Agreements on April 23, 2018. It also entered into additional consulting and transition agreements with several other key employees during the three months ended September 30, 2018. As a result of these agreements, the Company determined that 574,434 stock options to purchase shares of common stock should be accounted for as a Type I modification, (which does not change the expectation that the award will ultimately vest resulting from an increase in the term to exercise the options) for the six months ended September 30, 2018. The Company also determined that 56,250 stock options to purchase shares of common stock should be accounted for as a Type III modification for the six months ended September 30, 2018. As a result, the 630,684 stock options are reflected as a new grant and the old grants are treated as forfeited.

The stock options to purchase shares of common stock awarded to the Company employees and consultants during the six months ended September 30, 2018 was 120,800, of which 112,000 were awarded to employees and 8,800 were awarded to consultants, and which have a ten-year contractual life. Of the 112,000 stock options to purchase shares of common stock that were granted in the six months ended September 30, 2018, 100,000 stock options were granted to the President and 12,000 stock options were granted to employees. For the stock options granted to employees, they will vest 25% on the first anniversary of grant, and the remainder will vest in three equal annual installments thereafter. The stock option to purchase 100,000 shares of common stock awarded to the Company's President vests 50% on the second anniversary of grant and 25% each in two annual installments. Shares granted to employees are subject to vesting, future settlement conditions and other such terms as determined by the Board of Directors and set forth in the applicable award agreements.

Additional information regarding stock options outstanding at September 30, 2018 is as follows:

| | Exercise Prices | | Number Outstanding | Weighted Average Remaining Life in Years | Weighted Average Exercise Price | Options Exercisable | Weighted Average Exercise Price of Shares Exercisable | |
|----|-----------------|------|--------------------|--|---------------------------------|---------------------|---|----------|
| | \$ | - \$ | | | | | | |
| \$ | 13.25 | - | 20.00 | 630,906 | 5.97 | \$ 19.83 | 626,781 | \$ 19.83 |
| | 20.01 | - | 46.23 | 1,341,131 | 6.28 | 27.91 | 898,316 | 28.58 |
| | 46.24 | - | 72.85 | 30,250 | 6.51 | 49.13 | 22,687 | 49.13 |
| | | | | <u>2,002,287</u> | 6.19 | \$ 25.69 | <u>1,547,784</u> | \$ 25.34 |

The Black-Scholes option model requires weighted average assumptions to be used for calculation of the Company's stock compensation expense. The assumptions used during the six months ended September 30, 2018 were: the expected life of the awards was 5 years; the risk-free interest rate was 2.5%; the expected volatility was 49.71%; the expected dividend yield was 0.0%; and the expected forfeiture rate was 3%.

Performance Stock Options

A summary of the performance stock options as of September 30, 2018 is as follows:

| | Performance Options | Weighted Average Exercise Price |
|---|---------------------|---------------------------------|
| Performance options outstanding at March 31, 2018 | 179,945 | \$ 25.83 |
| Performance options granted | — | — |
| Performance options forfeited/expired | — | — |
| Performance options outstanding at September 30, 2018 | <u>179,945</u> | <u>\$ 25.83</u> |

The performance options will vest in full immediately upon attainment of the performance goals. Performance is based upon the Company's achievement, prior to January 13, 2020, of (A) 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.

The stock compensation expense related to the consulting and transition agreements entered into by the Company for the three and six months ended September 30, 2018 was \$1.1 million and \$3.2 million, respectively. This expense was incurred due to the Type I and Type III modifications resulting from the consulting and termination agreements. The expense is accounted for in restructuring costs in the accompanying Consolidated Statement of Operations.

Stock compensation expense related to the amortization of the fair value of stock options (other than the performance stock options) issued was approximately \$1.0 million and \$1.6 million for the three and six months ended September 30, 2018, respectively. For the three and six months ended September 30, 2017, the comparable stock compensation expense was approximately \$0.9 million and \$1.6 million, respectively. There was no stock compensation expense related to the performance stock options issued for the three and six months ended September 30, 2018 and 2017. The stock compensation expense is included in general and administrative expense in the accompanying Consolidated Statement of Operations.

The weighted average fair value for the stock option awards granted during the six months ended September 30, 2018 was \$7.02 per share. As of September 30, 2018, there was approximately \$4.8 million of unrecognized compensation cost related to non-vested stock options granted under the Company's stock option plans, of which \$2.8 million pertains to the non-performance based stock options which is expected to be recognized over a weighted-average period of 2.9 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. Commitments and Contingencies

Leasing Obligations

The Company is obligated under certain lease agreements for office space with lease terms expiring on various dates from January 7, 2019 through March 31, 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 February 28, 2020 to June 30, 2026.

Rent expense amounted to approximately \$0.6 million and \$1.3 million for the three and six months ended September 30, 2018, respectively, of which approximately \$0.5 million and \$1.0 million for the three and six month periods ended September 30, 2018, respectively, was classified as cost of revenue and the remainder of approximately \$0.1 million and \$0.3 million was classified in operating expenses in the Consolidated Statements of Operations. Total rent expense amounted to approximately \$0.7 million and \$1.3 million for the three and six months ended September 30, 2017, respectively, of which approximately \$0.4 million and approximately \$0.8 million, respectively, was classified as cost of revenue and the remainder of approximately \$0.3 million and \$0.5 million, respectively, was classified in operating expenses in the Consolidated Statements of Operations. At September 30, 2018, accumulated deferred rent payable amounted to approximately \$2.2 million and is included as part of other liabilities in the accompanying Consolidated Balance Sheet.

Aggregate rentals, under non-cancelable leases for office and tower space (exclusive of real estate taxes, utilities, maintenance and other costs borne by the Company), for the remaining terms of the leases following the six months ended September 30, 2018 are as follows (in thousands):

| | | |
|-----------------|----|--------|
| 2019 (6 months) | \$ | 1,140 |
| 2020 | | 2,149 |
| 2021 | | 1,854 |
| 2022 | | 1,495 |
| 2023 | | 1,314 |
| After 2023 | | 3,986 |
| Total | \$ | 11,938 |

Litigation

The Company is not involved in any material legal proceedings at this time. However, 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. In the event of an adverse outcome of these proceedings, the Company believes the resulting liabilities would not have a material adverse effect on its financial condition or results of operations.

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.

The Company sells its current software applications product and extends credit predominately through two domestic third-party carriers. 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 months and six months ended September 30, 2018, the Company had one Tier 1 domestic carrier that accounted for approximately 28% and 31%, respectively of operating revenues. For the three and six months ended September 30, 2017, the Company had one Tier 1 domestic carrier that accounted for approximately 40% of operating revenues.

As of September 30, 2018, and March 31, 2018, the Company had one Tier 1 domestic carrier that accounted for approximately 41% and 53%, respectively, 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 pdvWireless, Inc. (“PDV,” 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 and the audited financial statements and notes thereto included in our amended Annual Report on Form 10-K/A for the year ended March 31, 2018, filed with the SEC on August 9, 2018. 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 Quarterly Report on Form 10-Q and in our amended Annual Report on Form 10-K/A. 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, the Company does not undertake any obligation to update forward-looking statements to reflect events or circumstances occurring after the date of this Quarterly Report.

Overview

We are a wireless communications company focused on developing and offering our spectrum assets for the deployment of next generation network and mobile communication solutions designed to meet the needs of critical infrastructure and enterprise customers. We are the largest holder of licensed spectrum in the Part 90 900 MHz band (i.e., 896-901 MHz paired with 935-940 MHz) throughout the contiguous United States, plus Hawaii, Alaska and Puerto Rico. On average, we hold approximately 60% of the channels in our portion of the 900 MHz band in the top 20 metropolitan market areas in the United States. We maintain offices in Woodland Park, New Jersey, Reston, Virginia, and San Diego, California.

As our first priority, we have initiated and are currently pursuing a regulatory proceeding at the Federal Communications Commission (“FCC”) aimed at modernizing and realigning the Part 90 900 MHz spectrum band to increase its usability and capacity, including for the future deployment of broadband and other advanced technologies and services. At the same time, we are exploring and developing network and mobile communication solutions, leveraging our spectrum, to address the unmet needs of our targeted critical infrastructure and enterprise customers. For our first offering, we have deployed push-to-talk (“PTT”) networks and offer our TeamConnectSM, which we initially branded and marketed as DispatchPlusTM, two-way radio service in seven major metropolitan market areas, including Atlanta, Baltimore/Washington, Chicago, Dallas, Houston, New York and Philadelphia. TeamConnect allows our enterprise customers to increase the productivity of their field-based workers and the efficiency of their dispatch and call center operations. We are pursuing opportunities to enable additional network and mobile communication solutions for use by critical infrastructure and enterprise customers with our existing spectrum and currently available non-broadband technologies and, if we are successful with our FCC efforts, utilizing our spectrum assets to enable broadband and other advanced wireless service offerings.

Spectrum Initiatives

Our spectrum is our most valuable asset. Although we can use our spectrum for our existing TeamConnect business and for other narrowband and wideband wireless services without the need to obtain any further FCC authorizations or rule modifications, many of the future business opportunities that we have identified require higher bandwidth than we possess given the current configuration of our spectrum. As a result, we are pursuing a number of initiatives to increase the usability, efficiency and capacity of our 900 MHz spectrum.

In November 2014, we and the Enterprise Wireless Alliance (“EWA”) submitted a Joint Petition for Rulemaking to the FCC to propose the realignment of a portion of the 900 MHz band from narrowband to broadband. In response to the Joint Petition, the FCC issued a public notice requesting comments from interested parties and asked a number of questions about the proposal. A number of parties, including several incumbent licensees, filed comments with the FCC expressing their views, including both support and opposition. In May 2015, we and the EWA filed proposed rules with the FCC related to the Joint Petition. Comments on the proposed rules were filed in June 2015, and reply comments in July 2015.

On August 4, 2017, the FCC issued a Notice of Inquiry (“NOI”) that we believe signified the FCC’s interest in conducting a serious and comprehensive evaluation of the current and future rules governing the 900 MHz band. In the NOI, the FCC announced that it had commenced a proceeding to examine whether it would be in the public interest to change the existing rules governing the 900 MHz band to enable increased access to spectrum, improved spectrum efficiency and expanded flexibility for a variety of potential uses and applications, including broadband and other advanced technologies and services. The FCC stated that the purpose of the NOI was to gather information from interested parties to assist the FCC in its decision-making process. The FCC requested interested parties, including us, to comment on a number of questions related to three potential options for the 900 MHz band: (i) retaining the current configuration of the 900 MHz band, but increasing operational flexibility, (ii) reconfiguring a portion or all of the 900 MHz band to support broadband and other advanced technologies and services or (iii) retaining the current 900 MHz band licensing and eligibility rules. Because the FCC requested information on multiple options for the 900 MHz band, the NOI effectively superseded the Joint Petition and other pending proposals that involved the 900 MHz band. However, a broadband reconfiguration option included in the NOI was consistent with our Joint Petition proposal, and all information we previously provided to the FCC to support the realignment and modernization of the 900 MHz band remained relevant.

We and EWA filed a joint response to the FCC's NOI on October 2, 2017 and reply comments on November 1, 2017. On May 1, 2018, we and the EWA augmented elements of our initial joint response to the NOI based on our discussions and interactions with incumbents and other interested parties to the NOI proceeding. This filing was intended to address and resolve issues and concerns expressed by incumbents in and adjacent to the portion of the 900 MHz band proposed for broadband use. Our most recent responsive filing also proposed a means to increase the alternatives through which licenses for a new 3 X 3 900 MHz broadband service could be put to use by utilities and other members of the critical infrastructure industry, as well as by other private enterprise companies. We believe these alternatives add elements of flexibility and, ideally, could shorten the time required to introduce important broadband communication capabilities to these market segments.

Specifically, our most recent responsive filing proposes that: (i) during the first year after FCC adoption of the relevant licensing rules, utilities and other Business/Industrial/Land Transportation ("B/ILT") applicants would have the exclusive opportunity to secure Private Enterprise Broadband ("PEBB") licenses, and could utilize the traditional frequency coordination process to do so, based on acquiring control of the requisite 240 discrete 900 MHz channels (the number of channels equivalent to a 3 X 3 MHz broadband allocation) through combining any of their own licensed channels with any they might purchase or lease from third party licensees and those they might be assigned from available FCC channel inventory; (ii) successful applicants then could obtain frequency coordinator approval to exchange such channels for a 3 X 3 MHz PEBB license to be issued by the FCC, which could be deployed, operated and maintained, in accordance with applicable service rules, either solely by the applicant licensee, or with the assistance and/or participation of third parties and (iii) the coverage territory for such a PEBB license would correspond (a) in urbanized areas (defined to be the top 306 Cellular Market Areas; "CMAs"), to a metropolitan statistical area ("MSA") and (b) in non-urbanized areas (the remaining CMAs) to individual counties, which we believe, in each case, represent geographic areas that will more closely match up with the service territories of most utilities and the areas of business focus for other private enterprises. In addition, our most recent responsive filing proposes shifting the contemplated 3 X 3 MHz broadband allocation 400 kHz down to a new location in the 900 MHz band, a change that has addressed the concern regarding potential interference previously expressed by incumbents in the narrowband PCS spectrum immediately above the top end of our portion of the 900 MHz band. It also will allow for greater separation between any co-located frequencies in narrowband systems.

We have responded to all outstanding requests for information from the FCC, and we are currently awaiting FCC action. Based on our discussions with the staff of the FCC, we believe that the proceeding is under active consideration. The FCC's next step could be issuance of a Notice of Proposed Rulemaking based on the NOI and the record developed in response to it, a request for additional information, a decision to close the proceeding without further action, or some other action, and the timing of any such next step also remains uncertain. We are aware of statements made by FCC personnel in various settings indicating that FCC action, generally consistent with many aspects of the Company's and EWA's most recent proposals and related comments, is expected to occur sometime in the Fall of this year. While such statements do not constitute an official FCC announcement or position, we remain optimistic concerning the prospects for future regulatory actions directed at moving the FCC processes toward authorizing and enabling broadband use of a portion of the 900 MHz band spectrum. Moreover, certain of the matters proposed in our most recent responsive filing are contingent on other developments, such as formalizing our tentative agreement with the Association of American Railroads to exchange their frequencies, some of which are located immediately below the lower end of the originally proposed 900 MHz broadband allocation, for PDV frequencies further down in the 900 MHz band, to accommodate the proposed 400 kHz shift of that allocation. In addition, all aspects of potential changes in the configuration and/or use of frequencies in the 900 MHz band remain subject to necessary FCC approvals.

We continue to believe in the merits of our broadband approach, and that it would be in the public interest for the FCC to realign the 900 MHz band to enable broadband and other advanced technologies and services. Nevertheless, obtaining a favorable result from the FCC may take a significant amount of time and resources. Moreover, there is no assurance that following the conclusion of the NOI process, the FCC will ultimately propose and adopt rules that will allow utilization of our licensed 900 MHz spectrum to offer broadband and other advanced technologies and services.

The full text of the NOI, further comments and related correspondences are available on the FCC's public website at <https://www.fcc.gov/document/900-mhz-notice-inquiry>, and our filed comments and responses, as well as those of others submitting comments and/or responses in the NOI proceeding, also are available on the FCC's public website.

To prepare for the filings we have submitted with the FCC and to build support for a 900 MHz broadband realignment, we have met, and intend to continue to meet, with a number of incumbent licensees, critical infrastructure businesses and other interested parties in the 900 MHz band. We have provided business proposals to several incumbents to assist with their communication needs. The goals of these discussions have been: (i) building consensus for the proposed reconfiguration of the 900 MHz band to support broadband and other advanced technologies and services; (ii) resolving any technology or other concerns raised by incumbent licensees; (iii) educating critical infrastructure businesses on how broadband capabilities could enhance their operations and initiatives (for example, supporting grid modernization requirements or monitoring and/or controlling their own system or network elements via machine-to-machine type services); (iv) gaining a better understanding of the size of the operational incumbent base and the nature of the systems they are currently operating; (v) to refine and modify aspects of our proposal to seek to minimize potential concerns and problems expressed by certain incumbents; (vi) to gain additional support for that proposal (as so refined and modified); (vii) to accelerate the availability of a sub-1 GHz broadband spectrum allocation for use in a private network context designed to meet the specialized

requirements of utilities, other critical infrastructure industry members and private enterprise users; and (viii) evaluating and proposing voluntary license relocation opportunities to certain incumbent licensees. With certain incumbent licensees, we are continuing to attempt to build consensus and to resolve any concerns they have expressed regarding our broadband initiatives; with others, we are soliciting their support and cooperation to structure and implement mutually beneficial relocations; and with select critical infrastructure enterprises, we are jointly investigating how the future broadband capabilities that we are pursuing could be employed to meet their anticipated needs and future operating plans. A number of critical infrastructure and enterprise companies have put on the record their needs and unique requirements for networks and services utilizing broadband and other next generation technologies. We anticipate that the NOI proceeding will continue to afford other companies with the opportunity to put similar use case requirements on the record.

Our TeamConnect and pdvConnect Businesses

In Fiscal 2016, we began offering our commercial PTT service, which we market as TeamConnect, in seven major metropolitan areas throughout the United States, including Atlanta, Baltimore/Washington, Chicago, Dallas, Houston, New York and Philadelphia. We developed TeamConnect to address the needs of enterprises that value a tailored PTT solution addressing the management of their mobile workforce. TeamConnect includes features that allow communications between PTT radios on our MOTOTRBO networks and smartphones or tablets operating on any cellular carrier network, and that permit, through our TeamConnect Hub functionality, any computer connected to the internet to use its browser as a dispatch control center. The operation of our TeamConnect business is separate from, and not contingent on, the initiatives we are pursuing at the FCC or our other spectrum-related activities.

Our revenues are derived substantially from our TeamConnect and pdvConnect™ offerings. Our TeamConnect service combines pdvConnect, our proprietary suite of mobile communication and workforce management applications, with advanced digital network architecture and mobile devices supplied by Motorola Solutions, Inc. and/or its subsidiaries (“Motorola”). Developed for dispatch-centric businesses, and historically offered principally to customers who utilize Tier 1 cellular networks, pdvConnect is an efficient mobile communication and workforce management solution that enables businesses to locate and communicate with their field workers and improve the documentation of work events and job status. Also built with the commercial dispatch customer in mind, Motorola’s digital network architecture allows us to provide highly reliable, instant and wide-area PTT communication services to our customers.

On June 1, 2018, our Board of Directors approved an initial plan to restructure our business aimed at reducing the future operating costs of our TeamConnect and pdvConnect businesses and better aligning and focusing our business priorities on our spectrum initiatives. Earlier in Fiscal 2019, we also announced that we had received information from one of our Tier 1 carrier partners that the largest customer of our pdvConnect service planned to discontinue its use of that service during Fiscal 2019. As a result of the loss of this significant customer and our implementation of the restructuring plan and the related measures taken to reduce the operating costs of our TeamConnect and pdvConnect businesses, principally in the sales and marketing areas, the operating revenues from these businesses exhibited a small decline in the current quarter compared to the prior quarter ended June 30, 2018, and we expect that our operating revenues from these businesses will continue to decline in future reporting periods.

Critical Accounting Policies and Estimates

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America, which require management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, our actual results could differ from those based on such estimates and assumptions. Further, to the extent that there are differences between our estimates and our actual results, our future financial statement presentation, financial condition, results of operations and cash flows will be affected. We believe that the accounting policies discussed below are critical to understanding our historical performance, as these policies relate to the more significant areas involving our judgments and estimates.

We believe that the areas described below are the most critical to aid in fully understanding and evaluating our reported financial results, as they require management’s most significant judgments in the application of accounting policy or in making estimates and assumptions that are inherently uncertain and that may change in subsequent periods. Our significant accounting policies are set forth in Note 3 to our consolidated financial statements. Of those policies, we believe that the policies discussed below may involve a higher degree of judgment and may be more critical to an accurate reflection of our financial condition and results of operations.

Revenue Recognition. Revenues are recognized when a contract with a customer exists and control of the promised goods or services is transferred to our customers, in an amount that reflects the consideration we expect 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 Standard Codification, (“ASC”), 606 *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. Our contracts with customers may include multiple performance obligations. For such arrangements, we allocate revenue to each performance obligation based on its relative standalone selling price. We generally determine standalone selling prices based on the prices charged to customers under contracts involving only the relevant performance obligations. Judgment may be used to determine the standalone selling prices if for items that are not sold separately, including services provided at no additional charge. Most of our performance obligations are satisfied at a point in time as services are provided.

Our contract assets include the portion of our future service invoices which have been allocated to the discounted price of the radios and amortized as a reduction against service revenue over the contract period. We also recognize 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 recognized as an asset.

Our contract liabilities primarily relate to advance consideration received from customers for our spectrum services, for which revenue is recognized over time, as the services are performed. These contract liabilities are recorded as deferred revenue on the consolidated balance sheets.

In September 2014, Motorola paid us an upfront, fully-paid fee of \$7.5 million in order to use a portion of our wireless spectrum licenses. The payment of the fee is accounted for as deferred revenue on our consolidated balance sheets and is recognized ratably in accordance with ASC 606 over the contractual term of approximately ten years.

Stock compensation. For purposes of calculating stock-based compensation, we estimate the fair value of stock options using a Black-Scholes option-pricing model. The determination of the fair value of option-based compensation utilizing the Black-Scholes model is affected by a number of assumptions, including expected volatility, expected life, risk-free interest rate and expected dividends. The expected term and volatility is based on the historical volatility of our common stock along with comparable public companies within our industry since we have a short history regarding these variables. The risk-free interest rate assumption is based on the U.S. Treasury yield curve in effect at the time of the grant for periods corresponding with the expected life of the options. The dividend yield assumption is zero since we have never paid and do not anticipate paying any cash dividends in the foreseeable future. In addition, we will continue to estimate the number of equity awards that are expected to vest based on historical forfeiture rates.

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

We have not attributed tax benefits to the share-based compensation expense because we maintain a full valuation allowance for all net deferred tax assets.

Intangible Assets. Intangible assets are wireless licenses that will be used to provide us 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 our wireless licenses. As a result, we have determined that the wireless licenses should be treated as an indefinite-lived intangible asset. We will evaluate the useful life determination for our wireless licenses each year to determine whether events and circumstances continue to support our treatment as an indefinite useful life asset.

The licenses are tested for impairment on an aggregate basis, as we will be utilizing the wireless licenses on an integrated basis as a part of developing or enabling a nationwide network. Before employing detailed impairment testing, we first evaluate the likelihood of impairment by considering relevant qualitative factors that may have a significant bearing on fair value. If we determine that it is more likely than not that the wireless licenses are impaired, we will apply a quantitative analysis including detailed testing methodologies. Otherwise, we conclude that no impairment exists. In the event a quantitative analysis is required, we consider estimates of valuation methods to perform the test of the fair values of the wireless licenses using, among other things, market based and discounted cash flow approaches.

Long-Lived Asset Impairment. We evaluate long-lived assets for impairment, other than intangible assets with indefinite lives, 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 a long-lived asset group is 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.

Income taxes. We utilize 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 bases of assets and liabilities as well as from net operating loss and tax credit carryforwards. The effect on deferred tax assets and liabilities of a change in 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.

Accounting for uncertainty in income taxes. We recognize the effect of tax positions only when they are more likely than not to be sustained. Our management has determined that we had no uncertain tax positions that would require financial statement recognition or disclosure. We are no longer subject to U.S. federal, state or local income tax examinations for periods prior to 2014.

JOBS Act. So long as we remain an emerging growth company, or EGC, under the JOBS Act we are eligible for exemptions from various reporting requirements applicable to other public companies that are not EGCs, including, but not limited to:

- Not being required to comply with the auditor attestation requirements of Section 404 of the Sarbanes-Oxley Act of 2002;
- Reduced disclosure obligations regarding executive compensation in our periodic reports, proxy statements and registration statements; and
- Exemptions from the requirements of holding a nonbinding advisory vote on executive compensation and stockholder approval of any golden parachute payments not previously approved.

As an EGC, we are also eligible to take advantage of the extended transition period provided in Section 7(a)(2)(B) of the Securities Act of 1933, as amended, for complying with new or revised accounting standards. Thus, we could delay the adoption of certain accounting standards until those standards would otherwise apply to private companies. Nevertheless, we have elected not to avail ourselves of this extended transition period and, as a result, we will adopt new or revised accounting standards no later than the relevant dates on which adoption of such standards is required for other public companies.

We will remain an emerging growth company until the earlier of (a) the last day of the fiscal year following January 26, 2020, (b) the last day of the fiscal year in which we have total annual gross revenue of at least \$1.0 billion, (c) the date on which we are deemed to be a large accelerated filer, which means the market value of our common stock that is held by non-affiliates exceeds \$700 million as of the end of the prior second fiscal quarter (currently September 30th), or the date on which we have issued more than \$1.0 billion in non-convertible debt during the prior three-year period.

Results of Operations

Comparison of the three and six months ended September 30, 2018 and 2017

The following table sets forth our results of operations for the three and six months ended September 30, 2018 and 2017. The period-to-period comparison of financial results is not necessarily indicative of the financial results we will achieve in future periods.

| | Three months ended | | Six months ended | |
|---|--------------------|-------------|------------------|-------------|
| | September 30, | | September 30, | |
| | 2018 | 2017 | 2018 | 2017 |
| | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) |
| Operating revenues | | | | |
| Service revenue | \$ 1,295 | \$ 1,163 | \$ 2,642 | \$ 2,268 |
| Spectrum revenue | 182 | 182 | 364 | 364 |
| Other revenue | 347 | 168 | 688 | 346 |
| Total operating revenues | 1,824 | \$ 1,513 | \$ 3,694 | \$ 2,978 |
| Cost of revenue | | | | |
| Sales and service | 1,798 | 1,911 | 3,948 | 3,612 |
| Gross profit (loss) | 26 | (398) | (254) | (634) |
| Operating expenses | | | | |
| General and administrative | 6,590 | 4,995 | 12,155 | 9,876 |
| Sales and support | 864 | 1,703 | 2,495 | 3,390 |
| Product development | 573 | 628 | 1,211 | 1,180 |
| Restructuring costs | 4,147 | — | 8,122 | — |
| Impairment of long-lived assets | — | — | 531 | — |
| Total operating expenses | 12,174 | 7,326 | 24,514 | 14,446 |
| Loss from operations | (12,148) | (7,724) | (24,768) | (15,080) |
| Interest expense | — | (1) | — | 1 |
| Interest income | 370 | 184 | 686 | 297 |
| Other income (expense) | (1) | (2) | — | (20) |
| Loss before income taxes | (11,779) | (7,543) | (24,082) | (14,802) |
| Income tax expense | — | 656 | — | 1,305 |
| Net loss | \$ (11,779) | \$ (8,199) | \$ (24,082) | \$ (16,107) |
| Net loss per common share basic and diluted | \$ (0.81) | \$ (0.57) | \$ (1.66) | \$ (1.12) |
| Weighted-average common shares used to compute basic and diluted net loss per share | 14,521,148 | 14,447,499 | 14,501,463 | 14,442,769 |

Operating revenues. Overall operating revenues increased by \$0.3 million, or 20.6%, to \$1.8 million for the three months ended September 30, 2018 from \$1.5 million for the three months ended September 30, 2017. For the six months ended, September 30, 2018, operating revenues increased by \$0.7 million, or 24.1%, to \$3.7 million from \$3.0 million for the six months ended September 30, 2017. The increase in the three and six months is primarily attributable to a \$0.1 million and \$0.3 million increase in service revenue in our TeamConnect business resulting from an increase in the number of TeamConnect subscribers for the three and six months ended September 30, 2018.

Other revenue, which consists primarily of equipment sales for our new product offering, Diga-Talk, increased by \$0.2 million to \$0.4 million for the three months ended September 30, 2018 from \$0.2 million, and by \$0.3 million to \$0.7 million for the six months ended September 30, 2018 from \$0.3 million.

Cost of revenue. Cost of revenue for the three months ended September 30, 2018 decreased by approximately \$0.1 million, or 6.0%, to \$1.8 million from \$1.9 million for the three months ended September 30, 2017. The decrease for the three month period resulted from lower headcount costs due to employees reassigned to other areas of the business to support our strategic initiatives as well as lower costs to maintain our 900 MHz network. For the six months ended September 30, 2018, cost of revenue increased by \$0.3 million, or 9.3%, to \$3.9 million from \$3.6 million for the six months ended September 30, 2017. The increase resulted primarily from \$0.2 million for the radio sales for Diga-Talk.

Gross profit (loss). Gross profit increased by \$0.4 million, or 106.6%, to \$26,000 in the three months ended September 30, 2018 from a gross (loss) of (\$398,000) for the three months ended September 30, 2017, as a result of our new product offering, Diga-Talk and lower headcount costs due to the reassignment of employees as well as lower costs related to maintaining our 900 MHz network. Gross (loss) decreased by \$0.4 million, or 60.4%, to (\$0.2 million) in the six months ended September 30, 2018 from (\$0.6 million) for the six months ended September 30, 2017. The improvement resulted from an increase in the revenues from our Diga-Talk offering and lower headcount costs to maintain our 900 MHz network.

General and administrative expenses. General and administrative expenses for the three months ended September 30, 2018 increased by \$1.6 million, or 31.9%, to \$6.6 million from \$5.0 million for the three months ended September 30, 2017. The increase resulted primarily from \$0.5 million in stock compensation and \$0.6 million in costs related to existing headcount. For the six months ended September 30, 2018, general and administrative expenses increased by \$2.3 million, or 23.1%, to \$12.2 million from \$9.9 million for the six months ended September 30, 2017. The increase principally resulted from \$1.0 million in costs related to existing headcount, \$0.4 million in stock compensation, and \$0.5 million in professional services and consulting expenses related to our strategic initiatives.

Sales and support expenses. Sales and support expenses for the three months ended September 30, 2018 decreased by \$0.8 million, or 49.2%, to \$0.8 million from \$1.7 million for the three months ended September 30, 2017. For the six months ended September 30, 2018, sales and support expenses decreased by \$0.9 million, or 26.4%, to \$2.5 million from \$3.4 million for the six months ended September 30, 2017. These decreases were attributable to the reduction in force that occurred in June and August 2018 resulting in lower headcount and related costs.

Product development expenses. Product development expenses remained relatively flat for the three and six months ended September 30, 2018 as compared to the three and six months ended September 30, 2017.

Restructuring costs. Restructuring costs were incurred as a result of the April and June 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. In light of this shift in focus, the Board also approved a chief executive officer transition plan, under which, John Pescatore, our chief executive officer and president, transitioned to the position of vice chairman and Morgan O'Brien, our then-current vice chairman, assumed the position as our new chief executive officer. In connection with the transition, we and Mr. Pescatore entered into a Continued Service, Consulting and Transition Agreement and a separate Consulting Agreement (the "CEO Transition Agreements"). In addition, we entered into consulting and transition agreements with several other key employees. In the three months ended September 30, 2018, a \$1.4 million liability was recorded for the cash payments under the consulting and transition agreements for the other key employees and a \$0.8 million liability was recorded in connection with the CEO Transition Agreements. Additional stock compensation expense was recorded of \$1.8 million and \$4.5 million for the three and six months ended September 30, 2018, respectively.

Impairment of long-lived assets. The impairment for the six months ended September 30, 2018 resulted from the carrying value of our TeamConnect radios not being fully recoverable due to the realigning of the business to focus on our spectrum initiatives.

Interest expense. Interest expense incurred for the three and six months ended September 30, 2017 relates to our promissory note issued in October 2015 in connection with the acquisition of wireless licenses. The promissory note was paid in March 2018.

Interest income. The \$0.2 million and \$0.4 million increase in interest income earned for the three and six months ended September 30, 2018, respectively, resulted from higher returns on the amounts held in our money market funds.

Income tax expense. For the three and six months ended September 30, 2018, there was no income tax expense recorded as a result of the U.S. Tax Cuts and Jobs Act (the "Act"), passed on December 22, 2017. The Act provided that net operating losses are indefinite lived deferred tax assets and can be fully offset by our deferred tax liability related to our indefinite lived intangible assets. The \$0.6 million and \$1.3 million non-cash income tax charge recorded for the three and six months ended September 30, 2017, respectively, was primarily a result of an adjustment to the valuation allowance against our deferred tax assets.

Liquidity and Capital Resources

At September 30, 2018, we had cash and cash equivalents of \$85.6 million.

Our accounts receivable is heavily concentrated in one Tier 1 domestic carrier partner. As of September 30, 2018, our accounts receivable balance was approximately \$1.0 million, of which approximately \$0.4 million, or approximately 41%, was due from this third-party Tier 1 domestic carrier partner.

Net cash used by operating activities. Net cash used in operating activities was \$12.2 million for the six months ended September 30, 2018, as compared to \$11.3 million for the six months ended September 30, 2017. The majority of net cash used by operating activities during the six months ended September 30, 2018 resulted from the net loss of \$24.1 million, partially offset by non-cash stock-based compensation of \$7.5 million. The majority of net cash used by operating activities during the six months ended September 30, 2017 resulted from the net loss of \$16.1 million, which includes the costs incurred to support our TeamConnect business, partially offset by non-cash stock-based compensation of \$2.5 million.

Net cash used by investing activities. Net cash used in investing activities was approximately \$1.1 million for the six months ended September 30, 2018, as compared to \$2.4 million used for the six months ended September 30, 2017. The net cash used during the six months ended September 30, 2018 resulted from wireless license acquisitions. The net cash used during the six months ended September 30, 2017 resulted from \$1.7 million in wireless license acquisitions and \$0.8 million for the continuing equipment purchases and construction costs related to the buildout of our network for our TeamConnect business.

Net cash provided by financing activities. For the six months ended September 30, 2018, net cash provided by financing activities was \$0.7 million which was principally due to \$0.8 million in cash received from the proceeds from stock option exercises. For the six months ended September 30, 2017, there was \$0.2 million in cash provided by financing activities resulting from stock option exercises.

Our future capital requirements will depend on many factors, including: the timeline and results of our FCC initiatives and related activities; the costs related to our implementation of our current the initial restructuring plan and any future restructuring actions approved by our Board of Directors for our TeamConnect and pdvConnect businesses; the revenues we generate from our TeamConnect and our pdvConnect businesses; the cost and time to identify, develop and commercialize any network and mobile communication solutions we pursue as part of our long-term business plan; and our ability to control our operating expenses.

In April 2018, we announced a shift in the focus and resources of our Company to pursue the 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 Board also approved a chief executive officer transition plan, under which, John Pescatore, our chief executive officer and president, transitioned to the position of vice chairman and Morgan O'Brien, our then-current vice chairman, assumed the position as our new chief executive officer. In connection with the transition, we and Mr. Pescatore entered into the CEO Transition Agreements. In the six months ended September 30, 2018, we recorded a liability of \$1.8 million for the cash payments under the CEO Transition Agreements. These payments will be made over twenty-four months beginning October 2018. In addition, we recorded a non-cash \$2.8 million charge for stock compensation expense due to modifications of Mr. Pescatore's equity grants. We also entered into consulting and transition and agreements with several other key employees. In the three months ended September 30, 2018, we recorded a liability of \$1.4 million for the cash payments to be made to those key employees. These payments will be made over eighteen months beginning October 2018. In addition, we recorded a non-cash \$1.7 million charge for stock compensation expense due to modifications to the equity grants of those key employees.

In June 2018, we announced that our Board approved an initial plan to restructure our business aimed at reducing the future operating costs of our TeamConnect and pdvConnect business operations and better aligning and focusing our business priorities on our spectrum initiatives aimed at modernizing and realigning the Part 90 900 MHz band to increase its usability and capacity. As part of the restructuring plan, we eliminated approximately 20 positions, or 20% of our workforce, in June 2018 primarily from our TeamConnect and pdvConnect businesses. Overall, we expect that this workforce reduction will decrease operating costs by \$1.6 million on an annualized basis. The cash payments associated with this workforce reduction were made during the three months ended September 30, 2018. The reduction in costs will assist in limiting our capital requirements over the next 12 months. We believe our cash and cash equivalents on hand will be sufficient to meet our financial obligations through at least the next 12 months.

On November 3, 2016, we filed a shelf registration statement (the "Shelf Registration Statement") on Form S-3 with the SEC that was declared effective by the SEC on November 16, 2016, which permits us to offer up to \$100 million of common stock, preferred stock, debt securities and warrants in one or more offerings and in any combination, including in units from time to time. Our Shelf Registration Statement is intended to provide us with additional flexibility to access capital markets for general corporate purposes, which may include working capital, capital expenditures, repayment of debt, other corporate expenses and acquisitions of complementary products, technologies or businesses.

On February 6, 2018, we entered into a Controlled Equity OfferingSM Sales Agreement and a Sales Agreement (collectively, the "Sales Agreements") with Cantor Fitzgerald & Co. and B. Riley FBR, Inc., respectively (collectively, the "Agents"), and registered the sale of up to an aggregate of \$40,000,000 in shares of our common stock in at-the-market sales transactions pursuant to the Sales Agreements under the Shelf Registration Statement. Through the date of this filing, we have not sold any shares of our common stock in at-the-market sales transactions or any securities under the Shelf Registration Statement.

We cannot predict with certainty when, if ever, we will require additional capital to further fund our current or future business plans and initiatives. Presently, we intend to cover our spectrum initiatives and future operating expenses through cash on hand and from revenue derived from our planned sales of our TeamConnect services and product offerings and from our licensing, leasing or selling our spectrum consistent with our spectrum initiatives. We may experience greater than expected cash usage to support our operating activities and business plan and/or our revenues may be lower, or take more time to develop, than we anticipate. See "Risk Factors" in our amended Annual Report on Form 10-K/A for the year ended March 31, 2018, filed with the SEC on August 9, 2018 for risks and uncertainties that could cause our operating costs to be more than we currently anticipate and/or our revenue and operating results to be lower than we currently anticipate. As a result, we cannot provide assurance that we will not require additional funding in the future. In addition, we intend to acquire businesses, technologies or spectrum or license technologies from third parties for or in connection with our spectrum initiatives. We also intend to pursue the development and offering of additional next generation network and mobile communications solutions. As a result, we may decide to raise additional capital through debt or equity financing, including pursuant to our Shelf Registration Statement, to the extent we believe this is necessary to successfully complete these acquisitions or license these technologies or pursue spectrum or other business opportunities. However, we cannot be sure that additional financing will be available if and when needed, or that, if available, we can obtain financing on terms favorable to us and our stockholders. Any failure to obtain financing when required would have a material adverse effect on our business, operating results, financial condition and liquidity.

Off-balance sheet arrangements

As of September 30, 2018 and March 31, 2018, 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, had concluded that our disclosure controls and procedures were not effective as of September 30, 2018 because of a material weakness in our internal control over financial reporting as of such date as discussed below.

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.

Changes in Internal Control over Financial Reporting

In connection with preparing our Quarterly Report on Form 10-Q, for the quarter ended June 30, 2018, management became aware of an error related to the Company's interpretation and application of the effective date of changes in the accounting treatment of its 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"). This error, which was not detected until the period covered by this Quarterly Report, resulted in a restatement to the Company's financial statements for the fiscal year ended March 31, 2018 and quarter ended December 31, 2017. The error was caused by an inadequate design in controls pertaining to the Company's review and analysis of changing tax legislation. The deficiency represents a material weakness in the Company's internal control over financial reporting.

Management has taken steps, and is actively engaged in taking additional steps, to remediate the material weakness identified above. The remediation plan includes (i) the implementation of new controls designed to evaluate the impact of income tax policies and changes in tax law and (ii) additional training focused on new tax legislation.

Management believes the measures described above and others that may be implemented will remediate the material weakness identified. The material weakness will not be considered remediated until the applicable remedial controls operate for a sufficient period of time and management has concluded through testing, that these controls are operating effectively. As management continues to evaluate and improve the Company's internal control over financial reporting, it may decide to take additional measures to address control deficiencies or determine to modify, or under appropriate circumstances not to complete, certain of the remediation measures identified.

Further, due to the adoption of the new revenue recognition standard ASC 606 effective April 1, 2018, the Company has begun designing and implementing additional internal controls over processes specific to the recording, processing and reporting requirements underlying the new revenue recognition requirements.

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 and other information in this Quarterly Report on Form 10-Q as well as the risk factors disclosed in our amended Annual Report on Form 10-K/A for the year ended March 31, 2018, filed with the Securities and Exchange Commission (the “SEC”) on August 9, 2018 (the “Form 10-K/A”). There have been no material changes from the risk factors as previously disclosed in our amended Annual Report on Form 10-K/A. Any of the risks discussed in this Quarterly Report on Form 10-Q, in our Form 10-K/A, 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 September 30, 2018, we have used approximately \$22.2 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 pdvWireless, Inc. (the “Company”). |
| 3.2(2) | Certificate of Amendment No. 1 to Amended and Restated Certificate of Incorporation of the Company. |
| 3.3(3) | Amended and Restated Bylaws of the Company. |
| 4.1(1) | Form of Common Stock Certificate of the Company. |
| 4.2(1) | Registration Rights Agreement, dated June 10, 2014, by and among the Company, certain of the Company’s executive officers named therein, and FBR Capital Markets & Co., on behalf of the investors participating in the June 2014 private placement. |
| 4.3(1) | Amended and Restated Investor Rights Agreement, dated October 2010, by and among the Company and investors named therein. |
| 4.4(1) | Amendment and Waiver of Rights under Amended and Restated Investor Rights Agreement, approved May 30, 2014, by and among the Company and the investors named therein. |
| 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 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.

Date: November 7, 2018

pdvWireless, Inc.

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

/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 of pdvWireless, 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: November 7, 2018

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 of pdvWireless, 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: November 7, 2018

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 pdvWireless, Inc. (the "Company") on Form 10-Q for the period ended September 30, 2018 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, pursuant to 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: November 7, 2018

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 pdvWireless, Inc. and will be retained by pdvWireless, 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 pdvWireless, 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 pdvWireless, Inc. (the "Company") on Form 10-Q for the period ended September 30, 2018, 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, pursuant to 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: November 7, 2018

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 pdvWireless, Inc. and will be retained by pdvWireless, 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 pdvWireless, 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.
