

**U.S. SECURITIES AND EXCHANGE COMMISSION**  
WASHINGTON, D.C. 20549

**FORM 10-Q**

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

For the quarterly period ended **June 30, 2019**

**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 1-15288*

**NETWORK-1 TECHNOLOGIES, INC.**

(Exact Name of Registrant as Specified in Its Charter)

**Delaware**

(State or Other Jurisdiction of Incorporation or Organization)

**11-3027591**

(IRS Employer Identification No.)

**445 Park Avenue, Suite 912  
New York, New York**

(Address of Principal Executive Offices)

**10022**

(Zip Code)

**212-829-5770**

(Registrant's Telephone Number)

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

<b>Title of each class</b>	<b>Trading symbol</b>	<b>Name of each exchange on which registered</b>
Common Stock, par value \$0.01 per share	NTIP	NYSE American

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 (§223.405) 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, or 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. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Emerging growth Company

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

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

The number of shares of the registrant's common stock, \$.01 par value per share, outstanding as of August 12, 2019 was 24,156,998.

**PART I. Financial Information**

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PART I. FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements

NETWORK-1 TECHNOLOGIES, INC.  
CONDENSED CONSOLIDATED BALANCE SHEETS  
(UNAUDITED)

	<u>June 30, 2019</u>	<u>December 31, 2018</u>
<b>ASSETS:</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 18,923,000	\$ 23,763,000
Marketable securities, at fair value	32,116,000	31,228,000
Royalty receivables, net	641,000	444,000
Other current assets	<u>58,000</u>	<u>112,000</u>
Total Current Assets	<u>51,738,000</u>	<u>55,547,000</u>
<b>OTHER ASSETS:</b>		
Deferred tax assets	271,000	168,000
Patents, net of accumulated amortization	1,883,000	1,989,000
Equity investment	3,392,000	2,541,000
Operating leases right-of-use asset	63,000	—
Security deposits	<u>21,000</u>	<u>21,000</u>
Total Other Assets	<u>5,630,000</u>	<u>4,719,000</u>
<b>TOTAL ASSETS</b>	<u>\$ 57,368,000</u>	<u>\$ 60,266,000</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY:</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable	\$ 200,000	\$ 67,000
Income taxes payable	197,000	197,000
Accrued contingency fees and related costs	276,000	1,136,000
Accrued payroll	64,000	486,000
Operating lease obligations – current	64,000	—
Other accrued expenses	<u>184,000</u>	<u>175,000</u>
<b>TOTAL CURRENT LIABILITIES</b>	<u>\$ 985,000</u>	<u>\$ 2,061,000</u>
<b>TOTAL LIABILITIES</b>	<u>\$ 985,000</u>	<u>\$ 2,061,000</u>
<b>COMMITMENTS AND CONTINGENCIES</b>		
<b>STOCKHOLDERS' EQUITY</b>		
Preferred stock, \$0.01 par value, authorized 10,000,000 shares; none issued and outstanding at June 30, 2019 and December 31, 2018	—	—
Common stock, \$0.01 par value; authorized 50,000,000 shares; 24,088,811 and 23,735,927 shares issued and outstanding at June 30, 2019 and December 31, 2018, respectively	241,000	237,000
Additional paid-in capital	65,524,000	65,151,000
Accumulated deficit	(9,464,000)	(7,102,000)
Accumulated other comprehensive income (loss)	<u>82,000</u>	<u>(81,000)</u>
<b>TOTAL STOCKHOLDERS' EQUITY</b>	<u>56,383,000</u>	<u>58,205,000</u>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<u>\$ 57,368,000</u>	<u>\$ 60,266,000</u>

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

**NETWORK-1 TECHNOLOGIES, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)**  
**(UNAUDITED)**

	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
<b>REVENUE</b>	\$ 599,000	\$ 471,000	\$ 1,205,000	\$ 19,934,000
<b>OPERATING EXPENSES:</b>				
Costs of revenue	175,000	133,000	321,000	7,392,000
Professional fees and related costs	238,000	586,000	545,000	1,104,000
General and administrative	488,000	462,000	976,000	969,000
Amortization of patents	87,000	69,000	141,000	139,000
Stock-based compensation	127,000	225,000	271,000	451,000
<b>TOTAL OPERATING EXPENSES</b>	<b>1,115,000</b>	<b>1,475,000</b>	<b>2,254,000</b>	<b>10,055,000</b>
<b>OPERATING INCOME (LOSS)</b>	<b>(516,000)</b>	<b>(1,004,000)</b>	<b>(1,049,000)</b>	<b>9,879,000</b>
<b>OTHER INCOME:</b>				
Interest income, net	301,000	203,000	602,000	346,000
Net realized and unrealized gain on marketable securities	22,000	—	45,000	—
Total other income, net	323,000	203,000	647,000	346,000
<b>INCOME (LOSS) BEFORE INCOME TAXES AND EQUITY IN NET LOSSES OF EQUITY METHOD INVESTEE</b>	<b>(193,000)</b>	<b>(801,000)</b>	<b>(402,000)</b>	<b>10,225,000</b>
<b>INCOME TAXES (BENEFIT):</b>				
Current	—	(237,000)	—	2,188,000
Deferred taxes, net	(38,000)	—	(103,000)	—
Total income taxes (benefit)	(38,000)	(237,000)	(103,000)	2,188,000
<b>INCOME (LOSS) BEFORE SHARE OF NET LOSSES OF EQUITY METHOD INVESTEE:</b>	<b>(155,000)</b>	<b>564,000</b>	<b>(299,000)</b>	<b>8,037,000</b>
<b>SHARE OF NET (LOSSES) OF EQUITY METHOD INVESTEE</b>	<b>(53,000)</b>	<b>—</b>	<b>(149,000)</b>	<b>—</b>
<b>NET INCOME (LOSS)</b>	<b>\$ (208,000)</b>	<b>\$ (564,000)</b>	<b>\$ (448,000)</b>	<b>\$ 8,037,000</b>
Net Income (Loss) Per Share				
Basic	\$ (0.01)	\$ (0.02)	\$ (0.02)	\$ 0.34
Diluted	\$ (0.01)	\$ (0.02)	\$ (0.02)	\$ 0.31
Weighted average common shares outstanding:				
Basic	23,917,563	23,713,827	23,830,367	23,760,163
Diluted	23,917,563	23,713,827	23,830,367	25,599,581
Cash dividends declared per share	—	—	\$ 0.05	\$ 0.05
<b>NET INCOME (LOSS)</b>	<b>\$ (208,000)</b>	<b>\$ (564,000)</b>	<b>\$ (448,000)</b>	<b>\$ 8,037,000</b>
<b>OTHER COMPREHENSIVE INCOME (LOSS)</b>				
Net unrealized holding gain (loss) on corporate bonds and notes arising during the period, net of tax	53,000	(9,000)	163,000	(34,000)
<b>COMPREHENSIVE INCOME (LOSS)</b>	<b>\$ (155,000)</b>	<b>\$ (573,000)</b>	<b>\$ (285,000)</b>	<b>\$ 8,003,000</b>

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

**NETWORK-1 TECHNOLOGIES, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY**  
**(UNAUDITED)**

**THREE AND SIX MONTHS ENDED JUNE 30, 2019**

	<u>Common Stock</u>		<u>Additional Paid-in Capital</u>	<u>Accumulated Deficit</u>	<u>Accumulated Other Comprehensive Income (Loss)</u>	<u>Total Stockholders' Equity</u>
	<u>Shares</u>	<u>Amount</u>				
Balance – December 31, 2018	23,735,927	\$ 237,000	\$ 65,151,000	\$ (7,102,000)	\$ (81,000)	\$ 58,205,000
Dividends and dividend equivalents declared	—	—	—	(1,215,000)	—	(1,215,000)
Stock-based compensation	—	—	144,000	—	—	144,000
Vesting of restricted stock units	11,250	—	—	—	—	—
Cashless exercise of stock options	105,000	1,000	(1,000)	—	—	—
Shares delivered to fund stock option exercises	(69,116)	—	—	—	—	—
Treasury stock purchased and retired	(300)	—	—	(1,000)	—	(1,000)
Net unrealized gain on corporate bonds and notes	—	—	—	—	110,000	110,000
Net loss	—	—	—	(240,000)	—	(240,000)
Balance – March 31, 2019	<u>23,782,761</u>	<u>\$ 238,000</u>	<u>\$ 65,294,000</u>	<u>\$ (8,558,000)</u>	<u>\$ 29,000</u>	<u>\$ 57,003,000</u>
Stock-based compensation	—	—	127,000	—	—	127,000
Vesting of restricted stock units	11,250	—	—	—	—	—
Proceeds from exercise of stock options	65,150	—	107,000	—	—	107,000
Cashless exercise of stock options	859,849	9,000	(9,000)	—	—	—
Shares delivered to fund stock option exercises	(490,351)	(5,000)	5,000	—	—	—
Value of shares delivered to pay withholding taxes	—	—	—	(366,000)	—	(366,000)
Treasury stock purchased and retired	(139,848)	(1,000)	—	(332,000)	—	(333,000)
Net unrealized gain on corporate bonds and notes	—	—	—	—	53,000	53,000
Net loss	—	—	—	(208,000)	—	(208,000)
Balance – June 30, 2019	<u>24,088,811</u>	<u>\$ 241,000</u>	<u>\$ 65,524,000</u>	<u>\$ (9,464,000)</u>	<u>\$ 82,000</u>	<u>\$ 56,383,000</u>

**THREE AND SIX MONTHS ENDED JUNE 30, 2018**

	<u>Common Stock</u>		<u>Additional Paid-in Capital</u>	<u>Accumulated Deficit</u>	<u>Accumulated Other Comprehensive Income (Loss)</u>	<u>Total Stockholders' Equity</u>
	<u>Shares</u>	<u>Amount</u>				
Balance – December 31, 2017	23,843,915	\$ 238,000	\$ 64,435,000	\$ (10,219,000)	\$ (42,000)	\$ 54,412,000
Dividends and dividend equivalents declared	—	—	—	(1,228,000)	—	(1,228,000)
Stock-based compensation	—	—	226,000	—	—	226,000
Vesting of restricted stock units	11,250	—	—	—	—	—
Cashless exercise of stock options	50,000	1,000	—	—	—	1,000
Shares delivered to fund stock option exercise	(23,110)	—	—	—	—	—
Proceeds from exercise of stock options	25,000	1,000	29,000	—	—	30,000
Treasury stock purchased and retired	(153,993)	(2,000)	—	(397,000)	—	(399,000)
Net unrealized loss on corporate bonds and notes	—	—	—	—	(25,000)	(25,000)
Net income	—	—	—	8,601,000	—	8,601,000
Balance – March 31, 2018	<u>23,753,062</u>	<u>\$ 238,000</u>	<u>\$ 64,690,000</u>	<u>\$ (3,243,000)</u>	<u>\$ (67,000)</u>	<u>\$ 61,618,000</u>
Stock-based compensation	—	—	225,000	—	—	225,000
Vesting of restricted stock units	81,250	—	—	—	—	—
Value of shares delivered to pay withholding taxes	(16,784)	—	1,000	(53,000)	—	(52,000)
Cashless exercise of stock options	300,000	3,000	(3,000)	—	—	—
Shares delivered to fund stock option exercises	(181,936)	(2,000)	2,000	—	—	—
Treasury stock purchased and retired	(302,363)	(3,000)	—	(882,000)	—	(885,000)
Net unrealized loss on corporate bonds and notes	—	—	—	—	(9,000)	(9,000)
Net loss	—	—	—	(564,000)	—	(564,000)
Balance – June 30, 2018	<u>23,633,229</u>	<u>\$ 236,000</u>	<u>\$ 64,915,000</u>	<u>\$ (4,742,000)</u>	<u>\$ (76,000)</u>	<u>\$ 60,333,000</u>

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

**NETWORK-1 TECHNOLOGIES, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(UNAUDITED)

	<b>Six Months Ended</b>	
	<b>June 30,</b>	
	<b>2019</b>	<b>2018</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income (loss)	\$ (448,000)	\$ 8,037,000
Adjustments to reconcile net income(loss)to net cash (used in) provided by operating activities:		
Amortization of patents	141,000	139,000
Stock-based compensation	271,000	451,000
Loss from equity investment	149,000	—
Deferred tax benefit	(103,000)	—
Amortization of right of use asset, net	67,000	—
Unrealized gain on marketable securities	(45,000)	—
Changes in operating assets and liabilities:		
Royalty receivables	(197,000)	127,000
Prepaid taxes	—	125,000
Other current assets	54,000	39,000
Accounts payable	133,000	(10,000)
Income taxes payable	—	1,164,000
Operating lease obligations	(67,000)	—
Accrued expenses	(1,297,000)	(1,693,000)
<b>NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES</b>	<b>(1,342,000)</b>	<b>8,379,000</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Sales of marketable securities	21,611,000	4,894,000
Purchases of marketable securities	(22,291,000)	(24,378,000)
Development of patents	(35,000)	(53,000)
Equity Investment	(1,000,000)	—
<b>NET CASH USED IN INVESTING ACTIVITY</b>	<b>(1,715,000)</b>	<b>(19,537,000)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Cash dividends paid	(1,191,000)	(1,188,000)
Value of shares delivered to fund withholding taxes	(366,000)	(50,000)
Repurchases of common stock, inclusive of commissions	(333,000)	(1,283,000)
Proceeds from exercise of options and warrants	107,000	30,000
<b>NET CASH USED IN FINANCING ACTIVITIES</b>	<b>(1,783,000)</b>	<b>(2,491,000)</b>
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(4,840,000)</b>	<b>(13,649,000)</b>
<b>CASH AND CASH EQUIVALENTS, beginning of period</b>	<b>23,763,000</b>	<b>44,351,000</b>
<b>CASH AND CASH EQUIVALENTS, end of period</b>	<b>\$ 18,923,000</b>	<b>\$ 30,702,000</b>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>		
Cash paid during the period for:		
Income taxes	\$ —	\$ 918,000
<b>NON-CASH FINANCING ACTIVITY</b>		
Accrued dividend rights on restricted stock units	\$ 27,000	\$ 41,000

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

**NETWORK-1 TECHNOLOGIES INC.**  
**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE A – BASIS OF PRESENTATION AND NATURE OF BUSINESS:**

**[1] BASIS OF PRESENTATION**

The accompanying condensed consolidated financial statements are unaudited, but, in the opinion of the management of Network-1 Technologies, Inc. (the "Company"), contain all adjustments consisting only of normal recurring items which the Company considers necessary for the fair presentation of the Company's financial position as of June 30, 2019, and the results of its operations and comprehensive income (loss) for the three and six month periods ended June 30, 2019 and June 30, 2018, changes in stockholders' equity for the three and six month periods ended June 30, 2019 and June 30, 2018, and its cash flows for the six month periods ended June 30, 2019 and June 30, 2018. The unaudited condensed consolidated financial statements included herein have been prepared in accordance with the accounting principles generally accepted in the United States of America (U.S. GAAP) for interim financial information and the instructions to Form 10-Q and Regulation S-X. Accordingly, certain information and footnote disclosures normally included in the consolidated financial statements prepared in accordance with U.S. GAAP may have been omitted pursuant to such rules and regulations, although management believes that the disclosures are adequate to make the information presented not misleading. These unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2018 included in the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 29, 2019. The results of operations for the three and six months ended June 30, 2019 are not necessarily indicative of the results of operations to be expected for the full year.

The accompanying unaudited condensed consolidated financial statements include accounts of the Company and its wholly-owned subsidiary, Mirror Worlds Technologies, LLC.

**[2] BUSINESS**

The Company is engaged in the development, licensing and protection of its intellectual property assets. The Company presently owns seventy-two (72) patents including (i) the remote power patent (the "Remote Power Patent") covering the delivery of power over Ethernet (PoE) cables for the purpose of remotely powering network devices, such as wireless access ports, IP phones and network based cameras; (ii) the Mirror Worlds patent portfolio (the "Mirror Worlds Patent Portfolio") relating to foundational technologies that enable unified search and indexing, displaying and archiving of documents in a computer system; (iii) the Cox patent portfolio (the "Cox Patent Portfolio") relating to enabling technology for identifying media content on the Internet and taking further actions to be performed based on such identification; (iv) M2M/IoT patent portfolio (the "M2M/IoT Patent Portfolio") relating to, among other things, enabling technology for authenticating, provisioning and using embedded sim cards in next generation IoT, Machine-to-Machine, and other mobile devices, including smartphones, tablets and computers; and (v) QoS patents (the "QoS Patents") covering systems and methods for the transmission of audio, video and data over computer and telephony networks in order to achieve high quality of service (QoS) (the "QoS Patents"). The Company has been actively engaged in licensing its Remote Power Patent (U.S. Patent No. 6,218,930) covering the control of power delivery over Ethernet cables. As of June 30, 2019, the Company had entered into twenty-seven (27) license agreements with respect to its Remote Power Patent. The Company has also entered into two license agreements with respect to its Mirror Worlds Patent Portfolio.

**NOTE A – BASIS OF PRESENTATION AND NATURE OF BUSINESS(continued)**

The Company's current strategy includes continuing to pursue licensing opportunities for its intellectual property assets. In addition, the Company continually reviews opportunities to acquire or license additional intellectual property as well as other strategic alternatives. The Company's patent acquisition strategy is to focus on acquiring high quality patents which management believes have the potential to generate significant licensing opportunities as the Company has achieved with respect to its Remote Power Patent and Mirror Worlds Patent Portfolio. In addition, the Company may enter into strategic relationships with third parties to develop, commercialize, license or otherwise monetize their intellectual property.

On November 13, 2017, a jury empaneled in the U.S. District Court for the Eastern District of Texas, Tyler Division, found that certain claims of the Company's Remote Power Patent were invalid and not infringed by Hewlett-Packard (the "HP Jury Verdict"). On August 29, 2018, the District Court (i) granted the Company's motion for judgment as a matter of law that its Remote Power Patent is valid, thereby overturning the HP Jury Verdict of invalidity and (ii) denied the Company's motion for a new trial on infringement. The Company has appealed the District Court's denial of its motion for a new trial on infringement to the U.S. Court of Appeals for the Federal Circuit (see Note I[1] hereof). The HP Jury Verdict had a material adverse effect on the Company's results of operations and cash-flow for the year ended December 31, 2018 and the three and six months ended June 30, 2019 and will continue to do so for the life of the Company's Remote Power Patent (March 2020) unless the District Court judgment of non-infringement is reversed on appeal. The Company has been dependent upon its Remote Power Patent for a significant portion of its revenue. As a result of the HP Jury Verdict, several of the Company's largest licensees, including Cisco Systems, Inc., its largest licensee, notified the Company in late November 2017 and January 2018 that they will no longer make ongoing royalty payments to the Company pursuant to their license agreements. If the Company successfully overturns the District Court order of non-infringement in its appeal to the Federal Circuit, certain licensees of the Remote Power Patent, including Cisco, will be obligated to pay the Company ongoing royalties and all royalties that accrued but were not paid following (and prior to) the HP Jury Verdict in November 2017. If the Company is unable to reverse the District Court order of non-infringement on appeal, or there is an arbitration ruling that certain of the Company's licensees, including Cisco, are relieved of their obligations to pay the Company royalties and the District Court order of non-infringement is not subsequently reversed on appeal, the Company's business, results of operations and cash-flow will continue to be materially adversely affected (see Note I[1] and Note I[2] hereof).

Consistent with the Company's prior view, the District Court decision overturning the HP Jury Verdict on invalidity as referenced above confirmed the obligations of certain licensees to pay the Company all prior unpaid royalties, including those that accrued after the date of the HP Jury Verdict (November 13, 2017), as well as future royalties through the expiration of the Remote Power Patent in March 2020 (see Note I[1] to our unaudited condensed consolidated financial statements included in this quarterly report). Notwithstanding the District Court decision overturning the HP Jury Verdict on validity, Dell Inc. refused to pay us all unpaid royalties that accrued prior to and after the HP Verdict and in November 2018 we instituted litigation against Dell to collect such unpaid royalties (see Note I[5] to the Company's unaudited condensed consolidated financial statements included in this quarterly report).



**NOTE A – BASIS OF PRESENTATION AND NATURE OF BUSINESS(continued)**

Consistent with the Company's revenue recognition policy (see Note B[4] hereof), the Company did not record revenue for 2018 and for the three and six months ended June 30, 2019 from certain licensees, including Cisco, who notified the Company they would not pay the Company ongoing royalties as a result of the HP Jury Verdict. The Company disagrees with the position taken by such licensees and may pursue arbitration if it does not achieve a satisfactory resolution (see Note I[1] and I[2] hereof).

**NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES****[1] Use of Estimates and Assumptions**

The preparation of the unaudited condensed consolidated financial statements in conformity with U.S. GAAP requires management 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 unaudited condensed consolidated financial statements, and the reported amounts of revenues and expenses during the reporting periods. The significant estimates and assumptions made in the preparation of the Company's unaudited condensed consolidated financial statements include revenue recognition, stock-based compensation, income taxes, valuation of patents and equity method investments, including evaluation of the Company's basis difference. Actual results could be materially different from those estimates, upon which the carrying values were based.

**[2] Cash and Cash Equivalents**

The Company maintains cash deposits in high quality financial institutions insured by the Federal Deposit Insurance Corporation ("FDIC"). Accounts at each institution are insured by the FDIC up to \$250,000. At June 30, 2019, the Company maintained a cash balance of \$12,107,000 in excess of the FDIC insured limit.

The Company considers all highly liquid short-term investments, including certificates of deposit and money market funds, that are purchased with an original maturity of three months or less to be cash equivalents.

**[3] Marketable Securities**

The Company's marketable securities are comprised of certificates of deposit with original maturity greater than three months from date of purchase, bond mutual funds, and corporate bonds and notes (see Note F). At June 30, 2019, included in marketable securities, the Company had aggregate certificates of deposit of \$7,006,000 at financial institutions which constituted \$500,000 in excess of the FDIC limit. The Company's marketable securities are measured at fair value and are accounted for in accordance with ASU 2016-01. Unrealized holding gains and losses on certificates of deposit and bond mutual funds are recorded in net realized and unrealized gain (loss) from investments on the unaudited condensed consolidated statements of income and comprehensive income(loss). Unrealized holding gains and losses, net of the related tax effect, on corporate bonds and notes are excluded from earnings and are reported as a separate component of stockholders' equity until realized. Dividend and interest income are recognized when earned. Realized gains and losses are included in earnings and are derived using the specific identification method for determining the cost of the marketable securities.

**NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****[4] Revenue Recognition**

On January 1, 2018, the Company adopted Accounting Standards Update ("ASU") No. 2014-09, *Revenue from Contracts with Customers* ("ASC 606"), using the modified retrospective transition method applied to those contracts which were not completed as of January 1, 2018.

Under ASC 606, revenue is recognized when the Company completes the licensing of its intellectual property to its licensees, in an amount that reflects the consideration the Company expects to be entitled to in exchange for licensing its intellectual property.

The Company determines revenue recognition through the following steps:

- identification of the license agreement;
- identification of the performance obligations in the license agreement;
- determination of the consideration for the license;
- allocation of the transaction price to the performance obligations in the contract; and
- recognition of revenue when the Company satisfies its performance obligations.

Revenue disaggregated by source is as follows:

	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
Fully-Paid - Licenses	\$ —	\$ —	\$ 130,000 <sup>(1)</sup>	\$ 12,700,000
Royalty Bearing - Licenses	599,000	471,000	1,075,000	914,000
Other Revenue	—	—	—	6,320,000 <sup>(2)</sup>
<b>Total Revenue</b>	<b>\$ 599,000</b>	<b>\$ 471,000</b>	<b>\$ 1,205,000</b>	<b>\$ 19,934,000</b>

(1) Includes conversion of an existing royalty bearing license to a fully-paid license.

(2) Revenue from the sale of the Company's unsecured claim against Avaya, Inc. to an unaffiliated third party (see Note I[1] hereof).

The Company relies on royalty reports received from third party licensees to record its revenue. From time to time, the Company may audit or otherwise dispute royalties reported from licensees. Any adjusted royalty revenue as a result of such audits or dispute is recorded by the Company in the period in which such adjustment is agreed to by the Company and the licensee or otherwise determined.

Revenue from the Company's patent licensing business is generated from negotiated license agreements. The timing and amount of revenue recognized from each licensee depends upon a variety of factors, including the terms of each agreement and the nature of the obligations of the parties. These agreements may include, but not be limited to, elements related to past infringement liabilities, non-refundable upfront license fees, and ongoing royalties on licensed products sold by the licensee. Generally, in the event of settlement of litigation related to the Company's assertion of patent infringement involving its intellectual property, defendants will either pay (i) a non-refundable lump sum payment for a non-exclusive fully-paid license (a "Fully-Paid License"), or (ii) a non-refundable lump sum payment (license initiation fee) together with an ongoing obligation to pay quarterly or monthly royalties to the Company for the life of the licensed patent (a "Royalty Bearing License").

## NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The Company's license agreements, both Fully-Paid Licenses and Royalty Bearing Licenses, typically include some combination of the following: (i) the grant of a non-exclusive license to manufacture and/or sell products covered by its patented technologies; (ii) the release of the licensee from certain claims, and (iii) the dismissal of any pending litigation. The intellectual property rights granted pursuant to these licenses typically extend until the expiration of the related patents. Pursuant to the terms of these agreements, the Company typically has no further performance obligations with respect to the grant of the non-exclusive licenses. Generally, the license agreements provide for the grant of the licenses, releases, and other obligations following execution of the agreement and the receipt of the up-front lump sum payment for a Fully-Paid License or a license initiation fee for a Royalty Bearing License.

**Ongoing Royalty Payments:** Certain of the Company's revenue from Royalty Bearing Licenses results from the calculation of royalties based on a licensee's actual quarterly sales (one licensee pays monthly royalties) of licensed products, applied to a contractual royalty rate. Licensees that pay royalties on a quarterly basis generally report to the Company actual quarterly sales and related quarterly royalties due within 45 days after the end of the quarter in which such sales activity takes place. Licensees with Royalty Bearing Licenses are obligated to provide the Company with quarterly (or monthly) royalty reports that summarize their sales of licensed products and their related royalty obligations to the Company. The Company receives these royalty reports subsequent to the period in which its licensees underlying sales occurred. The amount of royalties due under Royalty Bearing Licenses, each quarter, cannot be reasonably estimated by management. Consequently, the Company recognizes revenue for the period in which the royalty report is received in arrears and other revenue recognition criteria are met.

**Non-Refundable Up-Front Fees:** Fully-Paid Licenses provide for a non-refundable up-front payment, for which the Company has no future obligations or performance requirements, revenue is generally recognized when the Company has obtained the signed license agreement, all performance obligations have been substantially performed, amounts are fixed and determinable, and collectability is reasonably assured. Revenue from Fully-Paid Licenses may consist of one or more installments. The timing and amount of revenue recognized from each licensee depends upon a number of factors including the specific terms of each agreement and the nature of the deliverables and obligations.

### **[5] Equity Method Investments**

Equity method investments are equity securities in entities the Company does not control but over which it has the ability to exercise significant influence. These investments are accounted for under the equity method of accounting in accordance with ASC 323, *Investments — Equity Method and Joint Ventures* (see Note J hereof). Equity method investments are measured at cost minus impairment, if any, plus or minus the Company's share of an investee's income or loss. The Company's proportionate share of the income or loss from equity method investments is recognized on a one-quarter lag. When the Company's carrying value in an equity method investment is reduced to zero, no further losses are recorded in the Company's financial statements unless the Company guaranteed obligations of the investee company or has committed additional funding.

When the investee company subsequently reports income, the Company will not record its share of such income until it equals the amount of its share of losses not previously recognized. Upon sale of equity method investments, the difference between sales proceeds and the carrying amount of the equity investment is recognized in profit or loss.

## NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### [6] Patents

The Company owns patents that relate to various technologies. The Company capitalizes the costs associated with acquisition, registration and maintenance of its acquired patents and amortizes these assets over their remaining useful lives on a straight-line basis. Any further payments made to maintain or develop the patents would be capitalized and amortized over the balance of the useful life for the patents.

### [7] Costs of Revenue

The Company includes in costs of revenue for the three and six months ended June 30, 2019 and 2018 contingent legal fees payable to patent litigation counsel (see Note G[1] hereof), other contractual payments related to net proceeds from settlements (see Note G[2] hereof) and incentive bonus compensation payable to its Chairman and Chief Executive Officer (see Note H[1] hereof).

### [8] Income Taxes

The Company accounts for income taxes in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 740, Income Taxes (ASC 740), which requires the Company to use the assets and liability method of accounting for income taxes. Under the assets and liability method, deferred income taxes are recognized for the tax consequences of temporary (timing) differences by applying enacted statutory tax rates applicable to future years to differences between financial statement carrying amounts and the tax bases of existing assets and liabilities and operating loss and tax credit carry forwards. Under this accounting standard, the effect on deferred income taxes of a change in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance is recognized if it is more likely than not that some portion, or all, of a deferred tax asset will not be realized.

ASC 740-10, *Accounting for Uncertainty in Income Taxes*, defines uncertainty in income taxes and the evaluation of a tax position as a two-step process. The first step is to determine whether it is more likely than not that a tax position will be sustained upon examination, including the resolution of any related appeals or litigation based on the technical merits of that position. The second step is to measure a tax position that meets the more-likely-than-not threshold to determine the amount of benefit to be recognized in the financial statements. A tax position is measured at the largest amount of benefit that is greater than 50 percent likelihood of being realized upon ultimate settlement. Tax positions that previously failed to meet the more-likely-than-not recognition threshold should be recognized in the first subsequent period in which the threshold is met. Previously recognized tax positions that no longer meet the more-likely-than-not criteria should be de-recognized in the first subsequent financial reporting period in which the threshold is no longer met. The Company had no uncertain tax positions as of June 30, 2019 and 2018.

U.S. federal, state and local income tax returns prior to 2015 are not subject to examination by any applicable tax authorities, except that tax authorities could challenge returns (only under certain circumstances) for earlier years to the extent they generated loss carry-forwards that are available for those future years. In July 2018, the Internal Revenue Service notified the Company that it was examining its 2016 federal tax return.

On December 22, 2017, the United States enacted the Tax Cuts and Jobs Act ("Tax Act"), which made significant changes to the U.S. federal income tax law. The Tax Act affects 2018 and forward, including, but not limited to, a reduction in the federal corporate rate from 35.0% to 21.0%, elimination of the corporate alternative minimum tax, a new limitation on the deductibility of certain executive compensation, limitations on net operating losses generated after December 31, 2017 and various other items.

## NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The personal holding company ("PHC") rules under the Internal Revenue Code impose a 20% tax on a PHC's undistributed personal holding company income ("PHC Income"), which means, in general, taxable income subject to certain adjustments. For a corporation to be classified as a PHC, it must satisfy two tests: (i) that more than 50% in value of its outstanding shares must be owned directly or indirectly by 5 or fewer individuals at any time during the second half of the year (after applying constructive ownership rules to attribute stock owned by entities to their beneficial owners and among certain family members and other related parties) (the "Ownership Test") and (ii) at least 60% of its adjusted ordinary gross income for a taxable year consists of dividends, interest, royalties, annuities and rents (the "Income Test"). As of July 2019 (as well as during the second half of prior years), the Company believes it did not meet the Ownership Test. Due to the significant number of shares held by the Company's largest shareholders, the Company continually assesses its share ownership to determine whether it meets the Ownership Test. If the Ownership Test were met and the income generated by the Company were determined to constitute "royalties" within the meaning of the Income Test, the Company would constitute a PHC and the Company would be subject to a 20% tax on the amount of any PHC Income that it does not distribute to its shareholders.

### [9] Stock-Based Compensation

The Company accounts for its stock-based compensation awards to employees and directors in accordance with FASB ASC Topic 718, *Compensation - Stock Compensation* ("ASC 718"). ASC 718 requires all stock-based compensation to employees, including grants of employee stock options and restricted stock units, to be recognized in the condensed consolidated statements of income and comprehensive income based on their grant date fair values.

Compensation expense related to awards to employees is recognized on a straight-line basis based on the grant date fair value over the associated service period of the award, which is generally the vesting term. Share based payments issued to non-employees are recorded at their fair values and are periodically revalued as the equity instruments vest and are recognized as expense over the related service period and are expensed using an accelerated attribution model. The Company uses the Black-Scholes option pricing model to determine the grant date fair value of options granted. The fair value of restricted stock units is determined based on the number of shares underlying the grant and either the quoted market price of the Company's common stock on the date of grant for time-based and performance-based awards, or the fair value on the date of grant using the Monte Carlo Simulation model for market-based awards (see Note D for further discussion of the Company's stock-based compensation).

On January 1, 2019, the Company adopted *ASU 2018-07, Compensation – Stock Compensation* ("ASC 718"), *Improvements to Nonemployee Share-Based Payment Accounting* ("ASU 2018-07"). The amendments in ASU 2018-07 expanded the scope of ASC 718 to include share-based payment transactions for acquiring goods and services from nonemployees. The Company does not expect the adoption of this standard to have a material impact on its consolidated financial statements.

### [10] Earnings Per Share

The Company reports earnings per share in accordance with U.S. GAAP, which requires presentation of basic and diluted earnings per share in conjunction with the disclosure of the methodology used in computing such earnings per share. Basic earnings per share excludes dilution and is computed by dividing income available to common shareholders by the weighted average common shares outstanding during the period. Diluted earnings per share takes into account the potential dilution that could occur if securities or other contracts, such as warrants and options to purchase common stock,

## NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

were exercised and shares were issued pursuant to outstanding restricted stock units. Common stock equivalents having an anti-dilutive effect on earnings per share are excluded from the calculation of diluted earnings per share (see Note E).

### [11] Fair Value Measurements

*ASC Topic 820, Fair Value Measurement and Disclosures*, defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. This topic also establishes a fair value hierarchy which requires classification based on observable and unobservable inputs when measuring fair value.

There are three levels of inputs that may be used to measure fair value:

Level 1: Observable inputs such as quoted prices (unadjusted) in an active market for identical assets or liabilities.

Level 2: Inputs other than quoted prices that are observable, either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets and quoted prices for identical or similar assets or liabilities in markets that are not active.

Level 3: Unobservable inputs that are supported by little or no market activity; therefore, the inputs are developed by the Company using estimates and assumptions that the Company expects a market participant would use, including pricing models, discounted cash flow methodologies, or similar techniques.

The carrying value of the Company's financial instruments, including cash and cash equivalents, royalty receivable, other assets, accounts payable, and accrued expenses approximates fair value because of the short-term nature of these financial instruments.

The Company's marketable securities are classified within Level 1 because they are valued using quoted market prices in an active market (see Marketable Securities—Note F).

### [12] Carrying Value, Recoverability and Impairment of Long-Lived Assets

An impairment loss shall be recognized only if the carrying amount of a long-lived asset (asset group) is not recoverable and exceeds its fair value. The carrying amount of a long-lived asset (asset group) is not recoverable if it exceeds the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the asset (asset group). That assessment shall be based on the carrying amount of the asset (asset group) at the date it is tested for recoverability. An impairment loss shall be measured as the amount by which the carrying amount of a long-lived asset (asset group) exceeds its fair value.

If an impairment loss is recognized, the adjusted carrying amount of a long-lived asset shall be its new cost basis. For a depreciable long-lived asset, the new cost basis shall be depreciated (amortized) over the remaining useful life of that asset. Restoration of a previously recognized impairment loss is prohibited. At June 30, 2019 and 2018, there was no impairment to the Company's patents and equity investment.

The Company's equity method investment in ILiAD Biotechnologies, LLC ("ILiAD"), a privately held development stage biotechnology company (see Equity Investment – Note J) is evaluated on a non-recurring basis for impairment and is classified within Level 3 as it is valued using significant unobservable inputs or data in an inactive market, and the valuation requires management judgment due to the absence of market price and inherent lack of liquidity.

**NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**[13] Dividend Policy**

Dividends are recorded when declared by the Company's Board of Directors. Common stock dividends are charged against retained earnings when declared or paid (see Note M hereof).

**[14] Reclassification**

The Company has reclassified certain amounts in the prior period consolidated financial statements to conform to the current period's presentation. The Company reclassified a certain investment within cash and cash equivalents which was previously classified as marketable securities. These reclassifications had no impact on the previously reported net income.

**[15] New Accounting Standards**

Leases

In February 2016, the FASB issued ASU 2016-2, *Leases ("ASC 842")*, which required the Company to recognize lease assets and lease obligations (related to leases previously classified as operating under previous U.S. GAAP) on its condensed consolidated balance sheet. ASC 842 was effective for the Company on January 1, 2019. The adoption of ASC 842 impacted the Company's condensed consolidated financial statements in that existing leases were recorded as right-of-use ("ROU") assets and related lease obligations on the condensed consolidated balance sheet.

The Company elected to adopt ASC 842 using the modified retrospective method and, therefore, has not recast comparative periods presented in its unaudited condensed consolidated financial statements. The Company elected the package of transition practical expedients for existing leases and therefore the Company has not reassessed the following: lease classification for existing leases, whether any existing contracts contained leases, and if any initial direct costs were incurred. The Company did not apply the hindsight practical expedient, and accordingly, the Company did not use hindsight in its assessment of lease terms. As permitted under ASC 842, the Company elected to not recognize ROU assets and related lease obligations for leases with terms of twelve months or less.

In connection with the adoption of ASC 842, the Company recorded \$127,000 of operating lease right-of-use assets and \$128,000 of operating lease obligations as of January 1, 2019. See Note G[3] for additional information and required disclosures.

Under ASC 842, the Company determined if an arrangement is a lease at inception. ROU assets and related lease obligations are recognized at commencement date based on the present value of remaining lease payments over the lease term. For this purpose, the Company considers only payments that are fixed and determinable at the time of commencement. As most of the Company's leases do not provide an implicit rate, the Company uses its incremental borrowing rate based on the information available at commencement date in determining the present value of lease payments. The Company's determined incremental borrowing rate is a hypothetical rate based on its understanding of what the Company's credit rating would be. The ROU asset also includes any lease payments made prior to commencement and is recorded net of any lease incentives received and net of the deferred rent balance on the date of implementation. The Company's lease terms may include options to extend or terminate the lease when it is reasonably certain that it will exercise such options.

**NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**Disclosures

On January 1, 2019, the Company adopted the final rule under SEC Release No. 33-10532, *Disclosure Update and Simplification*, which amended certain disclosure requirements that were redundant, duplicative, overlapping, outdated or superseded. In addition, the amendments expanded the disclosure requirements on the analysis of stockholders' equity for interim financial statements. Under the amendments, an analysis of changes in each caption of stockholders' equity presented in the balance sheet must be provided in a note or separate statement. The Company has updated its condensed consolidated financial statements to include a reconciliation of the beginning balance to the ending balance of stockholders' equity for each period for which a statement of operations is presented.

Fair Value Measurements

In August 2018, the FASB issued *ASU 2018-13, Fair Value Measurement ("ASC 820"), Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement ("ASU 2018-13")*. ASU 2018-13 is intended to improve the effectiveness of fair value measurement disclosures. ASU 2018-13 is effective for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. Early adoption is permitted. The Company is currently evaluating the impact of ASU 2018-13 on its consolidated financial statements.

**NOTE C – PATENTS**

The Company's intangible assets at June 30, 2019 include patents with estimated remaining economic useful lives ranging from 1.00 to 14.50 years. For all periods presented, all of the Company's patents were subject to amortization. The gross carrying amounts and accumulated amortization related to acquired intangible assets as of June 30, 2019 and December 31, 2018 were as follows:

	<u>June 30, 2019</u>	<u>December 31, 2018</u>
Gross carrying amount – patents	\$ 7,717,000	\$ 7,682,000
Accumulated amortization – patents	<u>(5,834,000)</u>	<u>(5,693,000)</u>
Patents, net	<u>\$ 1,883,000</u>	<u>\$ 1,989,000</u>

Amortization expense for the three months ended June 30, 2019 and June 30, 2018 was \$87,000 and \$69,000, respectively. Amortization expense for the six months ended June 30, 2019 and June 30, 2018 was \$141,000 and \$139,000, respectively. Future amortization of intangible assets, net is as follows:

<u>Twelve Months Ended June 30,</u>	
2020	\$ 283,000
2021	283,000
2022	283,000
2023	283,000
2024 and thereafter	751,000
Total	<u>\$ 1,883,000</u>

The Company's Remote Power Patent expires in March 2020. The expiration date of the patent within the Company's Mirror Worlds Patent Portfolio is February 2020 (eight of the nine patents in the Mirror Worlds Patent Portfolio have expired). The expiration dates of the patents within the Cox Patent Portfolio range from September 2021 to November 2023. The expiration dates of patents within the Company's M2M/IoT Patent Portfolio range from September 2033 to May 2034 and the expiration date of the QoS Patents is June 2019.



**NOTE D – STOCK-BASED COMPENSATION**Restricted Stock Units

During the six months ended June 30, 2019, the Company issued 15,000 restricted stock units ("RSUs") to each of its three non-management directors as an annual grant for 2019 for service on the Company's Board of Directors. The RSUs vest in four equal quarterly installments of 3,750 shares of common stock on March 15, 2019, June 15, 2019, September 15, 2019 and December 15, 2019, subject to continued service on the Board of Directors.

During the six months ended June 30, 2018, the Company issued 15,000 RSUs to each of its three non-management directors as an annual grant for 2018 for service on the Company's Board of Directors. The RSUs vested in four equal quarterly installments of 3,750 shares of common stock on March 15, 2018, June 15, 2018, September 15, 2018 and December 15, 2018, subject to continued service on the Board of Directors.

A summary of restricted stock unit activity for the six months ended June 30, 2019 is as follows (each restricted stock unit issued by the Company represents the right to receive one share of the Company's common stock):

	<u>Number of Shares</u>	<u>Weighted-Average Grant Date Fair Value</u>
Balance of restricted stock units outstanding at December 31, 2018	505,000	\$ 2.17
Grants of restricted stock units	45,000	2.60
Vested restricted stock units	<u>(22,500)</u>	<u>2.60</u>
Balance of unvested restricted stock units at June 30, 2019	<u>527,500</u>	<u>\$ 2.19</u>

Restricted stock unit compensation expense was \$127,000 and \$225,000 for the three months ended June 30, 2019 and June 30, 2018, respectively. Restricted stock unit compensation expense was \$271,000 and \$451,000 for the six months ended June 30, 2019 and June 30, 2018, respectively.

The Company has an aggregate of \$472,000 of unrecognized restricted stock unit compensation as of June 30, 2019 to be expensed over a weighted average period of .99 years.

All of the Company's outstanding (unvested) restricted stock units have dividend equivalent rights. As of June 30, 2019, there was \$102,000 accrued for dividend equivalent rights. As of December 31, 2018, there was \$76,000 accrued for dividend equivalent rights.

Stock Options

There were no stock option grants during the six months ended June 30, 2019 and June 30, 2018. The following table presents information relating to all stock options outstanding and exercisable at June 30, 2019:

<u>Range of Exercise Price</u>	<u>Options Outstanding</u>	<u>Weighted Average Exercise Price</u>	<u>Weighted Average Remaining Life in Years</u>	<u>Options Exercisable</u>
\$1.19 - \$2.34	605,000	\$1.39	\$2.86	605,000

**NOTE D – STOCK-BASED COMPENSATION (CONTINUED)**

The Company had no recorded stock-based compensation related to stock option grants for the three months ended June 30, 2019 and June 30, 2018.

The Company had no unrecognized stock-based compensation cost as of June 30, 2019. The aggregate intrinsic value of options exercisable at June 30, 2019 was \$672,000.

During the three months ended June 30, 2019, stock options to purchase an aggregate of 925,000 shares were exercised by executive officers of the Company and a consultant (750,000 shares at an exercise price of \$0.83 per share by the Company's Chairman and Chief Executive Officer, 50,000 shares at an exercise price of \$1.65 per share by each of the Company's Chief Financial Officer and Executive Vice President and 75,000 shares at an exercise price of \$1.65 per share by a consultant). With respect to such options, options to purchase an aggregate of 859,849 shares were exercised on a net exercise (cashless) basis by the Company's Chairman and Chief Executive Officer (750,000 shares), the Company's Executive Vice President (34,849 shares) and a consultant (75,000 shares) resulting in net shares (after delivery of shares for withholding taxes) of an aggregate of 328,111 issued to the Company's Chairman and Chief Executive Officer, 27,713 net shares issued to the Company's Executive Vice President and 28,824 net shares issued to the consultant.

During the three months ended June 30, 2018, a director of the Company exercised on a net exercise (cashless) basis a stock option to purchase 300,000 shares of common stock, at an exercise price of \$1.88 per share, which resulted in net shares of 118,064 issued to the director.

**NOTE E – EARNINGS (LOSS) PER SHARE**

Basic earnings (loss) per share is calculated by dividing the net income by the weighted average number of outstanding common shares during the period. Diluted per share data includes the dilutive effects of options, warrants and restricted stock units. Potential shares of 1,132,500 and 2,407,000 at June 30, 2019 and June 30, 2018, respectively, consisted of options and restricted stock units.

Computations of basic and diluted weighted average common shares outstanding were as follows:

	Six Months Ended June 30,		Three Months Ended June 30,	
	2019	2018	2019	2018
Weighted-average common shares outstanding – basic	23,830,367	23,760,163	23,917,563	23,713,827
Dilutive effect of options, warrants and restricted stock units	—	1,839,418	—	—
Weighted-average common shares outstanding – diluted	23,830,367	25,599,581	23,917,563	23,713,827
Options and restricted stock units excluded from the computation of diluted income (loss) per share because the effect of inclusion would have been anti-dilutive	1,132,500	—	1,132,500	2,407,000

**NOTE F – MARKETABLE SECURITIES**

Marketable securities as of June 30, 2019 and December 31, 2018 were composed of:

**June 30, 2019**

	<b>Cost Basis</b>	<b>Gross Unrealized Gains</b>	<b>Gross Unrealized Losses</b>	<b>Fair Value</b>
Certificates of deposit	\$ 6,998,000	\$ 8,000	\$ —	\$ 7,006,000
Short term bond funds	13,970,000	37,000	—	14,007,000
Corporate bonds and notes	11,021,000	145,000	\$ (63,000)	\$ 11,103,000
Total marketable securities	<u>\$ 31,989,000</u>	<u>\$ 190,000</u>	<u>\$ (63,000)</u>	<u>\$ 32,116,000</u>

**December 31, 2018**

	<b>Cost Basis</b>	<b>Gross Unrealized Gains</b>	<b>Gross Unrealized Losses</b>	<b>Fair Value</b>
Certificates of deposit	\$ 13,151,000	\$ —	\$ —	\$ 13,151,000
Short term bond funds	9,648,000	—	(8,000)	9,640,000
Corporate bonds and notes	8,518,000	—	(81,000)	8,437,000
Total marketable securities	<u>\$ 31,317,000</u>	<u>—</u>	<u>\$ (89,000)</u>	<u>\$ 31,228,000</u>

The Company's marketable securities are measured at fair value and are accounted for in accordance with ASU 2016-01. Unrealized holding gains and losses on certificates of deposit and bond mutual funds are recorded in net realized and unrealized loss from investments on the consolidated statements of income and comprehensive income. Unrealized holding gains and losses, net of the related tax effect, on corporate bonds and notes are excluded from earnings and are reported as a separate component of stockholders' equity until realized. Dividend and interest income are recognized when earned. Realized gains and losses are included in earnings and are derived using the specific identification method for determining the cost of the marketable securities.

**NOTE G – COMMITMENTS AND CONTINGENCIES****[1] Legal Fees**

Russ, August & Kabat provides legal services to the Company with respect to its patent litigation filed in May 2017 against Facebook, Inc. in the U.S. District Court for the Southern District of New York relating to several patents within the Company's Mirror Worlds Patent Portfolio (see Note I[4] hereof). The terms of the Company's agreement with Russ, August & Kabat provide for cash payments on a monthly basis subject to a cap plus a contingency fee ranging between 15% and 24% of the net recovery (after deduction of expenses) depending on the stage of the proceeding in which the result (settlement or judgment) is achieved. The Company is responsible for all of the expenses incurred with respect to this litigation.

Russ, August & Kabat also provides legal services to the Company with respect to its pending patent litigations filed in April 2014 and December 2014 against Google Inc. and YouTube, LLC in the U. S. District Court for the Southern District of New York relating to certain patents

**NOTE G – COMMITMENTS AND CONTINGENCIES (continued)**

within the Company's Cox Patent Portfolio (see Note I[3] hereof). The terms of the Company's agreement with Russ, August & Kabat provide for legal fees on a full contingency basis ranging from 15% to 30% of the net recovery (after deduction of expenses) depending on the stage of the proceeding in which the result (settlement or judgment) is achieved. The Company is responsible for all of the expenses incurred with respect to this litigation.

Dovel & Luner, LLP provides legal services to the Company with respect to its patent litigation filed in September 2011 against sixteen (16) data networking equipment manufacturers in the U.S. District Court for the Eastern District of Texas, Tyler (see Note I[1] hereof). The terms of the Company's agreement with Dovel & Luner LLP essentially provide for legal fees on a full contingency basis ranging from 12.5% to 35% (with certain exceptions) of the net recovery (after deduction for expenses) depending on the stage of the proceeding in which a result (settlement or judgment) is achieved. For the three months ended June 30, 2019 and June 30, 2018, the Company incurred aggregate contingent legal fees to Dovel & Luner, LLP with respect to the litigation of \$136,000 and \$100,000, respectively. For the six months ended June 30, 2019 and June 30, 2018, the Company incurred aggregate contingent legal fees to Dovel & Luner, LLP with respect to the litigation of \$244,000 and \$6,377,000, respectively. The Company is responsible for a certain portion of the expenses incurred with respect to the litigation.

Dovel & Luner, LLP also provided legal services to the Company with respect to the litigation settled in July 2010 against Cisco and several other major data networking equipment manufacturers (see Note I[2] hereof). The terms of the Company's agreement with Dovel & Luner, LLP with respect to this litigation provided for legal fees of a maximum aggregate cash payment of \$1.5 million plus a contingency fee of 24% (based on the settlement being achieved at the trial stage). As a result of the royalty payments payable quarterly by Cisco in accordance with the Company's settlement and license agreement with Cisco, the Company has an obligation to pay Dovel & Luner, LLP (including local counsel) 24% of such royalties received. During the three and six months ended June 30, 2019 and June 30, 2018, the Company did not incur any contingent legal fees to Dovel & Luner, LLP with respect to the litigation.

**[2] Patent Acquisitions**

On February 28, 2013, the Company completed the acquisition of four patents (as well as a pending patent application) from Dr. Ingemar Cox (these patents together with subsequent related patent issuances comprise the Cox Patent Portfolio), a technology leader in digital watermarking content identification, digital rights management and related technologies, for a purchase price of \$1,000,000 in cash and 403,226 shares of the Company's common stock. In addition, the Company is obligated to pay Dr. Cox 12.5% of the net proceeds (after deduction of expenses) generated by the Company from licensing, sale or enforcement of the patents. Since the acquisition of the patent portfolio from Dr. Cox, the Company has been issued twenty-nine (29) additional related patents by the USPTO resulting in an aggregate of thirty-three (33) patents within the Cox Patent Portfolio.

On May 21, 2013, the Company's wholly-owned subsidiary, Mirror Worlds Technologies, LLC, acquired all of the patents previously owned by Mirror Worlds, LLC (which subsequently changed its name to Looking Glass LLC ("Looking Glass")), consisting of nine issued U.S. patents and five pending applications covering foundational technologies that enable unified search and indexing, displaying and archiving of documents in a computer system (these patents together with subsequent related patent issuances comprise the Mirror Worlds Patent Portfolio). As consideration for the patent acquisition, the Company paid Looking Glass \$3,000,000 in cash, and issued 5-year warrants to purchase an aggregate of 1,750,000 shares of the Company's common stock (875,000 shares of common stock at an exercise price of \$1.40 per share and

**NOTE G – COMMITMENTS AND CONTINGENCIES (continued)**

875,000 shares of common stock at an exercise price of \$2.10 per share) (the "Looking Glass Warrants"). On June 3, 2014, the Company repurchased the Looking Glass Warrants from Looking Glass at a cost of \$505,000. In addition, Recognition Interface, LLC ("Recognition"), an entity that financed the commercialization of the patent portfolio prior to its sale to Mirror Worlds, LLC and also retained an interest in the licensing proceeds of the patent portfolio held by Mirror Worlds, LLC, and an affiliated entity also received warrants to purchase an aggregate of 1,250,000 shares of the Company's common stock (500,000 shares at an exercise price of \$2.05 per share, 375,000 shares at an exercise price of \$2.10 per share and 375,000 shares at an exercise price of \$1.40 per share). All such warrants were exercised by Recognition (and its affiliate) as of January 2017, resulting in aggregate proceeds to the Company of \$2,337,000.

As part of the acquisition of the Mirror Worlds Patent Portfolio, the Company also entered into an agreement with Recognition pursuant to which Recognition received from the Company an interest in the net proceeds realized from the monetization of the Mirror Worlds Patent Portfolio, as follows: (i) 10% of the first \$125 million of net proceeds; (ii) 15% of the next \$125 million of net proceeds; and (iii) 20% of any portion of the net proceeds in excess of \$250 million. Since entering into the agreement with Recognition in May 2013, the Company has paid Recognition an aggregate of \$3,127,000 with respect to such net proceeds interest related to the Mirror Worlds Patent Portfolio. No such payments were made by the Company to Recognition during the three and six months ended June 30, 2019 and June 30, 2018.

On December 29, 2017, the Company acquired from M2M and IoT Technologies, LLC ("M2M") the M2M/IoT Patent Portfolio consisting of twelve (12) issued U.S. patents relating to, among other things, the enabling technology for authenticating and using embedded SIM cards in next generation IoT, Machine-to-Machine, and other mobile devices, including smartphones, tablets and computers as well as automobiles and drones. The Company paid \$1,000,000 to acquire the M2M/IoT Patent Portfolio from M2M and has an obligation to pay M2M 14% of the first \$100 million of net proceeds (after deduction of expenses) and 5% of net proceeds greater than \$100 million from Monetization Activities (as defined) related to the patent portfolio. In addition, M2M will be entitled to receive from the Company \$250,000 of additional consideration upon the occurrence of certain future events related to the patent portfolio. Since the acquisition of the patent portfolio from M2M, the Company has been issued eleven (11) additional related patents by the USPTO resulting in an aggregate of twenty-three (23) issued U.S. patents.

**[3] Lease Agreements**

The Company currently has two facility operating leases with remaining lease terms of three months to eleven months at June 30, 2019. The Company leases its principal office space in New York City at a monthly base rent of approximately \$3,900 which lease expires on May 31, 2020. The Company also leases office space in New Canaan, Connecticut expiring on September 30, 2019 at a base rent (inclusive of utilities) of \$7,750 per month (increasing \$100 per month each year), which is subject to annual adjustments to reflect increases in real estate taxes and operating expenses.

Under ASC 842 (see Note B[15] hereof), operating lease expense is generally recognized evenly over the term of the lease. Leases with an initial term of twelve months or less are not recorded on the balance sheet. For lease arrangements entered into or reassessed after the adoption of ASC 842, the Company combines the lease and non-lease components in determining the right-of-use ("ROU") assets and related lease obligation.

**NOTE G – COMMITMENTS AND CONTINGENCIES (continued)**

Activity related to the Company's operating leases was as follows:

	<b>Three Months Ended June 30, 2019</b>	<b>Six Months Ended June 30, 2019</b>
Operating lease expense	\$ 40,000	\$ 74,000
Cash paid for amounts included in the measurement of operating lease obligations	\$ 33,000	\$ 67,000

The Company's operating lease agreements generally do not provide an implicit borrowing rate; therefore, an internal incremental borrowing rate was determined based on information available for purposes of determining the present value of lease payments. The Company used an incremental borrowing rate of 5.5% at January 1, 2019 for all leases that commenced prior to that date. ROU assets obtained in exchange for operating lease obligations totaled \$128,000 at January 1, 2019. ROU lease assets and related lease obligations for the Company's operating leases were recorded in the unaudited condensed consolidated balance sheet as follows:

	<b>As of June 30, 2019</b>
Operating lease right-of-use assets	\$ 63,000
Operating lease obligations – current	\$ 64,000
Total lease obligations	\$ 64,000
Weighted average remaining lease term (in months)	8
Weighted average discount rate	5.5%

Future lease payments included in the measurement of lease liabilities on the unaudited condensed consolidated balance sheet as of June 30, 2019, were as follows:

	<b>Operating Leases</b>
2019 – remaining period	\$ 45,000
2020	20,000
Total future minimum lease payments	65,000
Less imputed interest	(1,000)
Total operating lease liability	\$ 64,000

**NOTE H - EMPLOYMENT ARRANGEMENTS AND OTHER AGREEMENTS**

[1] On July 14, 2016, the Company entered into a new employment agreement ("Agreement") with its Chairman and Chief Executive Officer pursuant to which he continues to serve the Company in such positions for a five year term, at an annual base salary of \$475,000 which shall be increased by 3% per annum during the term of the Agreement. The Agreement established an annual target bonus of \$175,000 for the Chairman and Chief Executive Officer based upon performance. In addition, the Company granted to the Chairman and Chief Executive Officer, under its 2013 Stock Incentive Plan, 750,000 restricted stock units ("RSUs"). The Agreement provided for the 750,000 RSUs to vest in the three tranches, as follows: (i) 250,000 RSUs shall vest on July 14, 2018, subject to the Chairman and Chief Executive Officer's continued employment

**NOTE H - EMPLOYMENT ARRANGEMENTS AND OTHER AGREEMENTS (continued)**

by the Company through the vesting date (the "Employment Condition"); (ii) 250,000 RSUs shall vest at any time beginning July 14, 2018 through July 14, 2021 in equal annual installments for the remaining term of employment, subject to (1) the Employment Condition being satisfied through each such annual vesting date and (2) the Company's common stock achieving a closing price (for 20 consecutive trading days) of a minimum of \$3.25 per share (subject to adjustment for stock splits) at any time during the term of employment; and (iii) 250,000 RSUs vest at any time beginning July 14, 2018 through July 14, 2021 in equal annual installments for the remaining term of employment subject to (1) the Employment Condition being satisfied through each such annual vesting date and (2) the Company's common stock achieving a closing price (for 20 consecutive trading days) of a minimum of \$4.25 per share (subject to adjustment for stock splits) at any time during the term of employment. The aforementioned stock price vesting conditions of \$3.25 per share and \$4.25 per share have been satisfied. Notwithstanding the above, in the event of a Change of Control (as defined), a Termination Other Than for Cause (as defined), or a termination of employment by the Chairman and Chief Executive Officer for Good Reason (as defined), all of the 750,000 RSUs shall accelerate and become immediately fully vested.

On July 14, 2018, 375,000 RSUs owned by the Company's Chairman and Chief Executive Officer vested in accordance with the above referenced terms of the Agreement. With respect to such vesting of RSUs, the Company's Chairman and Chief Executive Officer delivered 172,313 shares of common stock to satisfy withholding taxes and received 202,687 net shares of common stock. Under the terms of the Agreement, so long as the Chairman and Chief Executive Officer continues to serve as an executive officer of the Company, whether pursuant to the Agreement or otherwise, the Chairman and Chief Executive Officer shall also receive incentive compensation in an amount equal to 5% of the Company's gross royalties or other payments from Licensing Activities (as defined) (without deduction of legal fees or any other expenses) with respect to its Remote Power Patent and a 10% net interest (gross royalties and other payments after deduction of all legal fees and litigation expenses related to licensing, enforcement and sale activities, but in no event shall he receive less than 6.25% of the gross recovery) of the Company's royalties and other payments relating to Licensing Activities with respect to patents other than the Remote Power Patent (including the Mirror Worlds Patent Portfolio, Cox Patent Portfolio and M2M/IoT Patent Portfolio) (collectively, the "Incentive Compensation"). During the three months ended June 30, 2019 and June 30, 2018, the Chairman and Chief Executive Officer earned Incentive Compensation of \$30,000 and \$24,000, respectively. During the six months end June 30, 2019 and June 30, 2018, the Chairman and Chief Executive Officer earned Incentive Compensation of \$60,000 and \$997,000, respectively. As of June 30, 2019 and December 31, 2018, \$60,000 and \$109,000 of such compensation were included in accrued expenses, respectively.

The Incentive Compensation shall continue to be paid to the Chairman and Chief Executive Officer for the life of each of the Company's patents with respect to licenses entered into with third parties during the term of his employment or at any time thereafter, whether he is employed by the Company or not; provided, that, the Chairman and Chief Executive Officer's employment has not been terminated by the Company "For Cause" (as defined) or terminated by him without "Good Reason" (as defined). In the event of a merger or sale of substantially all of the assets of the Company, the Company has the option to extinguish the right of the Chairman and Chief Executive Officer to receive future Incentive Compensation by payment to him of a lump sum payment, in an amount equal to the fair market value of such future interest as determined by an independent third party expert if the parties do not reach agreement as to such value. In the event that the Chairman and Chief Executive Officer's employment is terminated by the Company "Other Than For Cause" (as defined) or by him for "Good Reason" (as defined), the Chairman and Chief Executive Officer shall also be entitled to (i) a lump sum severance payment of 12 months base

**NOTE H - EMPLOYMENT ARRANGEMENTS AND OTHER AGREEMENTS (continued)**

salary, (ii) a pro-rated portion of the \$175,000 target bonus provided bonus criteria have been satisfied on a pro-rated basis through the calendar quarter in which the termination occurs and (iii) accelerated vesting of all unvested options, warrants, RSUs and other awards.

In connection with the Agreement, the Chairman and Chief Executive Officer has also agreed not to compete with the Company as follows: (i) during the term of the Agreement and for a period of 12 months thereafter if his employment is terminated by us "Other Than For Cause" (as defined) provided he is paid his 12 month base salary severance amount and (ii) for a period of two years from the termination date, if terminated "For Cause" by the Company or "Without Good Reason" by the Chairman and Chief Executive Officer.

[2] The Company's Chief Financial Officer serves on an at-will basis, pursuant to an offer letter dated April 9, 2014, at an annual base salary of \$175,000 (increased in June 2016 from \$157,500) and is eligible to receive incentive or bonus compensation on an annual basis in the discretion of the Company's Compensation Committee. In connection with the offer letter, the Chief Financial Officer was issued, under the Company's 2013 Stock Incentive Plan, a 5-year stock option to purchase 50,000 shares of the common stock, at an exercise price of \$1.65 per share, which option vested in two equal amounts (25,000 shares each) on each of December 31, 2014 and December 31, 2015. In the event the Chief Financial Officer's employment is terminated without "Good Cause" (as defined), he shall receive (i) (a) 6 months base salary or (b) 12 months base salary in the event of a termination without "Good Cause" within 6 months following a "Change of Control" of the Company (as defined) and (ii) accelerated vesting of all remaining unvested shares underlying his options or any other awards he may receive in the future. On June 9, 2016, the Company granted 50,000 RSUs to its Chief Financial Officer, which vested 25,000 RSUs on June 9, 2017 and 25,000 RSUs on June 9, 2018. On November 27, 2018, the Company's Chief Financial Officer was granted 40,000 RSUs, with 50% of such RSUs vesting on the one year anniversary of the grant date (November 27, 2019) and 50% vesting on the two year anniversary of the grant date (November 27, 2020), subject to the Chief Financial Officer's continued employment by the Company.

[3] The Company's Executive Vice President serves on an at-will basis at an annual base salary of \$200,000 and is eligible to receive incentive or bonus compensation on an annual basis in the discretion of the Company's Compensation Committee. On June 9, 2016, the Company granted 50,000 RSUs to its Executive Vice President which vested 25,000 RSUs on June 9, 2017 and 25,000 RSUs on June 9, 2018. On November 27, 2018, the Executive Vice President was granted 50,000 RSUs which vested 50% on the one year anniversary of the grant date (November 27, 2019) and 50% on the two year anniversary of the grant date (November 27, 2020), subject to the Executive Vice President's continued employment by the Company.

**NOTE I – LEGAL PROCEEDINGS**

[1] In September 2011, the Company initiated patent litigation against sixteen (16) data networking equipment manufacturers (and affiliated entities) in the U.S. District Court for the Eastern District of Texas, Tyler Division, for infringement of its Remote Power Patent. Named as defendants in the lawsuit, excluding affiliated parties, were Alcatel-Lucent USA, Inc., Allied Telesis, Inc., Avaya Inc., AXIS Communications Inc., Dell, Inc., GarrettCom, Inc., Hewlett-Packard Company, Huawei Technologies USA, Juniper Networks, Inc., Motorola Solutions, Inc., NEC Corporation, Polycom Inc., Samsung Electronics Co., Ltd., ShoreTel, Inc., Sony Electronics, Inc., and Transition Networks, Inc.



## NOTE I – LEGAL PROCEEDINGS (CONTINUED)

As of January 2018, the Company reached settlements with fifteen (15) of the sixteen (16) defendants with Hewlett-Packard Company ("HP") being the sole remaining defendant. On November 13, 2017, a jury empaneled in the U.S. District Court for the Eastern District of Texas, Tyler Division, found that certain claims of the Company's Remote Power Patent were invalid and not infringed by HP. On February 2, 2018, the Company moved to throw out the jury verdict and have the Court determine that certain claims of the Remote Power Patent are not obvious (invalid) as a matter of law by filing motions for judgment as a matter of law on validity and a new trial on validity and infringement. On August 29, 2018, the District Court issued an order granting the Company's motion for judgment as a matter of law that the Remote Power Patent is valid, thereby overturning the jury verdict of invalidity and denied the Company's motion for a new trial on infringement. On August 30, 2018, the Company appealed the District Court's denial of its motion for a new trial on infringement to the U.S. Court of Appeals for the Federal Circuit. On September 13, 2018, HP filed a cross-appeal of the District Court's order that the Remote Power Patent is valid as a matter of law. No hearing on the appeal has been set. If the Company is unable to reverse the District Court order on appeal, or there is an arbitration ruling that the District Court order relieves the obligation of certain of the Company's licensees including Cisco, the Company's largest licensee, to continue to pay royalties to the Company and the District Court order is not subsequently reversed on appeal, the Company's business, results of operations and cash-flow will continue to be materially adversely effected.

On November 1, 2017, defendant Juniper Networks, Inc. ("Juniper") agreed to settle its litigation with the Company for \$13,250,000 for a fully-paid license to the Company's Remote Power Patent. On December 8, 2017, the Company was advised by Juniper that it would not make the settlement payment to the Company as a result of the HP Jury Verdict and that there was no binding settlement agreement. On January 16, 2018, the Company revised and closed its settlement with defendant Juniper. The Company agreed to revise the settlement to avoid the possibility of protracted litigation regarding enforcing the settlement. Under the terms of the revised settlement, Juniper paid the Company \$12,700,000 and received a fully-paid license to the Remote Power Patent (and certain other patents owned by the Company) for its full term, which applies to its sales of PoE products.

On October 16, 2017, the U.S. Bankruptcy Court of the Southern District of New York approved the Company's settlement with defendant Avaya, Inc. ("Avaya"). As part of the settlement, Avaya, which on January 19, 2017 had filed a voluntary petition for relief under Chapter 11 of the United States Bankruptcy Code, entered into a non-exclusive license agreement for the full term of the Remote Power Patent. Under the terms of the license, Avaya paid a lump sum amount for sales of certain designated PoE products and agreed to pay ongoing royalties for other designated PoE products. In addition, Avaya agreed that the Company shall have an allowed general unsecured claim in the amount of \$37,500,000, as amended, relating to all acts occurring on or before January 19, 2017 ("Allowed Claim").

Under the Debtors' Second Amended Joint Chapter 11 Plan of Reorganization of Avaya Inc. and its Debtor Affiliates, which was approved by the Bankruptcy Court on November 28, 2017 and became effective on December 15, 2017, the Debtors estimated that the total amount of general unsecured claims that will ultimately be allowed will total approximately \$305,000,000 which, based on the treatment of general unsecured creditors therein, would result in estimated recoveries for the holders of general unsecured claims of approximately 18.9% of their Allowed Claim. On January 9, 2018, the Company sold its Allowed Claim to a third party for \$6,320,000.

In October 2016, the Company entered a settlement agreement with Polycom, Inc. ("Polycom"). Under the terms of the settlement, Polycom entered into a non-exclusive license for the Remote Power Patent for its full term and is obligated to pay the Company a license initiation fee of \$5,000,000 for past sales of its PoE products and ongoing royalties based on its sales of PoE

**NOTE I – LEGAL PROCEEDINGS (CONTINUED)**

products. \$2,000,000 of the license initiation fee was paid within 30 days and the balance is payable in three annual installments of \$1,000,000 beginning in October 2017. Payments due in October 2018 and October 2019 need not be paid by Polycom if all asserted claims of the Company's Remote Power Patent have been found invalid. Since the District Court in August 2018 granted the Company's motion for judgment as a matter of law that the Remote Power Patent is valid thereby overturning the HP Jury Verdict of invalidity, Polycom became obligated to make the aforementioned remaining aggregate payments of \$2,000,000 (subject to the continued validity of the Remote Power Patent) to the Company (of which \$1,000,000 was paid in November 2018).

[2] In July 2010, the Company settled its patent litigation pending in the U.S. District Court for the Eastern District of Texas, Tyler Division, against Adtran, Inc, Cisco Systems, Inc. and Cisco-Linksys, LLC, (collectively, "Cisco"), Enterasys Networks, Inc., Extreme Networks, Inc., Foundry Networks, Inc., and 3Com Corporation, Inc. As part of the settlement, Adtran, Cisco, Enterasys, Extreme Networks and Foundry Networks each entered into a settlement agreement with the Company and entered into non-exclusive licenses for the Company's Remote Power Patent (the "Licensed Defendants"). Under the terms of the licenses, the Licensed Defendants made aggregate payments to the Company of approximately \$32,000,000 upon settlement and agreed to license the Remote Power Patent for its full term, which expires in March 2020. In accordance with the Settlement and License Agreement, dated May 25, 2011 (the "Agreement"), Cisco is obligated to pay the Company royalties (which began in the first quarter of 2011) based on its sales of PoE products up to maximum royalty payments per year of \$9 million beginning in 2016 for the remaining term of the patent. The royalty payments from Cisco are subject to certain conditions including that there is no "Adverse Ruling" (as defined in the Agreement) involving the Remote Power Patent. Under the terms of the Agreement, if the Company grants other licenses with lower royalty rates to third parties (as defined in the Agreement), Cisco shall be entitled to the benefit of the lower royalty rates provided it agrees to the material terms of such other license. Under the terms of the Agreement, the Company has certain obligations to Cisco and if it materially breaches such terms, Cisco will be entitled to stop paying royalties to the Company.

The Company's seventeen (17) licensees with royalty bearing licenses are obligated to pay the Company ongoing royalties on a quarterly or monthly basis for the life of its Remote Power Patent (through March 2020), subject to certain conditions. These conditions include the continued validity of certain claims of the Remote Power Patent or a finding that a third party's PoE products are found not to infringe the Remote Power Patent and such finding applies to the applicable licensee's licensed products. As a result of the HP Jury Verdict several of the Company's largest licensees, including Cisco, its largest licensee, notified the Company in late November 2017 and January 2018 that they will no longer make ongoing royalty payments to the Company pursuant to their license agreements. If the Company successfully overturns the District Court judgment of non-infringement in the appeal to the Federal Circuit, certain licensees of the Remote Power Patent, including Cisco, will be obligated to pay the Company ongoing royalties and all royalties that accrued but were not paid following (and prior to) the HP Jury Verdict in November 2017. If the Company is unable to reverse the District Court order of non-infringement on appeal, or there is an arbitration ruling that certain of our licensees, including Cisco, are relieved of their obligations to pay royalties and the District Court order of non-infringement is not subsequently reversed on appeal, the Company's business, results of operations and cash-flow will continue to be materially adversely effected (see Note I[1] hereof).

**NOTE I – LEGAL PROCEEDINGS (CONTINUED)**

[3] On April 4, 2014 and December 3, 2014, the Company initiated litigation against Google Inc. ("Google") and YouTube, LLC ("YouTube") in the U.S. District Court for the Southern District of New York for infringement of several of its patents within its Cox Patent Portfolio acquired from Dr. Cox (see Note G[2] hereof) which relate to the identification of media content on the Internet. The lawsuit alleges that Google and YouTube have infringed and continue to infringe certain of the Company's patents by making, using, selling and offering to sell unlicensed systems and related products and services, which include YouTube's Content ID system. In May 2014, the defendants filed an answer to the complaint and asserted defenses of non-infringement and invalidity.

The above referenced litigations that the Company commenced in the U.S. District Court for the Southern District of New York in April 2014 and December 2014 against Google and YouTube were subject to court ordered stays which were in effect from July 2, 2015 until January 2, 2019 as a result of proceedings at the Patent Trial and Appeal Board (PTAB) and related appeals. Pursuant to a Joint Stipulation and Order Regarding Lifting of Stays, entered on January 2, 2019, the parties agreed, among other things, that the stays with respect to the litigations were lifted.

[4] On May 9, 2017, Mirror Worlds Technologies, LLC, the Company's wholly-owned subsidiary, initiated litigation against Facebook, Inc. ("Facebook") in the U.S. District Court for the Southern District of New York, for infringement of U.S. Patent No. 6,006,227, U.S. Patent No. 7,865,538 and U.S. Patent No. 8,255,439 (among the patents within the Company's Mirror Worlds Patent Portfolio). The lawsuit alleged that the asserted patents are infringed by Facebook's core technologies that enable Facebook's Newsfeed and Timeline features. The lawsuit further alleged that Facebook's unauthorized use of the stream-based solutions of the Company's asserted patents has helped Facebook become the most popular social networking site in the world. The Company sought, among other things, monetary damages based upon reasonable royalties. On May 7, 2018, Facebook filed a motion for summary judgment on non-infringement. On August 11, 2018, the Court issued an order granting Facebook's motion for summary judgment of non-infringement and dismissed the case. On August 17, 2018, the Company filed a Notice of Appeal to appeal the summary judgment decision to the U.S. Court of Appeals for the Federal Circuit. No hearing on the appeal has been set.

[5] On November 13, 2018, the Company filed a lawsuit against Dell, Inc. in the District Court, 241st Judicial District, Smith County, Texas, for breach of a settlement and license agreement, dated August 15, 2016, with the Company as a result of Dell's failure to make royalty payments, and provide corresponding royalty reports, to the Company based on sales of Dell's PoE products. The Company believes Dell is obligated to pay the Company all prior unpaid royalties that accrued prior to and after the date of the HP Jury Verdict (November 2017) as well as future royalties through the expiration of the Remote Power Patent in March 2020. On December 7, 2018, Dell filed its Answer and Counterclaim. Dell denied the claim asserted by the Company and asserted a counterclaim in excess of \$1,000,000. On January 28, 2019, Dell brought a motion to stay the case as a result of the Company's pending appeal of the District Court order overturning the HP Jury Verdict on non-infringement to the U.S. Court of Appeals for the Federal Circuit and HP's appeal of the District Court's order that the Remote Power Patent is valid as a matter of law. Dell's motion to stay the litigation was denied by the Court on May 7, 2019.

## NOTE J – EQUITY INVESTMENT

On December 18, 2018, the Company agreed to make an investment of up to \$5,000,000 in ILiAD Biotechnologies, LLC ("ILiAD"), a privately held development stage biotechnology company dedicated to the prevention of human disease caused by *Bordetella pertussis* with a current focus on its proprietary intranasal vaccine, BPZE1, for the prevention of pertussis (whooping cough). The investment by the Company is part of a financing of up to approximately \$16,200,000 of Class C units of ILiAD, consisting of two tranches. The Company made an initial investment (tranche 1) at the December 18, 2018 closing of \$2,500,000 to purchase 1,111,111 Class C units at \$2.25 per unit and received five-year warrants to purchase 366,666 Class C units at an exercise price of \$2.75 per unit. In connection with its investment, the Company's Chairman and Chief Executive Officer obtained a seat on ILiAD's Board of Managers. The Company incurred approximately \$41,000 of advisory and legal expenses in conjunction with its equity investment in ILiAD which have been capitalized as a component of the equity investment carrying value at June 30, 2019.

In accordance with the Securities Purchase Agreement, dated December 18, 2018, the Company is obligated to invest an additional \$2,500,000 (tranche 2) to purchase 943,396 Class C units at \$2.65 per unit (and will also receive additional five-year warrants to purchase 311,320 Class C units at an exercise price of \$3.50 per unit) contingent upon ILiAD receiving, on or before December 31, 2019, an "allowed-to-proceed" notification from the FDA for a Phase 2b clinical study. On May 2, 2019, ILiAD notified the Company that it had received an "allowed to proceed" notice from the FDA permitting ILiAD to advance to the Phase 2b clinical study of its BPZE1 vaccine. ILiAD elected to permit its Class C investors (including the Company) to bifurcate their tranche 2 commitments such that 40% would be currently due and 60% (additional \$1,500,000 investment by the Company) would be due when ILiAD receives satisfactory safety data from the clinical study. On May 6, 2019, the Company satisfied its 40% commitment through an additional \$1,000,000 investment by the Company in exchange for 377,358 Class C units at \$2.65 per unit and received five-year warrants to purchase 124,528 Class C units at an exercise price of \$3.50 per unit. At June 30, 2019, the Company owned approximately 8.4% of the outstanding units of ILiAD (on a non-fully diluted basis).

The Company's investment in ILiAD is accounted for as an equity method investment in accordance with ASC 323, *Investments — Equity Method and Joint Ventures* as the Company has the ability to exercise significant influence, but not control, over ILiAD. The Company's investment in ILiAD is measured at cost minus impairment, if any, plus or minus the Company's share of ILiAD's income or loss. The Company's proportionate share of the income or loss from its investment in ILiAD is recognized on a one-quarter lag. For the three and six months ended June 30, 2019, the Company recorded net (loss) from its equity investment in ILiAD totaling \$(53,000) and \$(149,000), respectively.

The difference between the Company's share of equity in ILiAD's net assets and the equity investment carrying value reported on the Company's condensed consolidated balance sheet at June 30, 2019 is due to an excess amount paid over the book value of the investment totaling approximately \$3,392,000 which is accounted for as equity method goodwill.

#### **NOTE K – STOCK REPURCHASE**

On June 11, 2019, the Board of Directors authorized an extension and increase of the Company's share repurchase program (the "Share Repurchase Program") to repurchase up to \$5,000,000 of common stock over the subsequent 24 month period (for a total authorization of approximately \$22,000,000 since inception of the program in August 2011). The common stock may be repurchased from time to time in open market transactions or privately negotiated transactions in the Company's discretion. The timing and amount of the shares repurchased is determined by management based on its evaluation of market conditions and other factors. The Share Repurchase Program may be increased, suspended or discontinued at any time.

Since inception of the Share Repurchase Program through June 30, 2019, the Company has repurchased an aggregate of 8,294,546 shares of its common stock at an aggregate cost of \$15,473,903 (exclusive of commissions) or an average per share price of \$1.87. All such repurchased shares have been cancelled. During the six months ended June 30, 2019, the Company repurchased 140,148 shares of its common stock at a cost of \$330,987 (exclusive of commissions) or an average per share price of \$2.37. At June 30, 2019, the dollar value of remaining shares that may be repurchased under the Share Repurchase Program was \$4,818,350.

#### **NOTE L – CONCENTRATIONS**

Revenue from four licensees constituted approximately 56%, 10%, 10% and 10% of the Company's revenue for the three months ended June 30, 2019 and revenue from four licensees constituted approximately 43%, 14%, 11% and 11% of the Company's revenue for the six months ended June 30, 2019. Revenue from three licensees constituted approximately 41%, 18% and 12% of the Company's revenue for the three months ended June 30, 2018 and revenue from one licensee constituted approximately 64% of the Company's revenue for the six months ended June 30, 2018. Revenue from the sale of the Company's unsecured claim against Avaya, Inc. constituted approximately 32 % of the Company's revenue for the three months ended June 30, 2018. At June 30, 2019, royalty receivables from three licensees constituted in the aggregate approximately 82% of the Company's royalty receivables. At December 31, 2018, royalty receivables from four licensees constituted in the aggregate approximately 80% of the Company's royalty receivables.

#### **NOTE M – DIVIDEND POLICY**

On December 7, 2016, the Board of Directors of the Company approved the initiation of a dividend policy providing for the payment of a semi-annual cash dividend of \$0.05 per common share (\$0.10 per common share annually) commencing in 2017. The Company anticipates paying the semi-annual cash dividends in March and September of each year. It is anticipated that the semi-annual cash dividend will continue to be paid through March 2020 (the expiration of the Company's Remote Power Patent) provided that the Company continues to receive royalties from licensees of its Remote Power Patent. On February 9, 2018, the Board of Directors of the Company declared a semi-annual cash dividend of \$0.05 per common share which was paid on March 23, 2018 to all common stockholders of record as of March 9, 2018. On February 11, 2019, the Board of Directors declared a cash dividend of \$0.05 per common share with a payment date of March 25, 2019 to all common stockholders as of March 11, 2019. However, if the Company is unable to overturn the District Court order of non-infringement in its litigation with Hewlett-Packard on appeal to the Federal Circuit (see Note I[1] hereof), or there is not an arbitration ruling that the HP Jury Verdict finding of non-infringement does not apply to certain licensees of the Remote Power Patent including Cisco, the Board of Directors may decide to modify or discontinue semi-annual cash dividends of \$0.05 per common share.

#### **NOTE N – SUBSEQUENT EVENTS**

[1] On July 14, 2019, 125,000 restricted stock units owned by the Company's Chairman and Chief Executive Officer vested in accordance with his employment agreement dated July, 14, 2016 (see Note H[1] hereof). With respect to the vesting of such restricted stock units, the Company's Chairman and Chief Executive Officer delivered 56,813 shares of common stock to satisfy withholding taxes and received 68,187 net shares of common stock.

[2] On July 25, 2019, the Board of Directors of the Company declared a cash dividend of \$.05 per common share with a payment date of September 20, 2019 to all common stockholders as of September 4, 2019.

[3] On August 9, 2019, ILiAD notified the Company that the FDA has allowed Phase 2b to proceed to full enrollment based on satisfactory safety data from the first phase of the clinical study. As a result, the Company is obligated to invest an additional \$1,500,000 in ILiAD for 566,038 Class C units at \$2.65 per unit and receive five-year warrants to purchase 186,792 Class C units at an exercise price of \$3.50 per unit (see Note J hereof).

## ITEM 2: MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

THIS QUARTERLY REPORT ON FORM 10-Q CONTAINS FORWARD-LOOKING STATEMENTS WHICH ARE STATEMENTS THAT INCLUDE INFORMATION BASED UPON BELIEF OF OUR MANAGEMENT, AS WELL AS ASSUMPTIONS MADE BY AND INFORMATION AVAILABLE TO MANAGEMENT. STATEMENTS CONTAINING TERMS SUCH AS "BELIEVES", "EXPECTS", "ANTICIPATES", "INTENDS" OR SIMILAR WORDS ARE INTENDED TO IDENTIFY FORWARD LOOKING STATEMENTS. ACTUAL RESULTS, EVENTS AND CIRCUMSTANCES (INCLUDING FUTURE PERFORMANCE, RESULTS AND TRENDS) COULD DIFFER MATERIALLY FROM THOSE SET FORTH IN SUCH STATEMENTS DUE TO VARIOUS RISKS AND UNCERTAINTIES, INCLUDING, BUT NOT LIMITED TO, THOSE DISCUSSED ON PAGES 16-26 OF OUR ANNUAL REPORT ON FORM 10-K FOR THE YEAR ENDED DECEMBER 31, 2018 FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ON MARCH 29, 2019 AND IN THIS QUARTERLY REPORT ON FORM 10-Q.

### OVERVIEW

Our principal business is the development, licensing and protection of our intellectual property assets. We presently own seventy-two (72) patents including: (i) our remote power patent ("Remote Power Patent") covering the delivery of power over Ethernet (PoE) cables for the purpose of remotely powering network devices, such as wireless access ports, IP phones and network based cameras; (ii) our Mirror Worlds patent portfolio (the "Mirror Worlds Patent Portfolio") relating to foundational technologies that enable unified search and indexing, displaying and archiving of documents in a computer system; (iii) our Cox patent portfolio (the "Cox Patent Portfolio") relating to enabling technology for identifying media content on the Internet and taking further action to be performed based on such identification; (iv) our M2M/IoT patent portfolio (the "M2M/IoT Patent Portfolio") relating to, among other things, enabling technology for authenticating, provisioning and using embedded sim cards in next generation IoT, Machine-to-Machine, and other mobile devices, including smartphones, tablets and computers; and (v) our QoS patents (the "QoS Patents") covering systems and methods for the transmission of audio, video and data in order to achieve high quality of service (QoS) over computer and telephony networks. In addition, we continually review opportunities to acquire or license additional intellectual property as well as other strategic alternatives.

We have been actively engaged in the licensing of our Remote Power Patent (U.S. Patent No. 6,218,930). We have entered into twenty-seven (27) license agreements with respect to our Remote Power Patent which, among others, include license agreements with Cisco, Dell Inc., Extreme Networks, Inc., Netgear, Inc., Microsemi Corporation, Motorola Solutions, Inc., NEC Corporation, Samsung Electronics Co., Ltd, Huawei Technologies Co., Ltd., ShoreTel, Inc., Juniper Networks, Inc., Polycom, Inc. and Avaya, Inc. We have also entered into license agreements with Apple Inc. and Microsoft Corporation with respect to our Mirror Worlds Patent Portfolio. Our current strategy includes continuing our licensing efforts with respect to our intellectual property assets. In addition, we continue to seek to acquire additional intellectual property assets to develop, commercialize, license or otherwise monetize. Our strategy includes working with inventors and patent owners to assist in the development and monetization of their patented technologies. We may also enter into strategic relationships with third parties to develop, commercialize, license or otherwise monetize their intellectual property.

Our patent acquisition and development strategy is to focus on acquiring high quality patents which management believes have the potential to generate significant licensing opportunities as we have achieved with respect to our Remote Power Patent and Mirror Worlds Patent Portfolio. Our Remote Power Patent has generated licensing revenue of approximately \$145,000,000 from May 2007 through June 30, 2019. Since our acquisition of Mirror Worlds Patent Portfolio in May 2013, we have received licensing and other revenue from the portfolio of \$47,150,000 through June 30, 2019.

On November 13, 2017, the HP Jury Verdict was rendered which found that certain claims of our Remote Power Patent were invalid and not infringed by Hewlett-Packard. On August 29, 2018, the District Court (i) granted our motion for judgment as a matter of law that our Remote Power Patent is valid, thereby overturning the HP Jury Verdict of invalidity and (ii) denied our motion for a new trial on infringement. We have appealed the District Court's denial of our motion for a new trial on infringement to the U.S. Court of Appeals for the Federal Circuit (see Note I[1] to our unaudited condensed consolidated financial statements included in this quarterly report). The HP Jury Verdict had a material adverse effect on our business, results of operations and cash-flow for the year ended December 31, 2018 and the three and six months ended June 30, 2019 and will continue to do so for the life of our Remote Power Patent (March 2020) unless the District Court judgment of non-infringement is reversed on appeal. We have been dependent upon our Remote Power Patent for a significant portion of our revenue. As a result of the HP Jury Verdict, several of our largest licensees, including Cisco, our largest licensee, notified us in late November 2017 and January 2018 that they will no longer make ongoing royalty payments to us pursuant to their license agreements. If we successfully overturn the District Court order of non-infringement in our appeal to the Federal Circuit, certain licensees of the Remote Power Patent, including Cisco, will be obligated to pay us ongoing royalties and all royalties that accrued but were not paid following (and prior to) the HP Jury Verdict in November 2017. If we are unable to reverse the District Court order of non-infringement on appeal, or there is an arbitration ruling that certain of our licensees, including Cisco, are relieved of their obligations to pay royalties and the District Court order of non-infringement is not subsequently reversed on appeal, our business, results of operations and cash-flow will continue to be materially adversely effected (see Note I[1] and Note I[2] to our unaudited condensed consolidated financial statements included in this quarterly report).

Consistent with our prior view, the District Court decision overturning the HP Jury Verdict on invalidity confirmed the following: (i) we believe that Dell, Inc. ("Dell") is obligated to pay to us all prior unpaid royalties, including those that accrued after the date of the HP Jury Verdict (November 13, 2017), as well as future royalties through the expiration of the Remote Power Patent in March 2020 and (ii) Polycom, Inc. has a continuing obligation to make ongoing licensing payments to us including \$2,000,000 of installment license initiation fees (\$1,000,000 of which was paid and recorded as revenue for the year ended December 31, 2018) (see Note I[1] to our unaudited condensed consolidated financial statements included in this quarterly report). Dell has not made payment of such accrued royalties due us and on November 13, 2018 we commenced legal action against Dell (see Note I[5] to our unaudited consolidated financial statements included in this quarterly report).

We have been dependent upon our Remote Power Patent for a significant amount of our revenue. Revenue for the year ended December 31, 2018 from license agreements for our Remote Power Patent was \$15,785,000 (71% of our revenue) and such revenue was \$16,451,000 (100% of our revenue) for the year ended December 31, 2017. In addition, we have been dependent on royalty bearing licenses for our Remote Power Patent for our recurring revenue (mostly payable quarterly). As a result of certain of our largest licensees not paying us royalties pursuant to licenses for our Remote Power Patent following the HP Jury Verdict as described above, we only achieved revenue from royalty bearing licenses of \$3,086,000 for the year ended December 31, 2018 as compared to royalty bearing revenue of \$12,053,000 and \$10,788,000 for the year ended December 31, 2017 and December 31, 2016, respectively. In addition, we only received revenue from Royalty Bearing Licenses of \$599,000 and \$471,000 for the three months ended June 30, 2019 and June 30, 2018, respectively, and \$1,075,000 and \$914,000 for the six months ended June 30, 2019 and June 30, 2018. Since significant revenue from our Remote Power Patent licensees (including Cisco) remains uncertain pending the outcome of the appeal to the Federal Circuit of the District Court order of non-infringement in our trial with Hewlett Packard, additional significant licensing revenue may be dependent upon the outcome of litigation involving our Cox Patent Portfolio, Mirror Worlds Patent Portfolio and our ability to monetize our M2M/IoT Patent Portfolio or new patents to be acquired in the future. Our future revenue stream is uncertain.

At June 30, 2019, our principal sources of liquidity consisted of cash and cash equivalents and marketable securities of \$51,039,000 and working capital of \$50,753,000. Based on our current cash position, we believe that we will have sufficient cash to fund our operations for the foreseeable future. Based on our cash position, we continually review opportunities to acquire additional intellectual property as well as evaluate other strategic opportunities.

In December 2018, we agreed to make an investment of up to \$5.0 million (\$2.5 million of which was invested at the December 2018 closing and an additional \$1,000,000 was invested in May 2019) in ILiAD Biotechnologies, LLC, a development stage biotechnology company with an exclusive license to over thirty-five (35) patents (see Note J to our unaudited condensed consolidated financial statements in this quarterly report).

On December 8, 2016, our Board of Directors approved the initiation of a dividend policy. The policy provides for the payment of regular semi-annual cash dividends of \$0.05 per common share (\$0.10 per common share annually) which are anticipated to be paid in March and September of each year. It is anticipated that the semi-annual cash dividend will continue to be paid through March 2020 (expiration of our Remote Power Patent) provided that we continue to receive royalties from licensees of our Remote Power Patent. During 2017 and 2018 semi-annual cash dividends of \$0.05 per share were paid in March and September in accordance with our dividend policy. On February 11, 2019, our Board of Directors declared a semi-annual cash dividend of \$0.05 per common share with a payment date of March 25, 2019 to all shareholders of record on March 11, 2019. On July 25, 2019, our Board of Directors declared a semi-annual cash dividend of \$0.05 per common share with a payment date of September 20, 2019 to all stockholders as of record on September 4, 2019. However, if we are unable to overturn the HP Jury Verdict finding of non-infringement in the District Court or there is not an arbitration ruling that the HP Jury Verdict finding of non-infringement does not apply to certain of our licensees of our Remote Power Patent, our Board of Directors may choose to modify or discontinue regular semi-annual cash dividends of \$0.05 per common share.

Our revenue from our patent licensing business is generated from license agreements entered into as a result of litigation settlements or judgments (after a jury verdict). Generally, in the event of settlement of litigation related to our assertion of patent infringement involving our intellectual property, defendants will either pay (i) a non-refundable lump sum payment for a non-exclusive fully-paid license (a "Fully-Paid License"), or (ii) a non-refundable lump sum payment (license initiation fee) together with an ongoing obligation to pay quarterly or monthly royalties to us for the life of the licensed patent (a "Royalty Bearing License").



## Royalty Bearing Licenses

Our Royalty Bearing Licenses for our Remote Power Patent obligate licensees to pay us ongoing royalties primarily on a quarterly basis for the life of our Remote Power Patent (March 2020), subject to certain conditions including the validity of certain claims of our Remote Power Patent or a finding that a third party's PoE products are found not to infringe our Remote Power Patent and such finding applies to our particular licensee's licensed products. At June 30, 2019, we had sixteen (16) Royalty Bearing Licenses and at June 30, 2018 we had Royalty Bearing Licenses with seventeen (17) licensees. In March 2019, one Royalty Bearing License was converted to a Fully-Paid License.

## Pending Litigation

We currently have pending patent infringement litigations involving our Remote Power Patent and certain patents within our Cox Patent Portfolio and Mirror Worlds Patent Portfolio (see "Legal Proceedings" at pages 39 – 41 hereof).

In September 2011, we initiated patent litigation against sixteen (16) data equipment manufacturers in the U.S. District Court for the Eastern District of Texas, Tyler Division, for infringement of our Remote Power Patent. We settled the litigation against fifteen (15) of the sixteen (16) defendants. The remaining defendant in the litigation is Hewlett-Packard Company. On November 13, 2017, a jury determined that certain claims of our Remote Patent are invalid and not infringed by Hewlett-Packard. On August 29, 2018, the District Court granted our motion for judgment as a matter of law that our Remote Power Patent is valid, thereby overturning the HP Jury Verdict on validity. In addition, the District Court denied our motion for a new trial on non-infringement. We have appealed the District Court's denial of our motion for a new trial on infringement to the U.S. Court of Appeals for the Federal Circuit (see "Legal Proceedings" at pages 39-40 hereof).

In April 2014 and December 2014, we initiated patent infringement litigation against Google Inc. and YouTube, LLC in the U.S. District Court for the Southern District of New York for infringement of several patents within our Cox Patent Portfolio (see "Legal Proceedings" at pages 40-41 of this quarterly report).

In May 2017, we initiated patent infringement litigation against Facebook, Inc. ("Facebook") in the U.S. District Court for the Southern District of New York, for infringement of our U.S. Patent No. 6,006,227, U.S. Patent No. 7,865,538 and U.S. Patent No. 8,225,439 (among the patents we acquired as part of our acquisition of our Mirror Worlds Patent Portfolio). In August 2018, the Court granted Facebook's motion for summary judgment of non-infringement and dismissed the case. We have appealed the decision to the U.S. Court of Appeals for the Federal Circuit (see "Legal Proceedings" at page 40 hereof).

## Settlements and Related Matters in the Periods

During the three and six month periods ended June 30, 2019, we had no revenue from new litigation settlements. During the three month period ended June 30, 2018, we also had no revenue from new litigation settlements. During the six month period ended June 30, 2018, we had revenue of \$12,700,000 from our Fully-Paid License with Juniper Systems, Inc. from a litigation settlement and \$6,320,000 from the sale of our Avaya unsecured claim (see "Legal Proceedings" at page 39 hereof).

## RESULTS OF OPERATIONS

### Three Months Ended June 30, 2019 Compared to Three Months Ended June 30, 2018

*Revenue.* We had revenue of \$599,000 for the three months ended June 30, 2019 as compared to revenue of \$471,000 for the three months ended June 30, 2018. The increase in revenue of \$128,000 for the three months ended June 30, 2019 was due to increased revenue from our Royalty Bearing licensees for our Remote Power Patent.

*Operating Expenses.* Operating expenses for the three months ended June 30, 2019 were \$1,115,000 as compared to \$1,475,000 for the three months ended June 30, 2018. The decrease in operating expenses of \$360,000 was primarily due to decreased legal fees and costs related to our patent litigation. We had costs of revenue of \$175,000 and \$133,000 for the three months ended June 30, 2019 and 2018, respectively. Included in the costs of revenue for the three months ended June 30, 2019 were contingent legal fees and expenses of \$145,000 and \$30,000 of incentive bonus compensation payable to our Chairman and Chief Executive Officer pursuant to his employment agreement (see Note H to our unaudited condensed consolidated financial statements included in this quarterly report). Included in the costs of revenue for the three months ended June 30, 2018 were contingent legal fees and expenses of \$109,000 and \$24,000 of incentive bonus compensation payable to our Chairman and Chief Executive Officer pursuant to his employment agreement.

General and administrative expenses increased by \$26,000 from \$462,000 for the three months ended June 30, 2018 to \$488,000 for the three months ended June 30, 2019. Amortization of patents was \$87,000 for three months ended June 30, 2019 as compared to \$69,000 for the three months ended June 30, 2018. Stock-based compensation expense related to the issuance of restricted stock units was \$127,000 for the three months ended June 30, 2019 as compared to \$225,000 for the three months ended June 30, 2018. Professional fees and related costs were \$238,000 for the three months ended June 30, 2019 as compared to \$586,000 for the three months ended June 30, 2018 primarily as a result of decreased legal fees and costs related to our pending patent litigations.

*Operating Loss.* We had an operating loss of \$(516,000) for the three months ended June 30, 2019 compared with operating loss of \$1,004,000 for the three months ended June 30, 2018. The decreased operating loss of \$488,000 for the three months ended June 30, 2019 was due to increased revenue and decreased legal fees and costs related to our patent litigation.

*Interest Income.* Interest income for the three months ended June 30, 2019 was \$301,000 as compared to interest income of \$203,000 for the three months ended June 30, 2018 primarily as a result of interest earned on additional investments of short-term marketable securities.

*Income Taxes (Deferred Tax Benefit).* We had a deferred tax benefit for federal, state and local income taxes of \$(38,000) and a current tax benefit of \$(237,000) for federal, state and local taxes were recorded for the three months ended June 30, 2019 and 2018, respectively. The increase in such taxes of \$199,000 for the three months ended June 30, 2019 was primarily due to the loss before taxes of \$(193,000).

*Share of Net Losses of Equity Method Investee.* We incurred a net loss of \$(53,000) during the three month period ended June 30, 2019 related to our equity share in ILiAD Biotechnologies (see Note J to our condensed consolidated financial statements included in this quarterly report).

*Net Income (Loss).* As a result of the foregoing, we realized a net loss of \$(208,000) or \$(0.01) per share basic and diluted for the three months ended June 30, 2019 compared with net loss of \$(564,000) or \$(0.02) per share basic and diluted for the three months ended June 30, 2018. The decrease in net loss of \$356,000 for the three months ended June 30, 2019 was primarily due to increased revenue and decreased legal fees and costs related to our patent litigation.

## Six Months Ended June 30, 2019 Compared to Six Months Ended June 30, 2018

*Revenue.* We had revenue of \$1,205,000 for the six months ended June 30, 2019 as compared to revenue of \$19,934,000 for the six months ended June 30, 2018. The decrease in revenue of \$18,729,000 for the six months ended June 30, 2019 was primarily due to revenue for the six months ended June 30, 2018 from a Fully-Paid License related to our patent litigation settlement with Juniper Networks, Inc. of \$12,700,000 and \$6,320,000 of revenue from sale of our Avaya unsecured claim (see Notes I[1] to our unaudited condensed consolidated financial statements included in this quarterly report). Excluding revenue from our Fully-Paid License with Juniper and sale of our Avaya unsecured claim for the six months ended June 30, 2018, revenue from our Royalty Bearing Licenses for the six months ended June 30, 2018 was \$914,000 compared to \$1,075,000 for the six months ended June 30, 2019.

*Operating Expenses.* Operating expenses for the six months ended June 30, 2019 were \$2,254,000 as compared to \$10,055,000 for the six months ended June 30, 2018. The decrease in operating expenses of \$7,801,000 was primarily due to decreased costs of revenue of \$7,071,000 for the six months ended June 30, 2018 related to our Fully-Paid License with Juniper from our patent litigation settlement and the sale of our unsecured Avaya claim. We had costs of revenue of \$321,000 and \$7,392,000 for the six months ended June 30, 2019 and June 30, 2018, respectively. Included in the costs of revenue for six months ended June 30, 2019 were contingent legal fees and expenses of \$261,000 and \$60,000 of incentive bonus compensation payable to our Chairman and Chief Executive Officer pursuant to his employment agreement (see Note G[1] and Note H[1] to our unaudited condensed consolidated financial statements included in this quarterly report). Included in the costs of revenue for the six months ended June 30, 2018 were contingent legal fees and expenses of \$6,395,000 and \$997,000 of incentive bonus compensation payable to our Chairman and Chief Executive Officer pursuant to his employment agreement.

General and administrative expenses increased by \$7,000 from \$969,000 for the six months ended June 30, 2018 to \$976,000 for the six months ended June 30, 2019. Amortization of patents was \$141,000 for the six months ended June 30, 2019 as compared to \$139,000 for the six months ended June 30, 2018. Stock-based compensation expense related to the issuance of restricted stock units was \$271,000 for the six months ended June 30, 2019 as compared to \$451,000 for the six months ended June 30, 2018. Professional fees and related costs were \$545,000 for the six months ended June 30, 2019 as compared to \$1,104,000 for the six months ended June 30, 2018 primarily as a result of decreased legal fees and costs related to our pending patent litigations.

*Operating Income (Loss).* We had an operating loss of \$(1,049,000) for the six months ended June 30, 2019 compared with operating income of \$9,879,000 for the six months ended June 30, 2018. Our operating income for the six months ended June 30, 2018 was due to operating income associated with revenue of \$19,020,000 from our Fully-Paid License with Juniper and the sale of our Avaya unsecured claim, less related costs.

*Interest Income.* Interest income for the six months ended June 30, 2019 was \$602,000 as compared to interest income of \$346,000 for the six months ended June 30, 2018 primarily as a result of interest earned on additional investments.

*Income Taxes (Deferred Tax Benefit).* We had a deferred tax benefit for federal, state and local taxes of \$(103,000) and a current tax expense of \$2,188,000 for federal, state and local taxes were recorded for six months ended June 30, 2019 and 2018. The decrease in such taxes of \$2,291,000 for the six months ended June 30, 2019 was primarily due to decreased taxable income of \$10,627,000 for the six months ended June 30, 2019.

*Share of Net Losses of Equity Method Investee.* We incurred a loss of \$(149,000) during the six month period ended June 30, 2019 related to our share of the net losses in ILiAD Biotechnologies (see Note J to our condensed consolidated financial statements included in this quarterly report).

*Net Income (Loss).* As a result of the foregoing, we realized net loss of \$(448,000) or \$(0.02) per share basic and diluted for the six months ended June 30, 2019 compared with net income of \$8,037,000 or \$0.34 per share basic and \$0.31 per share diluted for the six months ended June 30, 2018. The decrease in net income of \$8,485,000 for the six months ended June 30, 2019 was primarily due to income for the six months ended June 30, 2018 associated with revenue of \$19,020,000 from our Fully-Paid License with Juniper and from the sale of our Avaya claims, less related costs.

## **LIQUIDITY AND CAPITAL RESOURCES**

We have financed our operations primarily from revenue from licensing our patents. At June 30, 2019, our principal sources of liquidity consisted of cash and cash equivalents and marketable securities of \$51,039,000 and working capital of \$50,753,000. Based on our current cash position, we believe that we will have sufficient cash to fund our operations for the foreseeable future.

At June 30, 2019, we had royalty receivables of \$641,000 due from our Royalty Bearing Licenses, which are typically paid within sixty (60) days.

Working capital decreased by \$2,733,000 at June 30, 2019 as compared to working capital of \$53,486,000 at December 31, 2018. The decrease in working capital for the six months ended June 30, 2019 was primarily due to a decrease in cash and cash equivalents of \$4,840,000, which included a cash dividend of \$1,191,000 and an additional equity investment of \$1,000,000, offset by a decrease in accrued expenses of \$1,297,000.

Net cash provided by (used in) operating activities for the six months ended June 30, 2019 decreased by \$9,721,000 from \$8,379,000 for the six months ended June 30, 2018 to \$(1,342,000) for the six months ended June 30, 2019. The decrease in net cash provided by (used in) operating activities for the six months ended June 30, 2019 compared with the six months ended June 30, 2018 was primarily due to a decrease in net income of \$8,485,000.

Net cash used in investing activities during the six months ended June 30, 2019 was \$(1,715,000) as compared to \$(19,537,000) for the six months ended June 30, 2018 as a result of new investments in short term marketable securities for the six months ended June 30, 2018.

Net cash used in financing activities for the six months ended June 30, 2019 and 2018 was \$(1,783,000) and \$(2,491,000), respectively. The change of \$(708,000) primarily resulted from reduced stock repurchases of \$950,000.

We maintain our cash in money market accounts and other short-term fixed income securities. Accordingly, we do not believe that our investments have significant exposure to interest rate risk.

## **OFF-BALANCE SHEET ARRANGEMENTS**

We do not have any off-balance sheet arrangements.

## CONTRACTUAL OBLIGATIONS

We do not have any long-term debt, capital lease obligations, purchase obligations or other long-term liabilities.

## CRITICAL ACCOUNTING POLICIES

Our discussion and analysis of our financial condition, results of operations, and cash flows are based on our audited consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of our financial statements included in this Quarterly Report on Form 10-Q requires management 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 periods. The significant estimates and assumptions made in the preparation of our unaudited condensed consolidated financial statements include revenue recognition, patents, stock-based compensation, income taxes, valuation of patents and equity method investments, including the evaluation of the Company's basis difference. Actual results could be materially different from those estimates, upon which the carrying values were based. See also Note B to our unaudited condensed consolidated financial statements included in this quarterly report.

### Accounting Standards Adopted In The Period

In February 2016, the FASB issued ASU 2016-2, *Leases ("ASC 842")*, which required us to recognize lease assets and lease obligations (related to leases previously classified as operating under previous U.S. GAAP) on its condensed consolidated balance sheet. ASC 842 was effective for the Company on January 1, 2019. The adoption of ASC 842 impacted our condensed consolidated financial statements in that existing leases were recorded as right-of-use ("ROU") assets and related lease obligations on the condensed consolidated balance sheet.

We elected to adopt ASC 842 using the modified retrospective method and, therefore, has not recast comparative periods presented in its unaudited condensed consolidated financial statements. We elected the package of transition practical expedients for existing leases and therefore we have not reassessed the following: lease classification for existing leases, whether any existing contracts contained leases, and if any initial direct costs were incurred. We did not apply the hindsight practical expedient, and accordingly, we did not use hindsight in its assessment of lease terms. As permitted under ASC 842, we elected to not recognize ROU assets and related lease obligations for leases with terms of twelve months or less. In connection with the adoption of ASC 842, the Company recorded \$127,000 of operating lease right-of-use assets and \$128,000 of operating lease obligations as of January 1, 2019.

Under ASC 842, we determined if an arrangement is a lease at inception. ROU assets and related lease obligations are recognized at commencement date based on the present value of remaining lease payments over the lease term. For this purpose, we consider only payments that are fixed and determinable at the time of commencement. As our leases do not provide an implicit rate, the Company uses its incremental borrowing rate based on the information available at commencement date in determining the present value of lease payments. We determined incremental borrowing rate is a hypothetical rate based on its understanding of what our credit rating would be. The ROU asset also includes any lease payments made prior to commencement and is recorded net of any lease incentives received and net of the deferred rent balance on the date of implementation. Our lease terms may include options to extend or terminate the lease when it is reasonably certain that it will exercise such options.

We do not believe other recently issued but not yet effective accounting standards, if currently adopted, would have a material effect on our consolidated financial position, statements of operations and cash flows.

### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not Applicable

### ITEM 4. CONTROLS AND PROCEDURES

#### (a) Evaluation of Disclosure Controls and Procedures

Our Chief Executive Officer and Chief Financial Officer have evaluated the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) of the Securities Exchange Act of 1934) as of the end of the period covered by this Quarterly Report on Form 10-Q. Based upon this review, these officers concluded that, as of the end of the period covered by this Quarterly Report on Form 10-Q, our disclosure controls and procedures are effective to ensure that information required to be disclosed by us in the reports we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported, within the time periods specified in applicable rules and forms and is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure.

#### (b) Changes in Internal Controls

There was no change in our internal control over financial reporting that occurred during the fiscal quarter ended June 30, 2019 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

## PART II. OTHER INFORMATION

### ITEM 1: LEGAL PROCEEDINGS

#### *Remote Power Patent Litigation*

In September 2011, we initiated patent litigation against sixteen (16) data networking equipment manufacturers (and affiliated entities) in the U.S. District Court for the Eastern District of Texas, Tyler Division, for infringement of our Remote Power Patent. Named as defendants in the lawsuit (excluding affiliated parties) were Alcatel-Lucent USA, Inc., Allied Telesis, Inc., Avaya Inc., AXIS Communications Inc., Dell, Inc., GarrettCom, Inc., Hewlett-Packard Company, Huawei Technologies USA, Juniper Networks, Inc., Motorola Solutions, Inc., NEC Corporation, Polycom Inc., Samsung Electronics Co., Ltd., ShoreTel, Inc., Sony Electronics, Inc., and Transition Networks, Inc. As of January 2018, we reached settlements with fifteen (15) of the sixteen (16) defendants, with Hewlett-Packard Company ("HP") being the sole remaining defendant.

On November 13, 2017, a jury empaneled in the U.S. District Court for the Eastern District of Texas, Tyler Division, found that certain claims of our Remote Power Patent were invalid and not infringed by HP. On February 2, 2018, we moved to throw out the jury verdict and have the Court determine that certain claims of our Remote Power Patent are not obvious (invalid) as a matter of law by filing motions for judgment as a matter of law on validity and a new trial on validity and infringement. On August 29, 2018, the District Court issued an order granting our motion for judgment as a matter of law that our Remote Power Patent is valid, thereby overturning the jury verdict of invalidity and denied our motion for a new trial on infringement. On August 30, 2018, we appealed the District Court's denial of our motion for a new trial on infringement to the U.S. Court of Appeals for the Federal Circuit. On September 13, 2018, HP filed a cross-appeal of the District Court's order that the Remote Power Patent is valid as a matter of law. No hearing on the appeal has been set. If we are unable to reverse the District Court order of non-infringement on appeal, or there is an arbitration ruling that the District Court order relieves the obligation of certain of our licensees including Cisco, our largest licensee, to continue to pay us royalties and the District Court order is not subsequently reversed on appeal, our business, results of operations and cash-flow will continue to be materially adversely effected.

On November 1, 2017, defendant Juniper Networks, Inc. ("Juniper") agreed to settle its litigation with us for \$13,250,000 for a fully-paid license to our Remote Power Patent. On December 8, 2017, we were advised by Juniper that it would not make the settlement payment to us as a result of the HP Jury Verdict and that there was no binding settlement agreement. On January 16, 2018, we revised and closed our settlement with defendant Juniper. We agreed to revise the settlement to avoid the possibility of protracted litigation regarding enforcing the settlement. Under the terms of the revised settlement, Juniper paid us \$12,700,000 and received a fully-paid license to our Remote Power Patent (and certain other patents owned by us) for its full term, which applies to its sales of PoE products.

On October 16, 2017, the U.S. Bankruptcy Court of the Southern District of New York approved our settlement with defendant Avaya, Inc. ("Avaya"). As part of the settlement, Avaya, which on January 19, 2017 had filed a voluntary petition for relief under Chapter 11 of the U.S. Bankruptcy Code, entered into a non-exclusive license agreement for the full term of our Remote Power Patent. Under the terms of the license, Avaya paid a lump sum amount for sales of certain designated PoE products and agreed to pay ongoing royalties for other designated PoE products. In addition, Avaya agreed we shall have an allowed general unsecured claim in the amount of \$37,500,000, as amended, relating to all acts occurring on or before January 19, 2017 ("Allowed Claim").

Under the Debtors' Second Amended Joint Chapter 11 Plan of Reorganization of Avaya Inc. and its Debtor Affiliates, which was approved by the Bankruptcy Court on November 28, 2017 and became effective on December 15, 2017, the Debtors estimated that the total amount of general unsecured claims that will ultimately be allowed will total approximately \$305,000,000 which, based on the treatment of general unsecured creditors therein, would result in estimated recoveries for the holders of general unsecured claims of approximately 18.9% of their Allowed Claim. On January 9, 2018, we sold our Allowed Claim to a third party for \$6,320,000.

In October 2016, we entered a settlement agreement with Polycom, Inc. ("Polycom"). Under the terms of the settlement, Polycom entered into a non-exclusive license for our Remote Power Patent for its full term and is obligated to pay us a license initiation fee of \$5,000,000 for past sales of its PoE products and ongoing royalties based on its sales of PoE products. \$2,000,000 of the license initiation fee was paid within 30 days and the balance is payable in three annual installments of \$1,000,000 beginning in October 2017. Payments due in October 2018 and October 2019 need not be paid by Polycom if all asserted claims of our Remote Power Patent have been found invalid. Since the District Court in August 2018 granted our motion for judgment as a matter of law that our Remote Power Patent is valid thereby overturning the HP Jury Verdict of invalidity, Polycom became obligated to make the aforementioned remaining aggregate payments of \$2,000,000 (subject to the continued validity of our Remote Power Patent) to us (of which \$1,000,000 was paid in November 2018).

#### *Dell Litigation*

On November 13, 2018, we filed a lawsuit against Dell, Inc. in the District Court, 241<sup>st</sup> Judicial District, Smith County, Texas, for breach of a settlement and license agreement, dated August 15, 2016, with us as a result of Dell's failure to make royalty payments, and provide corresponding royalty reports, to us based on sales of Dell's PoE products. We believe Dell is obligated to pay us all prior unpaid royalties that accrued prior to and after the date of the HP Jury Verdict (November 2017) as well as future royalties through the expiration of the Remote Power Patent in March 2020. On December 7, 2018, Dell filed its Answer and Counterclaim. Dell denied the claim asserted by us and asserted a counterclaim in excess of \$1,000,000. On January 28, 2019, Dell brought a motion to stay the case as a result of our pending appeal of the District Court order overturning the HP Jury Verdict on non-infringement to the U.S. Court of Appeals for the Federal Circuit and HP's appeal of the District Court's order that the Remote Power Patent is valid as a matter of law. Dell's motion to stay was denied by the Court on May 7, 2019.

#### *Mirror Worlds Patent Portfolio Litigation*

##### *Pending Facebook Litigation*

On May 9, 2017, Mirror Worlds Technologies, LLC, our wholly-owned subsidiary, initiated litigation against Facebook, Inc. ("Facebook") in the U.S. District Court for the Southern District of New York, for infringement of U.S. Patent No. 6,006,227, U.S. Patent No. 7,865,538 and U.S. Patent No. 8,255,439 (among the patents within our Mirror Worlds Patent Portfolio). The lawsuit alleged that the asserted patents are infringed by Facebook's core technologies that enable Facebook's Newsfeed and Timeline features. The lawsuit further alleged that Facebook's unauthorized use of the stream-based solutions of our asserted patents has helped Facebook become the most popular social networking site in the world. We sought, among other things, monetary damages based upon reasonable royalties. On May 7, 2018, Facebook filed a motion for summary judgment on non-infringement. On August 11, 2018, the Court issued an order granting Facebook's motion for summary judgment of non-infringement and dismissed the case. On August 17, 2018, we filed a Notice of Appeal to appeal the summary judgment decision to the U.S. Court of Appeals for the Federal Circuit. No hearing on the appeal has been set.



On April 4, 2014, we initiated litigation against Google Inc. ("Google") and YouTube, LLC ("YouTube") in the U.S. District Court for the Southern District of New York for infringement of several of our patents within our Cox Patent Portfolio which relate to the identification of media content on the Internet. The lawsuit alleges that Google and YouTube have infringed and continue to infringe certain of our patents by making, using, selling and offering to sell unlicensed systems and related products and services, which include YouTube's Content ID system. In May 2014, the defendants filed an answer to our complaint and asserted defenses of non-infringement and invalidity.

On December 3, 2014, we initiated a second litigation against Google and YouTube in the United States District Court for the Southern District of New York for infringement of our then newly issued patent (part of the Cox Patent Portfolio) relating to the identification and tagging of media content (U.S. Patent No. 8,904,464). The lawsuit alleges that Google and YouTube have infringed and continue to infringe the asserted patent by making, using, selling and offering to sell unlicensed systems and products and services related thereto, which include YouTube's Content ID system. In January 2015, the defendants filed an answer to our complaint and asserted defenses of non-infringement and invalidity.

The above referenced litigations that we commenced in the U.S. District Court for the Southern District of New York in April 2014 and December 2014 against Google and YouTube were subject to a court ordered stays which were in effect from July 2, 2015 until January 2, 2019 as a result of proceedings then pending at the Patent Trial and Appeal Board (PTAB) and the appeals to the U.S. District Court of Appeals for the Federal Circuit. Pursuant to a Joint Stipulation and Order Regarding Lifting of Stays, entered on January 2, 2019, the parties agreed, among other things, that the stays with respect to the litigations were lifted. In addition, we agreed not to assert certain patent claims which were asserted in the litigation commenced in April 2014 and we were permitted to substitute new claims. Google also agreed to terminate the pending IPR proceedings that were subject to remand by the U.S. Court of Appeals for the Federal Circuit. In January 2019, our two litigations against Google and YouTube were consolidated. The Court has set a claim construction hearing for August 26, 2019 and discovery is to be completed by September 30, 2019.

## **ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

### Recent Issuances of Unregistered Securities

There were no such issuances during the three months ended June 30, 2019.

### Stock Repurchases

On August 22, 2011, we established a share repurchase program ("Share Repurchase Program"). On June 11, 2019, our Board of Directors authorized an extension and increase of the Share Repurchase Program to repurchase up to \$5,000,000 of shares of our common stock over the subsequent 24 month period (for a total authorization of approximately \$22,000,000 since inception of the program). The common stock may be repurchased from time to time in open market transactions or privately negotiated transactions in our discretion. The timing and amount of the shares repurchased is determined by management based on its evaluation of market conditions and other factors. The Share Repurchase Program may be increased, suspended or discontinued at any time. Since inception of the Share Repurchase Program in August 2011 through June 30, 2019, we have repurchased an aggregate of 8,294,546 shares of our common stock at an aggregate cost of \$15,473,903 (exclusive of commissions) or an average per share price of \$1.86. During the three months ended June 30, 2019, we repurchased 139,848 shares of our common stock at an aggregate cost of \$330,987 (exclusive of commissions) or an average per share price of \$2.37. At June 30, 2019, the remaining dollar value of shares that may be repurchased under the Share Repurchase Program was \$4,878,350.

During the months of April, May and June 2019, we purchased common stock pursuant to our Share Repurchase Program as indicated below:

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs
April 1 to April 30, 2019	26,900	2.48	26,900	\$1,254,339
May 1 to May 31, 2019	32,000	2.32	32,000	\$1,180,244
June 1 to June 30, 2019	80,948	2.35	80,948	\$4,878,350 <sup>(1)</sup>
Total	139,848	2.37	139,848	

(1) Gives effect to the authorization by the Board of Directors of the Company on June 11, 2019 of an extension and increase of the Company's Share Repurchase Program to repurchase up to \$5,000,000 of common stock over the next 24 months.

### ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

### ITEM 4. OTHER INFORMATION

None.

### ITEM 5. EXHIBITS

(a) Exhibits

- [31.1](#) [Controls and Procedure Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.\\*](#)
- [31.2](#) [Controls and Procedure Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.\\*](#)
- [32.1](#) [Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.\\*](#)
- [32.2](#) [Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.\\*](#)
- 101 Interactive data files:\*\*
- 101.INS XBRL Instance Document
- 101.SCH XBRL Scheme Document
- 101.CAL XBRL Calculation Linkbase Document
- 101.DEF XBRL Definition Linkbase Document
- 101.LAB XBRL Label Linkbase Document
- 101.PRE XBRL Presentation Linkbase Document

\* Filed herewith

\*\* Furnished herewith

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

**NETWORK-1 TECHNOLOGIES, INC.**

Date: August 14, 2019

By: /s/ Corey M. Horowitz  
Corey M. Horowitz  
Chairman and Chief Executive Officer

Date: August 14, 2019

By: /s/ David C. Kahn  
David C. Kahn  
Chief Financial Officer

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER  
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (18 U.S.C.ss.1350)**

I, Corey M. Horowitz, Chairman and Chief Executive Officer of Network-1 Technologies, Inc. (the "Registrant"), certify that:

1. I have reviewed this quarterly report on Form 10-Q for the quarterly period ended June 30, 2019 of the Registrant;
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 (that Registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and
5. The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of the Registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

Date: August 14, 2019

/s/ Corey M. Horowitz

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Corey M. Horowitz  
Chairman and Chief Executive Officer

**CERTIFICATION OF CHIEF FINANCIAL OFFICER  
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (18 U.S.C.ss.1350)**

I, David C. Kahn, Chief Financial Officer of Network-1 Technologies, Inc. (the "Registrant"), certify that:

1. I have reviewed this quarterly report on Form 10-Q for the quarterly period ended June 30, 2019 of the Registrant;
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 functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

Date: August 14, 2019

/s/ David C. Kahn

David C. Kahn  
Chief Financial Officer

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER**

**Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. ss. 1350)**

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. ss. 1350), the undersigned, Corey M. Horowitz, Chief Executive Officer and Chairman of Network-1 Technologies, Inc., a Delaware corporation (the "Company"), does hereby certify to his knowledge, that:  
The Quarterly Report on Form 10-Q for the quarter ended June 30, 2019 of the Company (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Act of 1934, and the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Corey M. Horowitz  
Chief Executive Officer and Chairman  
August 14, 2019

**CERTIFICATION OF CHIEF FINANCIAL OFFICER**

**Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. ss. 1350)**

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. ss. 1350), the undersigned, David C. Kahn, Chief Financial Officer of Network-1 Technologies, Inc., a Delaware corporation (the "Company"), does hereby certify to his knowledge, that:

The Quarterly Report on Form 10-Q for the quarter ended June 30, 2019 of the Company (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Act of 1934, and the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ David C. Kahn  
Chief Financial Officer  
August 14, 2019