

GLOBAL CASINOS INC
Form PRER14C
June 04, 2013

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

SCHEDULE 14C/A-1
(Rule 14c-101)

SCHEDULE 14C INFORMATION
Information Statement Pursuant to Section 14(c)
of the Securities Exchange Act of 1934

and

SCHEDULE 14F-1 INFORMATION
Information Statement Pursuant to Section 14f-1
of the Securities Exchange Act of 1934

Check the appropriate box:

Preliminary Information Statement

Confidential, for use of the Commission only (as permitted by Rule 14c-5(d)(2))

Definitive Information Statement

GLOBAL CASINOS, INC.

(Name of Registrant as Specified in Its Charter)

Payment of Filing Fee (Check the appropriate box):

No Fee Required.

Fee computed on table below per Exchange Act Rules 14c- 5(g) and 0-11.

1) Title of each class of securities to which transaction applies: Common Stock, par value \$.001 per share

2) Aggregate number of securities to which transaction applies: _____

3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined): --

4) Proposed maximum aggregate value of transaction: _____

5) Total Fee Paid. _____

Fee paid previously with preliminary materials.

Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

1) Amount Previously Paid: none.

2) Form, Schedule or Registration Statement No.: 14C/A-1

3) Filing Party: Global Casinos, Inc.

4) Date Filed: _____, 2013

GLOBAL CASINOS, INC.

1507 Pine Street

Boulder, CO 80302

303-449-2100

Dear Stockholder:

We are furnishing this Information Statement to the holders of the Common Stock of Global Casinos, Inc., a Utah corporation (the "Company"). The purpose of this Information Statement is to inform all of our stockholders that by written consents dated May 14, 2013, the holders of 57.22% of our issued and outstanding shares of Common Stock (our Majority Shareholders) approved the following actions (collectively the Shareholder Actions):

1.

The ratification and approval of the Amended and Restated Split-Off Agreement in the form of Appendix I hereto, together with all ancillary documents and agreements provided for therein or contemplated thereby (collectively the Split-Off Documents) providing for, *inter alia*, the sale of Global Casino, Inc. 's casino gaming operations and assets to Gemini Gaming, LLC, subject to all associated liabilities (the Split-Off);

2.

The ratification and approval of the Stock Purchase Agreement in the form of Appendix II hereto, together with all ancillary documents and agreements provided for therein or contemplated thereby (collectively the Stock Purchase Documents) providing for, *inter alia*, Global Casinos, Inc. 's purchase of 100% of the issued and outstanding equity securities of West Paces Ferry Healthcare REIT, Inc., subject to all liabilities; and,

3.

The adoption of the Amended and Restated Articles of Incorporation providing for, among other things, the change of the name of the Company to: Global Healthcare REIT, Inc. and the adoption of provisions intended to comply with the requirements applicable to entities electing to be treated as a Real Estate Investment Trust (REIT) under the Internal Revenue Code of 1986, as amended (IRC) and regulations promulgated thereunder.

As the Shareholder Actions constitute the sale of substantially all of the Company 's assets and include an amendment to the Company 's Articles of Incorporation, Utah law requires that the Shareholder Actions be approved by a majority of our outstanding voting securities. As permitted by Utah law and our Articles of Incorporation, as amended, the

Company has received a written consent from the Majority Shareholders of the Company approving the Shareholder Actions.

The Shareholder Actions described in this Information Statement will not become effective until at least 20 calendar days following the date of mailing of this Information Statement to our Shareholders.

SHAREHOLDERS ARE NOT BEING ASKED FOR PROXIES TO VOTE THEIR SHARES WITH RESPECT TO THE TRANSACTION AUTHORIZATION. NO PROXY CARD HAS BEEN ENCLOSED WITH THIS INFORMATION STATEMENT AND NO MEETING OF SHAREHOLDERS WILL BE HELD TO CONSIDER THE TRANSACTION.

WE ARE NOT ASKING YOU FOR A PROXY AND YOU ARE REQUESTED NOT TO SEND US A PROXY.

This Information Statement is being provided to you pursuant to Rule 14c-2 under the Securities Exchange Act of 1934, as amended. It contains a description of the Shareholder Action, as well as summary information regarding the transactions covered by the Information Statement. We encourage you to read the Information Statement thoroughly. You may also obtain information about us from publicly available documents filed with the Securities and Exchange Commission. We may provide only one copy of the Information Statement to Shareholders who share an address, unless we have received instructions otherwise. If you share an address, your household has received only one copy of this Information Statement and you wish to receive another copy, please contact our corporate secretary at the address or telephone number above. If you have received multiple copies and only wish to receive one copy of our SEC materials, you also may contact us at the address and phone number above.

Very truly yours,

/s/ Clifford L. Neuman

Clifford L. Neuman, President

GLOBAL CASINOS, INC.

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INFORMATION STATEMENT

GLOBAL CASINOS, INC.

1507 Pine Street

Boulder, Colorado 80302

(303) 449-2100

Introduction

This Information Statement is being furnished to the Shareholders of Global Casinos, Inc., a Utah corporation (the Company), in connection with the prior approval by written consent of the Majority Shareholders of the Company of the Shareholder Actions.

The Board of Directors believes that consummation of the Shareholder Actions is in the best interests of the Company and its Shareholders. Accordingly, effective on April 7, 2013, the Board unanimously approved the Shareholder Actions and directed that it be submitted for stockholder approval.

Under Utah law and our Articles of Incorporation, as amended, the affirmative vote of a majority of the votes entitled to be cast by holders of all shares of the Company's Common Stock, par value \$.05 per share (Common Stock), is required to approve the Shareholder Actions. As of May 14, 2013, there were outstanding 7,161,978 shares of Common Stock. As permitted by the Utah Revised Business Corporations Act, on May 14, 2013, the Company received a written consent in lieu of a meeting of Shareholders from holders of 4,098,332 shares of our common stock representing 57.22% of the total voting rights of the holders of Common Stock approving the Shareholder Actions.

SHAREHOLDERS ARE NOT BEING ASKED FOR PROXIES TO VOTE THEIR SHARES WITH RESPECT TO THE TRANSACTION. NO PROXY CARD HAS BEEN ENCLOSED WITH THIS INFORMATION STATEMENT AND NO MEETING OF SHAREHOLDERS WILL BE HELD TO CONSIDER THE TRANSACTION.

The Shareholder Actions will not become effective until at least 20 calendar days following the date of mailing of this Information Statement to our Shareholders.

This Information Statement is furnished for the purposes of informing Shareholders, in the manner required under the Securities Exchange Act of 1934, as amended, of the Shareholder Action before it is consummated. This Information Statement is first being mailed on or about _____, 2013 to holders of record of Common Stock.

Summary Term Sheet

This Information Statement is being furnished to the Shareholders of Global Casinos, Inc., a Utah corporation, in connection with the prior approval by our Board of Directors, and the approval by written consent of a majority of our Shareholders, for the Shareholder Actions. The terms we, our, and the Company in this Information Statement refer to Global Casinos, Inc.

This section contains a summary of the material features of the Transaction Documents and other matters approved by our Majority Shareholders. This summary may not contain all of the information that is important to you to understand the Shareholder Action fully. We strongly encourage you to read carefully the entire Information Statement. We have included the salient agreements as Appendices I, II and III.

Background

Global Casinos, Inc. (the Company) previously announced that effective June 1, 2012 it entered into two material definitive agreements:

A Split-Off Agreement with Gemini Gaming, LLC (Gemini) to sell all of its gaming properties, interests and operations (the Split-Off Agreement). Gemini is controlled by Clifford Neuman, the Company's President and Director, Pete Bloomquist, a Director, and Doug James, the General Manager of the Company's two casinos: Bull Durham Casino and Doc Holliday Casino.

A Stock Purchase Agreement to acquire 100% of the outstanding equity securities of Georgia Healthcare REIT, Inc. (Ga. REIT) from its sole stockholder, Christopher Brogdon. (the Ga. REIT SPA).

Consummation of the Split-Off and Ga. REIT SPA was subject to numerous conditions precedent, including the approval of the Colorado Gaming Commission and the approval of the Split-Off by the shareholders of the Company.

Subsequent to the execution of the Split-Off Agreement and Ga. REIT SPA, Ga. REIT consummated the acquisition of a skilled nursing facility called the Middle Georgia Nursing Home located in Eastman, Georgia (Middle Georgia). Middle Georgia is owned by Dodge NH, LLC (Dodge NH), of which Ga. REIT holds a 65% membership interest.

In July 2012, the Company filed with the Securities Exchange Commission (SEC) its Information Statement on Schedule 14C (the 14C) reflecting that it had obtained shareholder approval of the Split-Off Agreement by the written consent of the holders of a majority of its outstanding voting securities. At the time of filing the 14C, Ga. REIT had only acquired Middle Georgia, but did not include any audited financial statements of the historical operator of Middle Georgia based on its analysis that such acquisition did not constitute a business acquisition within the meaning

of Regulation S-X. In response to the filing of the 14C, the Company was advised by the SEC staff that it took the view that Section 2340 of the Financial Reporting Manual required the inclusion of audited financial statements of any significant lessee ; which in their view included the historical operator of Middle Georgia.

In response to the SEC position, Ga. REIT undertook the audit of the financial statements of the historical operator of Middle Georgia.

However, concurrently with completing the audit of the Middle Georgia operator audit, Ga. REIT consummated a second acquisition of a skilled nursing facility located in Scottsburg, Indiana (Scottsburg). Noting the SEC position regarding the need to include audited financial statements of any significant lessee, Ga. REIT began the task of auditing the financial statements of the historical operator of Scottsburg. Notwithstanding diligent and protracted effort, Ga. REIT has been unable to obtain the information

necessary to complete an audit of the Scottsburg historical operator, and the process of completing the Split-Off and Ga. REIT SPA has been thwarted.

Restructure of Material Agreements

Recognizing the obstacles in completing the Split-Off and Ga. REIT SPA due to the inability to complete an audit of the Scottsburg historical operator, the Company and Brogdon agreed in principle to restructure their agreements to provide the following:

.
Brogdon would create a Newco, which he did under the name West Paces Ferry Healthcare REIT, Inc. (West Paces) on March 13, 2013;

.
Ga. REIT would transfer all of its interest in Middle Georgia (an undivided 65% membership interest in Dodge NH) to West Paces in consideration of West Paces assuming Ga. REIT's obligation to repay the \$500,000 note owed to the Company, which was completed effective March 15, 2013;

.
The Company would enter into a new stock purchase agreement with the shareholders of West Paces having identical provisions to the Ga. REIT SPA, which was consummated effective April 13, 2013.

.
The Company and Brogdon would agree to terminate the GA. REIT SPA, which was effective April 8, 2012; and

The Company and Gemini would amend the Split-Off Agreement to extend the closing date to December 31, 2013.

In accordance with the foregoing, the Company has entered into the following material agreements:

Termination Agreement with Ga. REIT

This Agreement, effective April 8, 2013, terminated the Ga. REIT SPA and released all parties from any further liability thereunder.

Amendment No. 1 to Split-Off Agreement

This Amendment extend ed the termination date of the Split-Off Agreement to December 31, 2013. It is the belief that this gives the parties sufficient time to satisfy the numerous conditions precedent to consummating the Split-Off.

Stock Purchase Agreement with West Paces

The West Paces SPA is identical in terms and conditions to the former Ga. REIT SPA.

Amended and Restated Split-Off Agreement

Effective May 2, 2013, the Company and Gemini entered into an Amended and Restated Split-Off Agreement which supersedes the original Split-Off Agreement as well as the Amendment No. 1 thereto. The Amended and Restated Split-Off Agreement includes revisions needed to clarify the recasting of the parties to the reorganization described above.

Amended and Restated Split-Off Agreement

Effective May 2, 2013, the Company (as **Seller**), Global Split-Off, LLC, a Colorado limited liability company (**Split-Off Subsidiary**), and Gemini Gaming, LLC, a Colorado limited liability company (**Buyer**) entered into the Amended and Restated Split-Off Agreement (**Split-Off Agreement**)

pursuant to which the Company agreed to transfer to its newly formed wholly-owned Split-Off Subsidiary substantially all of its casino gaming properties, assets and operations (**Gaming Assets**) and then agreed to sell all of its interest in Split-Off Subsidiary to Gemini Gaming, LLC (**Gemini**). Gemini is owned and controlled by Clifford Neuman, the Company's President and Director, Pete Bloomquist, a Director, and Doug James, the general manager of the Company's two casinos.

Gemini will purchase the outstanding equity of Split-Off Subsidiary in consideration of (i) the assumption of all responsibility for any debts, obligations and liabilities associated with the Gaming Assets (**Gaming Debt**), plus (ii) payment in an amount equal to the Company's net tangible book value, excluding the Company's 5% Convertible Notes in the aggregate principal amount of \$50,000 and further excluding approximately \$500,000 in note receivable from West Paces (the **Purchase Price**). The Purchase Price will be evidenced by a promissory note (**Purchase Money Note**) which will be payable, together with interest at the rate of 4% per annum, in quarterly installments over a term of 20 years. The Purchase Money Note will be secured by a pledge of all of the outstanding equity securities of Split-Off Subsidiary.

Consummation of the Split-Off is conditioned upon the approval of the Global Casinos Shareholders, the approval of the Colorado Division of Gaming of a Change of Ownership of the gaming licenses for the Bull Durham and Doc Holliday Casinos, the concurrent closing of the Stock Purchase Agreement described below, a definitive Information Statement under Sections 14(c) and 14(f) of the Exchange Act is filed with the SEC and mailed to the Company's shareholders, and other conditions customary to transaction of this nature.

Concurrently with the Closing (as that term is defined within the Split-Off Agreement), the Company shall take all action necessary to appoint Christopher Brogdon, Steven Bathgate and John Joseph Sheehan, Jr. to serve as members of the Board of Directors of Seller (**New Board**). Immediately following such election, Clifford Neuman, Peter Bloomquist and A. Leonard Nacht shall resign as directors and executive officers of the Company. Immediately following the resignations of Messrs. Neuman, Bloomquist and Nacht, the New Board shall appoint Christopher Brogdon and Steven Bathgate as new executive officers to fill the vacancies created by such resignations (**New Management**).

Following the Closing, the Company will have no liability for any debts, liabilities or obligations of Split-Off Subsidiary or its business or activities, and there are no outstanding guaranties, performance or payment bonds, letters of credit or other contingent contractual obligations that have been undertaken by the Company directly or indirectly in relation to Split-Off Subsidiary or its business and that may survive the Closing.

Pending Closing, the Company had extended working capital advances to Georgia REIT (**Georgia REIT Advances**), in the aggregate principal amount of \$500,000 (the **REIT Note**). The REIT Note was secured by a pledge of 100% of the outstanding equity securities of Georgia REIT. \$125,000 of the Georgia REIT Advances was used in connection

with Georgia REIT consummation of its first acquisition of Middle Georgia Nursing Home, located in Eastman, Georgia, which closed on July 1, 2012. Effective March 15, 2013, the REIT Note was assigned to and assumed by West Paces, and is secured by a pledge of all of the outstanding shares of equity securities of West Paces.

The Split-Off may be terminated at, or at any time prior to, the Closing by mutual written consent of Seller and Buyer and may also be terminated by either party upon written notice to the other in the event the Split-Off and Closing have not been consummated on or before December 31, 2013.

Stock Purchase Agreement

Effective April 13, 2013, the Company, on the one hand, and Christopher Brogdon, Judi Schindler, Robert Lancaster and Philip Scarborough, on the other, (collectively Brogdon, Schindler, Lancaster and Scarborough shall be referred to as the **West Paces Shareholders**) entered into that certain Stock Purchase Agreement (**SPA**) whereby the West Paces Shareholders, as the owners of all of the issued and outstanding shares of the equity securities of West Paces shall sell to the Company all of the outstanding equity securities of West Paces, subject to and in accordance with the terms and

conditions of the Agreement.. The purchase price to be paid by the Company for West Paces will be the sum of \$100.

Consummation of the SPA is conditioned upon the approval of the Global Casinos Shareholders, the approval of the Colorado Division of Gaming of a Change of Ownership of the gaming licenses for the Bull Durham and Doc Holliday Casinos, the concurrent closing of the Split-Off Agreement described below, a definitive Information Statement under Sections 14(c) and 14(f) of the Exchange Act is filed with the SEC and mailed to the Company s shareholders, and other conditions customary to transaction of this nature.

Amended and Restated Articles of Incorporation

The filing of Amended and Restated Articles of Incorporation (**Amended Articles**) with the Utah Division of Corporations shall, among other things, effect the change of name of the Company to Global Healthcare REIT, Inc. .
In addition, we will adopt provisions required to enable the Company to elect to be treated for tax purposes as a REIT, as more fully described elsewhere in this Information Statement.

Summary Information In Question And Answer Format

The following information, in question and answer format, summarizes many of the material terms of the Company's proposed Shareholder Actions. For a complete description of the terms and conditions of the Shareholder Actions, you are advised to carefully read this entire Information Statement and the other documents referred to herein.

Why am I receiving these materials?

We are required to deliver this Information Statement to all holders of our voting stock to inform them that effective May 14, 2013 the Majority Stockholders (as defined below) took certain actions by written consent, as permitted under our Bylaws and Utah law, that would otherwise require a meeting of stockholders.

This Information Statement is being sent to you because you are a holder of our common stock. As of May 14, 2013, an aggregate of 7,161,978 shares of our common stock were outstanding.

We will begin mailing this Information Statement, on or about _____, 2013.

We have requested that banks, brokerage firms and other nominees who hold common stock on behalf of the owners of the common stock (such stock is often referred to as being held in street name) as of the close of the record date forward these materials to those beneficial owners. We have agreed to pay the reasonable expenses of the banks, brokerage firms and other nominees for forwarding these materials.

What actions did the Majority Stockholders of the voting stock approve or authorize?

The majority holders of our Common Stock approved the following actions:

1.

The ratification and approval of the Amended and Restated Split-Off Agreement in the form of Appendix I hereto, together with all ancillary documents and agreements provided for therein or contemplated thereby (collectively the Split-Off Documents) providing for, *inter alia*, the sale of Global Casino, Inc. s casino gaming operations and assets to Gemini Gaming, LLC, subject to all associated liabilities;

2.

The ratification and approval of the Stock Purchase Agreement in the form of Appendix II hereto, together with all ancillary documents and agreements provided for therein or contemplated thereby (collectively the Stock Purchase Documents) providing for, *inter alia*, Global Casinos, Inc. s purchase of 100% of the issued and outstanding equity securities of West Paces Ferry Healthcare REIT, Inc., subject to all liabilities; and,

3.

The adoption of the Amended and Restated Articles of Incorporation providing for, among other things, the change of the name of the Company to: Global Healthcare REIT, Inc. and the adoption of provisions intended to comply with the requirements applicable to entities electing to be treated as a Real Estate Investment Trust (REIT) under the Internal Revenue Code of 1986, as amended (IRC) and regulations promulgated thereunder.

What Vote Is Required To Approve The Shareholder Action?

Approval of the Shareholder Action requires the affirmative vote of the holders of not less than a majority of the Company's outstanding Common Stock.

What Constitutes A Majority Of The Company's Outstanding Common Stock and Series A Convertible Preferred Stock?

On May 14, 2013, the Company had 7,161,978 shares of Common Stock issued and outstanding and 3,580,990 constitutes a majority of the shares of Common Stock issued and outstanding.

Who Voted In Favor Of The Shareholder Actions?

Shareholders owning an aggregate of 4,098,332 shares of our common stock voted in favor of the Shareholder Actions. Those shares combined represent 57.22% of the voting power of common stock. Those shareholders consisted of Connie Brogdon (295,026 shares), Bruce M. Berkowitz and Lisa F. Berkowitz (267,679 shares), Steven M. Bathgate (270,000 shares), Margaret Bathgate. (40,000), L. Bruce Madsen (332,012 shares), Gary McAdam and affiliated entities (287,210 shares), Jeff Ploen and affiliated entities (337,500 shares), Lance Baller (262,500 shares), Lynda Franklin (110,000 shares), Stephen Silver (132,000 shares), William P. Martindale (230,000 shares), Melissa A. Vander Syde (50,000 shares), A. Leonard Nacht (1,038,800 shares), Mark I. Berkowitz (315,000 shares) and Todd Huss (130,605 shares). Such shareholders shall be referred to as the "Majority Shareholders".

Will The Shareholders That Voted In Favor Of The Shareholder Actions Have Any Special Interest in the Shareholder Actions?

Yes. Under the terms of the Split-Off and Stock Purchase Agreements, it is anticipated that Christopher Brogdon and persons designated by Brogdon will serve as Director(s) and executive officer(s) of the Company. In addition, as the principal shareholder and controlling person of West Paces, Mr. Brogdon will be the principal party to the SPA and the beneficiary of the Company's acquisition of West Paces.

Why Isn't The Company Holding A Shareholders Meeting To Vote On The Proposed Shareholder Actions?

In order to lawfully close on the proposed Shareholder Actions, Utah law requires that a majority of shares of Common Stock vote in favor of the proposed Shareholder Actions. The Shareholders voting in favor of the proposed Shareholder Actions represent 57.22% of the voting power of Common Stock outstanding. Therefore, management concluded that because approving a transaction by the written consent of Shareholders can be faster than distributing a

notice of meeting and proxy statement, and conducting a Shareholders meeting, and in light of the fact that Company management wanted to expedite the closing of the proposed Shareholder Actions, management and the Board of Directors decided not to conduct a meeting of Shareholders. Instead, Shareholders owning a majority of the voting power of Common Stock signed a written consent approving the Shareholder Actions and the transactions contemplated thereby.

What Will Happen To The Company After The Shareholder Actions?

Following the Shareholder Actions, the Company will have divested all of the Gaming Assets and Gaming Debt and will become a REIT acquiring interests in healthcare facilities and other qualified assets, as more fully discussed in this Information Statement.

Who will be in control of the Company after the Shareholder Actions?

Upon consummation of the Split-Off Agreement and acquisition of West Paces, there will be a change in control of the Company. The Board of Directors will be reconstituted to consist of Christopher Brogdon, Steven Bathgate and John Sheehan, Jr. The executive officers will also be replaced by Christopher Brogdon and Steven Bathgate. Their respective biographies are included elsewhere in this Information Statement.

What Rights Do Shareholders Have To Dissent From The Shareholder Actions?

Company Shareholders have the right to dissent from, and obtain payment of the fair value of shares held by the Shareholder under certain circumstances as provided for in Section 16-10a-1302 of the Utah Revised Business Corporation Act.

What Are The Income Tax Consequences Of The Shareholder Actions?

There will be no federal or state income tax consequences to our shareholders as a result of the Shareholder Actions.

Why is the Company proposing to sell its interest in the Gaming Assets?

The Company's performance as a casino operator suffered from the severe impact of the economic downturn that began in 2008. As a result, the value of the Company's stock was eroded. The Company was presented with an opportunity to transition to a REIT under the guidance and supervision of Christopher Brogdon who has significant experience in successfully managing public companies as well as vast experience in acquiring healthcare facilities. As a result, the Company's board of directors and Majority Shareholders approved the terms of the Split-Off Agreement and SPA in an effort to enhance shareholder value.

Will any of the proceeds from the sale of the Company's interest in Global Split-Off, LLC be distributed to the Company's shareholders?

No. The proceeds to be received by the Company from the sale of the Gaming Assets will be paid to the Company and used to support its activities as a REIT.

WHO CAN HELP ANSWER YOUR QUESTIONS?

Clifford L. Neuman

President

1507 Pine Street

Boulder, CO 80302

303-449-2100

Prior Stockholder Approval

Our ability to undertake the Shareholder Action without a meeting of our Shareholders is authorized by Section 16-10a-704 of the Utah Revised Business Corporations Act. That section generally provides that a Utah corporation may substitute for action on a matter by its Shareholders at a meeting the written consent of the holders of outstanding shares of capital stock holding at least the minimum number of votes which would be necessary to authorize or take the action at a meeting at which all shares entitled to vote on the matter are present and voted. In accordance with this provision, we obtained the written consent of the Majority Shareholders to the Shareholder Actions. As a result of the action of the Majority Shareholders, we are not soliciting proxies, and there will be no further stockholder action on the Shareholder Actions.

Holders of record of the Company's Common Stock are entitled to notice of the action taken by written consent approving the Shareholder Actions.

Under Utah law and our Articles of Incorporation, as amended, the affirmative vote of a majority of the voting power of Common Stock outstanding was required to approve the Shareholder Actions. Each holder of Common Stock was entitled to one vote on each of the foregoing matters, for each share of Common Stock held by such stockholder. As of May 14, 2013, there were outstanding 7,161,978 shares of Common Stock, as of that date, the Majority Shareholders held 4,098,332 shares of Common and were entitled to cast a total of 4,098,332 votes, or 57.22% of the total votes entitled to be cast by all holders of our Common Stock.

The action by written consent approving the Shareholder Action was executed effective May 14, 2013.

Dissenters' Rights

In accordance with the Utah Revised Business Corporations Act, our Shareholders have certain dissenters' or appraisal rights in connection with the Shareholder Actions.

Certain Federal Income Tax Consequences

The Shareholder Actions will not result in any impact on our Shareholders for federal and state income tax purposes.

Government Approvals

Except for compliance with the applicable regulations of the Securities and Exchange Commission in connection with this Information Statement and of the Utah Revised Business Corporation Act in connection with the Shareholder Actions, we are not required to comply with any federal or state regulatory requirements, and no federal or state regulatory approvals are required in connection with the Shareholder Actions.

Interests of Persons in Matters to be Acted Upon

The Split-Off Agreement and Stock Purchase Agreement were approved by the Company's Board of Directors. However, because Messrs. Neuman and Bloomquist are control persons of Gemini Gaming, LLC, the entity that will be acquiring the Gaming Assets subject to the Gaming Debt, those persons abstained from the board approval process.

Connie Brogdon is included in the Majority Shareholders and has a distinct financial interest in the Shareholder Actions by virtue of her husband, Christopher Brogdon, being a principal shareholder and control person of West Paces. The other Majority Shareholders that approved the Split-Off and Stock Purchase Documents do not have a financial interest in the Split-Off or Stock Purchase that is materially different than our other shareholders.

Selected Financial Data

The following is selected historical financial data of Global Casinos. The Global Casinos data includes information as of and for each of the fiscal years ended June 30, 2011 and 2012 and the nine months ended March 31, 2012 and 2013. The data has been derived from both audited and unaudited historical financial statements appearing elsewhere in this information statement or incorporated by reference from other reports filed by Global Casinos with the SEC and should be read in conjunction with those financial statements and their related notes.

The unaudited pro forma consolidated balance sheet data that follows has been prepared to give effect to the transactions described in this information statement as if they had occurred on March 31, 2013. The accompanying unaudited pro forma consolidated statements of operations for the year ended June 30, 2012 and the nine months ended March 31, 2013 have been prepared as if such transactions had occurred separately on July 1, 2011 and July 1, 2012, respectively.

This information is only a summary and you should read it together with the financial statements and pro forma financial information included elsewhere in this information statement or incorporated by reference from other reports filed by Global Casinos with the SEC.

West Paces was formed on March 13, 2013 and acquired from Ga. REIT its 65% interest in Dodge NH effective March 15, 2013. While Dodge NH has been under common control since its purchase of the Middle Georgia Nursing Facility on July 1, 2012, there are no prior periods for which to present comparative period end, annual and quarterly information. Therefore, as a smaller reporting company and consistent with Item 301 of Regulation S-K, selected financial data for West Paces are not presented herein. Please see Pro Forma Financial Information included elsewhere in this information statement for the pro forma effects of the transactions.

Statement of Operations Data

	<u>Historical</u>				<u>Pro Forma</u>	
	<u>Years Ended June 30</u>		<u>Nine Months Ended March 31</u>		<u>Year Ended June 30,</u>	<u>Nine Months Ended March 31, 2013</u>
	<u>2011</u>	<u>2012</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>	
Total net revenues	\$ 5,516,147	\$ 5,154,963	\$3,813,267	\$ 3,660,965	\$ 560,000	\$ 420,962
Operating expenses	\$ 6,786,685	\$ 5,608,461	\$4,300,271	\$ 3,971,574	647,644	\$ 392,731
Net income (loss)	\$ (1,379,431)	\$ (845,271)	\$(739,265)	\$ (595,919)	\$(413,072)	\$ (231,134)
Net income (loss) attributable to common shareholders	\$ (1,436,209)	\$ (902,204)	\$(782,043)	\$ (638,541)	\$(448,355)	\$ (249,295)
Basic earnings (loss) per common share	\$ (0.22)	\$ (0.13)	(0.11)	\$ (0.09)	(0.05)	\$ (0.03)
Diluted earnings per share	\$ (0.22)	\$ (0.13)	(0.11)	\$ (0.09)	(0.05)	\$ (0.03)
Shares used in computing basic earnings per share	6,533,855	6,818,616	6,807,739	7,061,619	9,444,033	9,687,032
Shares used in computing diluted earnings per share	6,533,855	6,818,616	6,807,739	7,061,619	9,444,033	9,687,032

Balance Sheet Data:

	<u>Historical</u>			<u>Pro Forma</u>
	<u>June 30</u>		<u>March 31,</u>	<u>March 31,</u>
	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2013</u>
Working capital (deficit)	\$ (472,057)	\$ (852,649)	\$(1,398,919)	\$ 809,538
Total assets	\$ 3,541,228	\$ 3,846,451	\$ 3,483,461	\$ 6,933,535
Total liabilities	\$ 1,802,347	\$ 2,099,414	\$ 2,254,842	\$ 5,387,795
Stockholders' equity	\$ 1,738,881	\$ 1,747,037	\$ 1,228,619	\$ 1,545,740

Supplementary Financial Information

The following is supplementary financial information of Global Casinos. The Global Casinos supplementary information includes information as of and for each of the fiscal years ended June 30, 2011 and 2012 and the nine months ended March 31, 2012 and 2013. The data has been derived from both audited and unaudited historical financial statements appearing elsewhere in this information statement or incorporated by reference from other reports filed by Global Casinos with the SEC and should be read in conjunction with those financial statements and their related notes.

This information is only supplementary and you should read it together with the financial statements and pro forma financial information included elsewhere in this information statement or incorporated by reference from other reports filed by Global Casinos with the SEC.

West Paces was formed on March 13, 2013 and acquired from Ga. REIT its 65% interest in Dodge NH effective March 15, 2013. While Dodge NH has been under common control since its purchase of the Middle Georgia Nursing Facility on July 1, 2012, there are no prior periods for which to present comparative period end, annual and quarterly information. Therefore, as a smaller reporting company and consistent with Item 302 of Regulation S-K, supplementary financial information for West Paces are not presented herein. Please see Pro Forma Financial Information included elsewhere in this information statement for the pro forma effects of the transactions.

	<u>1st Quarter</u>	<u>2nd Quarter</u>	<u>3rd Quarter</u>	<u>4th Quarter</u>
Fiscal year ended June 30, 2011				
Total net revenues	\$ 1,452,099	\$ 1,330,969	\$ 1,329,522	\$ 1,531,301
Operating expenses	\$ 1,486,142	\$ 1,371,468	\$ 1,397,385	\$ 2,645,155
Net income (loss)	\$ (63,055)	\$ (68,608)	\$ (94,115)	\$(1,142,277)
Net income (loss) attributable to common shareholders	\$ (77,366)	\$ (82,919)	\$ (108,115)	\$(1,156,433)
Basic earnings (loss) per common share	\$ (0.01)	\$ (0.01)	\$ (0.02)	\$ (0.18)
Diluted earnings per share	\$ (0.01)	\$ (0.01)	\$ (0.02)	\$ (0.18)
Fiscal year ended June 30, 2012				
Total net revenues	\$ 1,324,355	\$ 1,222,087	\$ 1,266,825	\$ 1,341,700
Operating expenses	\$ 1,372,677	\$ 1,581,884	\$ 1,345,710	\$ 1,308,190
Net income (loss)	\$ (74,431)	\$ (452,271)	\$ (212,563)	\$ (106,006)
Net income (loss) attributable to common shareholders	\$ (88,742)	\$ (466,582)	\$ (226,719)	\$ (120,161)
Basic earnings (loss) per common share	\$ (0.01)	\$ (0.07)	\$ (0.03)	\$ (0.02)
Diluted earnings per share	\$ (0.01)	\$ (0.07)	\$ (0.03)	\$ (0.02)
Nine months ended March 31, 2013				
Total net revenues	\$ 1,313,033	\$ 1,167,892	\$ 1,180,036	

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Operating expenses	\$ 1,312,503	\$ 1,387,148	\$ 1,271,923
Net income (loss)	\$ (128,576)	\$ (251,952)	\$ (215,391)
Net income (loss) attributable to common shareholders	\$ (142,887)	\$ (266,263)	\$ (229,391)
Basic earnings (loss) per common share	\$ (0.02)	\$ (0.04)	\$ (0.03)
Diluted earnings per share	\$ (0.02)	\$ (0.04)	\$ (0.03)

Transaction Information

Background and Reasons for the Transaction

Global Casinos has owned and operated the Bull Durham Casino located in Blackhawk, Colorado since its inception. In 2008, we acquired Doc Holliday Casino located in Central City, Colorado. The timing of our acquisition of Doc Holliday was unfortunate, since it came at the beginning of what would prove to be a significant and prolonged economic recession, which impacted the gaming and hospitality industries particularly harshly.

Due primarily to the macroeconomic impact of the Great Recession, our results of operations suffered significantly. The operations of Doc Holliday were particularly dismal, which negatively impacted our overall performance. The public market value of our common stock suffered commensurately.

During the period from 2009 to 2011, we explored numerous business combinations in the gaming industry in the Reno, Nevada market. However, those potential targets had their own operational issues. The constriction of the credit markets made a complementary acquisition impractical.

In the summer of 2011, our President, Clifford Neuman, (**Neuman**) was approached by Steven Bathgate (**Bathgate**), who is a Senior Managing Partner of GVC Capital, LLC (**GVC**), a registered broker-dealer and investment banker. Bathgate has been a shareholder of the Company for many years; and GVC has served as the Company's investment advisor as well. Bathgate introduced Neuman to the potential of the Company doing a transaction with Christopher Brogdon (**Brogdon**), with whom Bathgate and GVC had prior business dealings. Bathgate and Brogdon made the suggestion that Global Casinos consider divesting the gaming interests and operations and transitioning to become a healthcare REIT, a business segment in which Brogdon had substantial experience and expertise.

In August 2011, Neuman and Pete Bloomquist (**Bloomquist**), also a Director, met in Boulder, Colorado with Bathgate, Brogdon and other affiliates of GVC. At that meeting, preliminary terms of a reorganization were discussed. In addition, there was discussion of the Company undertaking a small private placement of securities to raise capital to support such a reorganization.

In November 2011, the Company and Brogdon executed a non-binding confidential Reorganization Term Sheet (**Term Sheet**) that summarized the terms of the divestiture of the gaming interests in a leveraged management buy-out, the transition to becoming a REIT under the direction and control of Brogdon, and the terms of a private offering of securities.

Also in November 2011, Messrs. Neuman and Bloomquist met with the Colorado Division of Gaming (**Gaming**) to discuss the Term Sheet and the regulatory issues inherent in the contemplated transaction. Those regulatory issues became problematic. There ensued numerous meetings between Messrs. Neuman and Bloomquist and Gaming over the next several months in an effort to develop a strategy that could be adopted to facilitate the transaction with Brogdon described in the Term Sheet.

In the fourth quarter of 2011, Gaming presented a proposal for a Change of Ownership of the Bull Durham and Doc Holliday gaming licenses that management found acceptable, and an Application for Change of Ownership was submitted to Gaming by Gemini Gaming.

In the first quarter of 2012, the parties finalized negotiations relating to the terms and conditions of the Split-Off and Stock Purchase and the definitive agreements governing both transactions. The Boards of Directors of both Global Casinos and Georgia REIT were provided with copies of the definitive agreement.

In March 2012, the Board of Directors of Global Casinos (with Messrs. Neuman and Bloomquist abstaining) and the shareholders of Global Casinos acting by majority written consent approved the Split-Off and Stock Purchase Agreements, subject to numerous conditions.

In May 2012, Brogdon informed the Company that he had identified his first acquisition: a nursing home located in Scottsburg, Indiana. Terms of that acquisition are summarized elsewhere in this Information Statement.

Effective June 1, 2012, the parties completed the execution of the original Split-Off and Stock Purchase Agreements.

In an effort to consummate the Split-Off and Stock Purchase Agreements, the Company encountered insurmountable obstacles in completing required audits for its Information Statement on Schedule 14C. As a result, in March 2013 the Company and the Brogdon parties agreed to restructure the transactions, and as a result undertook the following restructure efforts:

Effective March 12, 2013, Brogdon formed and organized a new entity: West Paces Ferry Healthcare REIT, Inc. Then effective March 18, 2013, Ga. REIT conveyed to West Paces all of its interest (an undivided 65% membership interest) in Dodge NH, which owned the Middle Georgia skilled nursing facility, in consideration of (i) \$100 and the assignment to and assumption by West Paces of the REIT Note owed to the Company in the principal amount of \$500,000.

Effective April 8, 2013, the Company and Ga. REIT executed a Termination Agreement and Mutual Release terminating the Ga. REIT Stock Purchase Agreement.

Effective April 10, 2013, the Company and Gemini Gaming executed an Amendment No. 1 to Split-Off Agreement extending the termination date to December 31, 2013.

On April 11, 2013, the Company entered into a new Stock Purchase Agreement with the West Paces Shareholders to acquire 100% of the outstanding equity securities of West Paces, subject to several conditions. The terms of the West Paces SPA are identical to the terms of the former Ga. REIT SPA.

On May 2, 2013, the Company and Gemini Gaming entered into an Amended and Restated Split-Off Agreement to conform the terms of the Split-Off to the new entities formed in the transaction restructure.

Principal Terms of the Split-Off Agreement

The parties to the Split-Off Agreement are:

.

Global Casinos, Inc., which is disposing of its Gaming Assets and Gaming Debt;

.

Split-Off Subsidiary, which is wholly-owned by Global Casinos. Split-Off Subsidiary was formed by Global Casinos to drop down the Gaming Assets and Gaming Debt in anticipation of divesting them in the Split-Off;

.

Gemini Gaming, LLC, which was formed and organized by Clifford Neuman, the Company's President and Director (40% owner); Pete Bloomquist, a Director (30% owner) and Doug James, the general manager of the Bull Durham Casino and Doc Holliday Casino (30% owner).

The principal terms of the Split-Off will involve:

.

Global Casinos transferring the Gaming Assets and Gaming Debt to Split-Off Subsidiary;

.

Subject to the satisfaction of all conditions to closing, (discussed below), Global Casinos will sell to Gemini Gaming all of the outstanding equity securities of Split-Off Subsidiary;

.

Concurrently, Global Casinos will consummate the acquisition of West Paces pursuant to the Stock Purchase Agreement with the West Paces Shareholders, including Christopher Brogdon.

.

At Closing, the Global Casinos Board of Directors will be reconstituted to consist of Christopher Brogdon, Steven Bathgate and John Joseph Sheehan, Jr.; and the executive officers will be changed to consist of Christopher Brogdon

and Steven Bathgate.

The Gaming Assets include:

.

All issued and outstanding shares of Casinos, USA, Inc., which owns and operates the Bull Durham Casino, which includes real property, gaming equipment, fixtures;

.

All issued and outstanding shares of Doc Holliday Casino II, LLC, which owns and operates the Doc Holliday Casino, which includes the leasehold interest, gaming equipment and fixtures;

.

Cash and cash equivalents; inventory; prepaid expenses.

.

Senior Mortgage Note of Casinos, USA held by Global Casinos.

Assets to be retained by Global Casinos (**Excluded Assets**) will include:

.

The REIT Note receivable evidencing all Georgia REIT Advances;

.

Shares and warrants of ImageDoc, Inc.; and

.

All shares of West Paces.

Gaming Debt to be assumed by Gemini Gaming will include:

.

All mortgage debt of Casinos USA (approximately \$550,000);

.

All loan participation obligations (approximately \$220,000);

Accounts payable and accrued liabilities (approximately \$725,000);

.

Outstanding Global advances to the casinos (approximately \$350,000).

Debt that is excluded from Gaming Debt (**Excluded Debt**) that will be retained by Global Casinos includes:

.

5% Convertible Notes payable in the aggregate principal amount of \$50,000;

.

8% Convertible Notes payable in the aggregate principal amount of \$850,000;

The aggregate \$850,000 in 8% Convertible Notes will convert to equity automatically upon consummation of the Split-Off and West Paces Stock Purchase Agreement.

The Purchase Price for the Gaming Assets to be paid by Gemini Gaming consists of (i) the assumption of the Gaming Debt in the approximate aggregate amount of \$1.5 million, plus (ii) an amount equal to the net tangible book value of Global Casinos as of the most recently completed fiscal quarter (**Global NTB**) reduced by the Excluded Assets and increased by the Excluded Debt. The Purchase Price will be evidenced by the Gemini Gaming Purchase Money Note which, together with interest at the rate of 4% per annum, will be payable in quarterly installments of principal and interest for a term of 20 years. The Purchase Money Note will be secured by a pledge of all outstanding shares of the Split-Off Subsidiary.

Consummation of the Split-Off Agreement is subject to the following conditions precedent:

·
Approval of a Change of Ownership of the Gaming Licenses held by Casinos USA, Inc. and Doc Holliday Casino II, LLC by the Colorado Division of Gaming;

·
The approval of the Split-Off Agreement, Stock Purchase Agreement and Amended Articles by the Boards of Directors and Shareholders of Global Casinos and West Paces Ferry Healthcare REIT, Inc., which approvals have been obtained subject to compliance with Rule 14c-1 and Rule 14f-1 under the Exchange Act, which this Information Statement is intended to fulfill;

·
Compliance with all regulatory requirements, including federal and state securities laws; and

·
The concurrent closing of the Stock Purchase Agreement.

Principal Terms of the Stock Purchase Agreement:

The parties to the Stock Purchase ADDING-BOTTOM: 2px; FONT-STYLE: normal; BORDER-LEFT: medium none" valign="bottom">

24,160,759 and 23,744,829 shares issued and outstanding at June 30, 2017 and December 31, 2016, respectively

242,000

238,000

Additional paid-in capital

63,904,000

62,367,000

Accumulated deficit

(8,182,000

)

(9,702,000

)

Accumulated other comprehensive loss

(30,000

)

(31,000

)

TOTAL STOCKHOLDERS' EQUITY

55,934,000

52,872,000

TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY

\$

58,728,000

\$

57,597,000

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

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NETWORK-1 TECHNOLOGIES, INC.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
(UNAUDITED)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
REVENUE	\$4,862,000	\$20,447,000	\$11,083,000	\$25,637,000
OPERATING EXPENSES:				
Costs of revenue	1,583,000	5,754,000	3,375,000	7,240,000
Professional fees and related costs	215,000	372,000	620,000	825,000
General and administrative	440,000	426,000	924,000	828,000
Amortization of patents	50,000	297,000	100,000	711,000
Stock-based compensation	237,000	32,000	474,000	44,000
Contingent patent cost	—	500,000	—	500,000
TOTAL OPERATING EXPENSES	2,525,000	7,381,000	5,493,000	10,148,000
OPERATING INCOME	2,337,000	13,066,000	5,590,000	15,489,000
OTHER INCOME:				
Interest income, net	25,000	16,000	34,000	26,000
INCOME BEFORE INCOME TAXES	2,362,000	13,082,000	5,624,000	15,515,000
INCOME TAXES:				
Current	818,000	330,000	1,773,000	381,000
Deferred taxes, net	—	4,522,000	39,000	3,084,000
Total income taxes	818,000	4,852,000	1,812,000	3,465,000
NET INCOME	\$1,544,000	\$8,230,000	\$3,812,000	\$12,050,000
Net Income Per Share				
Basic	\$0.06	\$0.35	\$0.16	\$0.52
Diluted	\$0.06	\$0.33	\$0.14	\$0.49
Weighted average common shares outstanding:				
Basic	24,285,803	23,300,638	24,202,788	23,276,295
Diluted	26,693,310	24,637,316	26,514,620	24,451,944
Cash dividends declared per share	\$—	\$—	\$0.05	\$—
NET INCOME	\$1,544,000	\$8,230,000	\$3,812,000	\$12,050,000
OTHER COMPREHENSIVE INCOME:				
Unrealized holding gain on securities available-for-sale arising during the period	2,000	16,000	1,000	43,000

COMPREHENSIVE INCOME	\$1,546,000	\$8,246,000	\$3,813,000	\$12,093,000
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The accompanying notes are an integral part of the unaudited condensed consolidated financial statements.

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NETWORK-1 TECHNOLOGIES, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	Six Months Ended	
	June 30,	
	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Income	\$3,812,000	\$12,050,000
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of patents	100,000	711,000
Stock-based compensation	474,000	44,000
Deferred tax provision	39,000	3,084,000
Changes in operating assets and liabilities:		
Royalty receivables	(1,518,000)	(1,438,000)
Prepaid taxes	1,195,000	—
Other current assets	39,000	158,000
Accounts payable	(15,000)	8,000
Income taxes payable	640,000	—
Accrued expenses	(2,598,000)	132,000
NET CASH PROVIDED BY OPERATING ACTIVITIES	2,168,000	14,749,000
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of patents	(8,000)	(3,000)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Cash dividends	(1,214,000)	—
Value of shares delivered to fund withholding taxes on stock-based compensation	(56,000)	(44,000)
Repurchases of common stock, net of commissions	(981,000)	(1,000)
Proceeds from exercise of options and warrants	1,068,000	60,000
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	(1,183,000)	15,000
NET INCREASE IN CASH AND CASH EQUIVALENTS	977,000	14,761,000
CASH AND CASH EQUIVALENTS, beginning of period	50,918,000	20,608,000
CASH AND CASH EQUIVALENTS, end of period	\$51,895,000	\$35,369,000
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the period for:		
Interest	\$—	\$—
Income taxes	—	—
NON-CASH FINANCING ACTIVITY		

Accrued dividend rights on restricted stock units	\$42,000	\$—
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The accompanying notes are an integral part of the unaudited condensed consolidated financial statements
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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, 2017, and the results of its operations and comprehensive income for the three and six month periods ended June 30, 2017 and June 30, 2016 and its cash flows for the six month periods ended June 30, 2017 and June 30, 2016. 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, 2016 included in the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 20, 2017. The results of operations for the three and six months ended June 30, 2017 are not necessarily indicative of the results of operations to be expected for the full year. The accompanying 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 thirty-three (33) 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 action to be performed based on such identification; and (iv) 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, 2017, the Company has entered into twenty-four (24) 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. The Company's current strategy includes continuing to pursue licensing opportunities for its intellectual property assets. The Company's 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. The Company's Remote Power Patent has generated licensing revenue in excess of \$116,000,000 from May 2007 through June 30, 2017. As a result of the Company's acquisition of the Mirror Worlds Patent Portfolio in May 2013, the Company achieved licensing and other revenue of \$47,150,000 through June 30, 2017. In addition, the Company may enter into strategic relationships with third parties to develop, commercialize, license or otherwise monetize their intellectual property.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates and Assumptions

The preparation of 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, the valuation of warrants and stock-based compensation, current income taxes, valuation of patents, accrued expenses and valuation of marketable securities. Actual results could be materially different from those estimates, upon which the carrying values were based.

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.

Revenue Recognition

The Company recognizes revenue received from the licensing of its intellectual property and other related intellectual property activities. Revenue is recognized when (i) persuasive evidence of an arrangement exists, (ii) all obligations have been performed pursuant to the terms of the license or other applicable agreement, (iii) amounts are fixed or determinable, and (iv) collectability of amounts is reasonably assured. The Company relies on royalty reports received from third party licensees to record its revenue. From time to time the Company may audit royalties reported from licensees. Any adjusted royalty revenue as a result of such audits is recorded by the Company in the period in which such adjustment is agreed to by the Company and the licensee or otherwise determined.

Costs of Revenue

The Company includes in costs of revenue for the three and six months ended June 30, 2017 and 2016 contingent legal fees payable to patent litigation counsel (see Note H[1] hereof) and incentive bonus compensation payable to its Chairman and Chief Executive Officer (see Note I[1] hereof).

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.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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, 2017 and December 31, 2016.

United States federal, state and local income tax returns prior to 2013 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.

Effective January 1, 2017, the Company adopted ASU 2016-09, Improvements to Employee Share Based Accounting, which impacts the Company's presentation of certain taxes. See "Accounting Standards Adopted in Period" section of this Note B for further details.

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 anytime 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"). At June 30, 2017 (as well as during the second half of prior years), the Company 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.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of long-lived assets

Intangible assets with finite lives are tested for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable. Accordingly, we record impairment losses on long-lived assets used in operations or expected to be disposed of when indicators of impairment exist and the undiscounted cash flows expected to be derived from those assets are less than carrying amounts of these assets. At June 30, 2017, there was no impairment to the Company's patents.

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 unaudited 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 compensation 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 granted 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 hereof for further discussion of the Company's stock-based compensation).

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 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 hereof).

Financial Instruments

U.S. GAAP regarding fair value of financial instruments and related fair value measurements define fair value, establish a three-level valuation hierarchy that requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The three levels of inputs are defined as follows:

Level 1 inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2 inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.

Level 3 inputs to the valuation methodology are unobservable.

The carrying value of cash, marketable securities, royalty receivables, other assets, accounts payable, and accrued expenses approximates fair value because of the short period of time between the origination of such instruments and their expected realization and their current market rates of interest. Marketable securities available for sale are measured at fair value on a recurring basis based on Level 1 inputs (see Note G hereof).

Dividends

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 N and Note O hereof).

Recent Accounting Pronouncements

In August 2016, the FASB issued Accounting Standards Update ("ASU") No. 2016-15, Classification of Certain Cash Receipts and Cash Payments, which amends ASC 230, Statement of Cash Flows. This ASU provides guidance on the statement of cash flows presentation of certain transactions where diversity in practice exists. The guidance is effective for interim and annual periods beginning after December 15, 2017, and early adoption is permitted. The Company does not believe that the adoption of this ASU will have a material impact on its consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842). ASU No. 2016-02 is effective for annual periods beginning after December 15, 2018, and requires a lessee to recognize assets and liabilities for leases with a maximum possible term of more than 12 months. A lessee would recognize a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the leased asset (the underlying asset) for the lease term. Early application is permitted. The Company does not believe that the adoption of this accounting standard will have a material impact on its consolidated financial statements.

In May 2014, FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606). ASU No. 2014-09 provides for a single comprehensive model for use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance. The new revenue standard allows for either full retrospective or modified retrospective application. The Company is required to adopt the amendments in ASU No. 2014-09 using one of the two acceptable methods. In August 2015, the FASB issued ASU No. 2015-14, Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date, which

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

deferred the effective date of ASU No. 2014-09 to annual periods beginning after December 2017, along with an option to permit early adoption as of the original effective date. In April 2016, the FASB issued ASU No. 2016-10, Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing, which amends the guidance in 2014-09 related to identifying performance obligations and accounting for licenses of intellectual property. The ASU does not change the core principle of the guidance in Topic 606. In May 2016, the FASB issued ASU No. 2016-12, Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients, related to disclosures of remaining performance obligations, as well as other amendments to guidance on collectability, non-cash consideration and the presentation of sales and other similar taxes collected from customers. The effective date and transition requirements for the ASUs are the same as the effective date and transition requirements in Topic 606. Public entities should apply the ASUs for annual reporting periods beginning after December 15, 2017, including interim reporting periods therein (i.e., January 1, 2018, for a calendar year entity). Early application for public entities is permitted only as of annual reporting periods beginning after December 15, 2016, including interim reporting periods within that reporting period. The Company intends to adopt ASU 2014-09 on January 1, 2018. The Company has elected to apply the modified retrospective method of adoption. The Company does not expect the impact of the adoption of the new revenue standard to have a material impact on its consolidated financial statements. The Company will continue to evaluate any new license agreements entered into in the future to determine the impact upon adoption.

In May 2017, FASB issued ASU No. 2017-09 Compensation – Stock Compensation (Topic 718) which provides guidance on determining which changes to the terms and conditions of share-based payment awards require an entity to apply modification accounting in Topic 718. The new standard is effective beginning after December 15, 2017 with early adoption permitted. The Company does not believe the adoption of this standard will have a material impact on its financial statements.

Accounting Standards Adopted in the Period

In March 2016, the Financial Accounting Standards Board ("FASB") issued ASU 2016-09, Improvements to Employee Share-Based Payment Accounting, which amends Accounting Standards Codification ("ASC") Topic 718, Compensation - Stock Compensation. ASU 2016-09 simplifies several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. Prior to this amendment, excess tax benefits resulting from the difference between the deduction for tax purposes and the compensation costs recognized for financial reporting were not recognized until the deduction reduced taxes payable. Under the new method the Company will recognize excess tax benefits in the current accounting period. Additionally, ASU 2016-09 requires that the Company present excess tax benefits on the Statement of Cash Flows as an operating activity. ASU 2016-09 is effective for fiscal years beginning after December 15, 2016. The Company adopted ASU 2016-09 in the first quarter of 2017 and elected to apply this adoption prospectively. Prior periods have not been adjusted. The effective tax rate for the six months ended June 30, 2017 differed from the Federal statutory rate primarily due to the recognition of excess tax benefits as a component of the provision for income taxes attributable to the adoption of ASU 2016-09.

NOTE C - PATENTS

The Company's intangible assets at June 30, 2017 include patents with estimated remaining economic useful lives ranging from 3.25 to 4.25 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, 2017 and December 31, 2016 are as follows:

	June 30, 2017	December 31, 2016
Gross carrying amount – patents	\$6,435,000	\$6,427,000
Accumulated amortization – patents	(5,296,000)	(5,196,000)
Patents, net	\$1,139,000	\$1,231,000

Amortization expense for the three months ended June 30, 2017 and June 30, 2016 was \$50,000 and \$297,000, respectively. Amortization expense for the six months ended June 30, 2017 and June 30, 2016 was \$100,000 and \$711,000, respectively. Future amortization of current intangible assets, net is as follows:

<u>Twelve Months Ended June 30.</u>	
2018	\$200,000
2019	\$193,000
2020	\$193,000
2021	\$193,000
2022 and thereafter	\$360,000
Total	\$1,139,000

The Company's Remote Power Patent expires in March 2020. The expiration dates of the patents within the Company's Mirror Worlds Patent Portfolio range from August 2017 to February 2020 (six of the patents in the Mirror Worlds Patent Portfolio expired as of September 30, 2016). The expiration dates of the patents within the Cox Patent Portfolio range from September 2021 to November 2023 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, 2017, the Company issued 13,500 restricted stock units to each of its three non-management directors as an annual grant for 2017 for service on the Company's Board of Directors. Each restricted stock unit represents a contingent right to receive one share of the Company's common stock. The restricted stock units vest in four equal quarterly installments of 3,375 shares of common stock on March 15, 2017, June 15, 2017, September 15, 2017 and December 15, 2017, subject to continued service on the Board of Directors.

NOTE D – STOCK-BASED COMPENSATION (continued)

A summary of restricted stock unit activity for the six months ended June 30, 2017 is as follows (each restricted stock unit represents the right to receive one share of the Company's common stock):

	Number of Shares	Weighted-Average Grant Date Fair Value
Balance of restricted stock units outstanding at December 31, 2016	890,000	\$ 2.29
Grants of restricted stock units	40,500	\$ 3.80
Vested restricted stock units	(90,250)	\$ (2.77)
Balance of unvested restricted stock units at June 30, 2017	840,250	\$ 2.31

Restricted stock unit compensation expense was \$237,000 and \$474,000 for the three and six months ended June 30, 2017, respectively. Restricted stock unit compensation expense was \$32,000 for both the three and six months ended June 30, 2016.

The Company has an aggregate of \$1,334,950 of unrecognized restricted stock unit compensation expense as of June 30, 2017 to be expensed over a weighted average period of 1.85 years.

All of the Company's 840,250 outstanding restricted stock units at June 30, 2017 have dividend equivalent rights.

Stock Options

There were no stock option grants during the three or six months ended June 30, 2017 and June 30, 2016.

The following table presents information relating to all stock options outstanding and exercisable at June 30, 2017:

Range of Exercise Price	Options Outstanding	Weighted Average Exercise Price	Weighted Average Remaining Life in Years	Options Exercisable
\$0.83 - \$2.34	2,110,000	\$1.28	2.5	2,110,000

The Company had no recorded stock-based compensation related to stock option grants for the three months ended June 30, 2017 and June 30, 2016, respectively. The Company recorded stock-based compensation related to stock option grants of \$0- and \$12,000 for the six months ended June 30, 2017 and June 30, 2016, respectively.

The Company had no unrecognized stock-based compensation cost as of June 30, 2017. The aggregate intrinsic value of options exercisable at June 30, 2017 was \$6,275,000.

During the six months ended June 30, 2017, the Company's Chief Financial Officer and three of his children exercised stock options to purchase an aggregate of 75,000 shares of the Company's common stock at an exercise price of \$1.40 per share. In addition, during the six months ended June 30, 2017, a former director exercised a stock option to purchase 125,000 shares of the Company's common stock at an exercise price of \$1.40 per share.

NOTE D – STOCK-BASED COMPENSATION (continued)

Warrants

As of June 30, 2017, there were no outstanding warrants to purchase shares of the Company's common stock.

During the six months ended June 30, 2017, Recognition Interface, LLC exercised its remaining warrants to purchase an aggregate of 375,000 shares of the Company's common stock, at an exercise price of \$2.10 per share, which resulted in gross proceeds to the Company of \$787,500.

NOTE E – EARNINGS PER SHARE

Basic Earnings 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 2,950,250 and 3,322,500 at June 30, 2017 and June 30, 2016, respectively, consisted of options, warrants and restricted stock units. Computations of basic and diluted weighted average common shares outstanding are as follows:

	Six Months Ended June 30,		Three Months Ended June 30,	
	2017	2016	2017	2016
Weighted-average common shares outstanding – basic	24,202,788	23,276,295	24,285,803	23,300,638
Dilutive effect of options, warrants and restricted stock units	2,311,832	1,175,649	2,407,507	1,336,678
Weighted-average common shares outstanding – diluted	26,514,620	24,451,944	26,693,310	24,637,316
Options and warrants excluded from the computation of diluted income per share because the effect of inclusion would have been anti-dilutive	—	—	—	—

NOTE F – CASH AND CASH EQUIVALENTS

The Company places cash investments in high quality financial institutions insured by the Federal Deposit Insurance Corporation ("FDIC"). At June 30, 2017, the Company maintained a cash balance of \$51,096,000 in excess of FDIC limits.

The Company considers all highly liquid short-term investments purchased with an original maturity of three months or less to be cash equivalents.

NOTE F – CASH AND CASH EQUIVALENTS (continued)

Cash and cash equivalents as of June 30, 2017 and December 31, 2016 are composed of:

	June 30, 2017	December 31, 2016
Cash	\$9,318,000	\$9,452,000
Money market fund	42,577,000	41,466,000
Total	\$51,895,000	\$50,918,000

NOTE G - MARKETABLE SECURITIES

Marketable securities are classified as available-for-sale and are recorded at fair market value. Unrealized gains and losses are reported as other comprehensive income or loss. Realized gains and losses are reclassified from other comprehensive income or loss to net income or loss in the period they are realized. At June 30, 2017 and December 31, 2016, the Company's marketable securities consisted of two corporate bonds (aggregate face value \$1,000,000) with a 3.9% and 4.5% coupon and term of greater than three months when purchased. The Company's marketable securities mature in 2021 and it is not the intention of the Company to hold such securities until maturity.

NOTE H – COMMITMENTS AND CONTINGENCIES

[1] Legal Fees:

Russ, August & Kabat provides legal services to the Company with respect to its pending patent litigation filed in May 2017 against Facebook, Inc. in the United States District Court for the Southern District of New York relating to several patents within the Company's Mirror Worlds Patent Portfolio (see Note J[3] 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 United States District Court for the Southern District of New York relating to certain patents within the Company's Cox Patent Portfolio (see Note J[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 United States District Court for the Eastern District of Texas, Tyler (see Note J[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 preceding in which a result (settlement or judgment) is achieved. For the three months ended June 30, 2017 and June 30, 2016, the Company incurred aggregate contingent legal fees to Dovel & Luner, LLP with respect to the litigation of \$983,000 and \$306,000, respectively. For the six month period ended June 30, 2017 and June 30 2016, the Company incurred aggregate contingent legal fees to Dovel & Luner, LLP with respect to the litigation of \$1,266,000 and \$358,000, respectively. The Company is

responsible for a certain portion of the expenses incurred with respect to the litigation.

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NOTE H – COMMITMENTS AND CONTINGENCIES (continued)

Dovel & Luner, LLP 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 J[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 months ended June 30, 2017 and June 30, 2016, the Company incurred aggregate legal fees to Dovel & Luner LLP with respect to the litigation of \$344,000 and \$397,000, respectively. During the six months ended June 30, 2017 and June 30, 2016, the Company incurred aggregate legal fees to Dovel & Luner LLP with respect to the litigation of \$1,533,000 and \$1,561,000, respectively.

[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 thirteen (13) additional related patents by the USPTO resulting in an aggregate of seventeen (17) patents within the Cox Patent Portfolio. Professional fees and filing fees of \$169,000 were capitalized as patent cost.

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 United States 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 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.

As part of the acquisition of the Mirror Worlds Patent Portfolio, the Company also entered into an agreement with 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. Pursuant to the terms of the Company's agreement with Recognition, Recognition

NOTE H – COMMITMENTS AND CONTINGENCIES (continued)

received (i) 5-year warrants to purchase 250,000 shares of the Company's common stock at an exercise price of \$1.40 per share, and (ii) 5-year warrants to purchase 250,000 shares of common stock at an exercise price of \$2.10 per share. Recognition also 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. In addition, Abacus and Associates, Inc. ("Abacus"), an entity affiliated with Recognition, received a 60-day warrant to purchase 500,000 shares of the Company's common stock at an exercise price of \$2.05 per share. In accordance with the Company's agreement with Recognition, as a result of the exercise of the 60-day warrant by Abacus in July 2013, additional 5-year warrants to purchase an aggregate of 250,000 shares of the Company's common stock were issued to Recognition (125,000 shares at an exercise price of \$2.10 per share and 125,000 shares at an exercise price of \$1.40 per share). As part of the acquisition of the Mirror Worlds Patent Portfolio, professional fees and filing fees of \$409,000 were capitalized as patent cost.

[3] Lease Agreements:

The Company leases its principal office space in New York City at a monthly base rent of approximately \$3,800 which lease expires on May 31, 2018.

The Company entered into a lease agreement in July 2011 to rent office space in New Canaan, Connecticut. In August 2015, the Company entered into an agreement to extend the lease for a four year period (expiring September 30, 2019) at a base rent of \$7,000 per month for the first year (increasing \$100 per month each year), which is subject to annual adjustments to reflect increases in real estate taxes and operating expenses.

Mirror Worlds Technologies, LLC, the Company's wholly-owned subsidiary, entered into a one year lease, at a base rent of \$620 per month, to rent office space in Tyler, Texas (expiring April 30, 2018).

NOTE I - 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 (the "RSUs") which vest in 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 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)

NOTE I - EMPLOYMENT ARRANGEMENTS AND OTHER AGREEMENTS (continued)

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.

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 and the Cox Patent Portfolio) (collectively, the "Incentive Compensation"). During the three months ended June 30, 2017 and June 30, 2016, the Chairman and Chief Executive Officer earned Incentive Compensation of \$243,000 and \$1,708,000, respectively. During the six months ended June 30, 2017 and June 30, 2016, the Chairman and Chief Executive Officer earned incentive compensation of \$554,000 and \$1,967,000, respectively. As of June 30, 2017 and December 31, 2016, \$293,000 and \$748,000 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 anytime 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 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 "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.

NOTE I - EMPLOYMENT ARRANGEMENTS AND OTHER AGREEMENTS (continued)

[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. On June 9, 2016, the Company granted 50,000 restricted stock units to its Chief Financial Officer, which vested 25,000 restricted stock units on June 9, 2017 and 25,000 restricted stock units will vest on June 9, 2018, subject to his continued employment. In addition, 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.

[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 restricted stock units to its Executive Vice President which vested 25,000 restricted stock units on June 9, 2017 and 25,000 restricted stock units will vest on June 9, 2018, subject to his continued employment.

NOTE J - LEGAL PROCEEDINGS

[1] In September 2011, the Company initiated patent litigation against sixteen (16) data networking equipment manufacturers (and affiliated entities) in the United States District Court for the Eastern District of Texas, Tyler Division, for infringement of its Remote Power Patent. Named as defendants in the lawsuit, excluding related 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, Inx., Motorola Solutions, Inc., NEC Corporation, Polycom Inc., Samsung Electronics Co., Ltd., ShoreTel, Inc., Sony Electronics, Inc., and Transitions Networks, Inc. The Company seeks monetary damages based upon reasonable royalties. To date, the Company has achieved settlement agreements with twelve (12) of the defendants. The remaining four defendants are Hewlett Packard Company, Inc., Juniper Networks, Inc, AXIS Communications Inc. and Avaya Inc. The litigation has been consolidated for pre-trial issues and there will be a separate trial for each defendant. On January 19, 2017, defendant Avaya, Inc. filed for bankruptcy under Chapter 11 of the United States Bankruptcy Code in the United States Bankruptcy Court for the Southern District of New York. As a result of the bankruptcy filing, the litigation against Avaya is currently subject to an automatic stay. The first of the trials is scheduled to commence on November 6, 2017.

On May 2, 2017, Judge Robert W. Schroeder of the United States District Court for the Eastern District of Texas, Tyler Division, in the Company's patent infringement action currently pending against four defendants with respect to its Remote Power Patent as described above issued an order adopting the prior report and recommendation of the United States Magistrate Judge which found that all of the claims of the Remote Power Patent were not invalid. As a result of the Court's decision, the balance of \$2,300,000 of the Company's settlement with ALE USA Inc. reached in July 2016 is payable to the Company in three equal quarterly payments of \$766,666 beginning July 1, 2017. The settlement balance of \$2,300,000 has been recorded in full by the Company as revenue for the three and six months ended June 30, 2017.

NOTE J - LEGAL PROCEEDINGS (continued)

[2] In July 2010, the Company settled its patent litigation pending in the United States 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 paid the Company upon settlement approximately \$32 million and also 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, Cisco is obliged 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 (\$8 million through 2015) for the remaining term of the patent. The royalty payments are subject to certain conditions including the continued validity of the Company's Remote Power Patent, and the actual royalty amounts received may be less than the cap stated above. 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. This would have a material adverse effect on the Company's business, financial condition and results of operations.

[3] On April 4, 2014 and December 3, 2014, the Company initiated litigation against Google Inc. ("Google") and YouTube, LLC ("YouTube") in the United States District Court for the Southern District of New York for infringement of several of its patents within the Cox Patent Portfolio acquired from Dr. Cox (see Note H[2] hereof) which relate to the identification of media content on the Internet. The lawsuits allege 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.

The above referenced litigations that the Company commenced in the United States District Court for the Southern District of New York in April 2014 and December 2014 against Google and YouTube are currently subject to a court ordered stay which has been in effect since July 2015 as a result of proceedings at the Patent Trial and Appeal Board (PTAB) and the pending appeals to the United States District Court of Appeals for the Federal Circuit.

On May 9, 2017, the Company's wholly-owned subsidiary, Mirror Worlds Technologies, LLC, initiated patent litigation against Facebook, Inc. in United States 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, patents within the Company's Mirror Worlds Patent Portfolio. The lawsuit alleges that the aforementioned patents are infringed by Facebook's core technologies that enable Facebook's Newsfeed and Timeline features.

NOTE K – STOCK REPURCHASE

On June 14, 2017, 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 \$17,000,000 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, 2017, the Company has repurchased an aggregate of 7,161,725 shares of its common stock at an aggregate cost of \$12,440,000 (exclusive of commissions) or an average per share price of \$1.74. All such repurchased shares have been cancelled. During the three and six months ended June 30, 2017, the Company repurchased an aggregate of 235,721 shares of its common stock at an aggregate cost of \$975,834 (exclusive of commissions) or an average per share price of \$4.14. At June 30, 2017, the dollar value of shares that may be repurchased under the Share Repurchase Program was \$4,024,303.

NOTE L – CONCENTRATIONS

Revenue from two licensees constituted approximately 26% and 47% of the Company's revenue for the three months ended June 30, 2017, and 55% and 21% of the Company's revenue for the six months ended June 30, 2017. Revenue from one licensee constituted approximately 50% and 76% for the three and six months ended June 30, 2016 (exclusive of revenue from our professional liability settlement – see Note M), respectively. At June 30, 2017, royalty receivables from three licensees constituted approximately 24%, 29% and 35% of the Company's net royalty receivables. At December 31, 2016, royalty receivables from three licenses constituted approximately 29%, 45% and 11% of the Company's net royalty receivables.

NOTE M – REVENUE FROM PROFESSIONAL LIABILITY SETTLEMENT

On April 22, 2016, Mirror Worlds Technologies, LLC ("MWT"), the Company's wholly-owned subsidiary, entered into an agreement pursuant to which it received \$17.5 million in connection with the settlement of a professional liability claim relating to services rendered in 2008-2010. The Company, through MWT, acquired the claim in May 2013 as part of its acquisition of the patent portfolio of Mirror Worlds, LLC.

NOTE N - DIVIDENDS

On December 7, 2016, the Board of Directors of the Company approved the initiation of a dividend policy providing for the payment of a regular 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 regular 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.

NOTE N – DIVIDENDS (continued)

On February 2, 2017, the Board of Directors of the Company declared an initial semi-annual cash dividend of \$0.05 per common share with a payment date of March 24, 2017 to all common stockholders of record as of March 3, 2017.

At June 30, 2017, the Company accrued dividends of \$42,000 for unvested restricted stock units with dividend equivalent rights.

NOTE O – SUBSEQUENT EVENTS

On July 25, 2017, pursuant to the dividend policy adopted in December 2016, the Board of Directors of the Company declared a semi-annual cash dividend of \$0.05 per common share with a payment date of September 20, 2017 to all common stockholders of record as of September 1, 2017.

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

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, 2016 FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ON MARCH 20, 2017 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 thirty-three (33) patents including (i) our Remote Power Patent covering the delivery of power over Ethernet 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 relating to foundational technologies that enable unified search and indexing, displaying and archiving of documents in a computer system; (iii) our 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; and (iv) our 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.

We have been actively engaged in the licensing of our Remote Power Patent (U.S. Patent No. 6,218,930). We currently have twenty-four (24) licensees for our Remote Power Patent which, among others, include license agreements with Cisco Systems, Inc., Extreme Networks, Inc., Netgear, Inc., Microsemi Corporation, Motorola Solutions, Inc., NEC Corporation, Samsung Electronics Co., Ltd., Dell, Inc., Huawei Technologies Co., Ltd., ShoreTel, Inc. and Polycom, Inc. and several other major data networking equipment manufacturers. In addition, we have 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 such intellectual property. 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 acquisition strategy focuses 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 generated licensing revenue in excess of \$116,000,000 from May 2007 through June 30, 2017. As a result of our acquisition of the Mirror Worlds Patent Portfolio in May 2013, we achieved licensing and other revenue from the portfolio of an aggregate of \$47,150,000 through June 30, 2017.

At June 30, 2017, our principal sources of liquidity consisted of cash and cash equivalents of \$51,895,000 and working capital of \$54,608,000. We believe based on our current cash position and projected licensing revenue from existing licensees 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 alternatives.

On December 7, 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. On February 2, 2017, our Board of Directors declared an initial semi-annual cash dividend of \$0.05 per common share with a payment date of March 24, 2017 to all shareholders of record on March 3, 2017. On July 25, 2017, our Board of Directors declared a semi-annual cash dividend of \$0.05 per common share with a payment date of September 20, 2017 to all shareholders of record on September 1, 2017.

Our revenue from our patent licensing and enforcement 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 lump sum payment for a non-exclusive fully-paid license (a "Fully-Paid License"), or (ii) a 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

We currently have Royalty Bearing Licenses for our Remote Power Patent with sixteen (16) licensees pursuant to which such licensees are obligated to pay us ongoing royalties on a quarterly or monthly basis for the life of our Remote Power Patent (March 2020). Revenue from ongoing royalties from our Royalty Bearing Licenses was \$2,563,000 and \$8,783,000 for the three and six months ended June 30, 2017, respectively, as compared to \$2,047,000 and \$7,238,000 for the three and six months ended June 30, 2016, respectively. At June 30, 2017, we had Royalty Bearing Licenses with sixteen (16) licensees as compared to thirteen (13) licensees at June 30, 2016. Cisco is our largest royalty bearing licensee. Cisco constituted 26% and 50% of our ongoing royalty revenue from our Royalty Bearing Licenses for the three months ended June 30, 2017 and June 30, 2016, respectively. Due to our annual royalty rate structure with Cisco, which includes declining rates as the volume of PoE products sales increase during the year, royalties from Cisco are typically highest in the first quarter of the calendar year and decline for each of the remaining calendar quarters of the year.

The obligation of our licensees to continue to make ongoing royalty payments to us from Royalty Bearing Licenses is contingent upon the continued validity of certain claims of our Remote Power Patent. The validity of our Remote Power Patent is currently at issue in our pending litigation against four data equipment manufacturers in the United States District Court for the Eastern District of Texas (see "Legal Proceedings" at pages 32-33 hereof). If certain claims of our Remote Power Patent are ultimately determined to be invalid, such a determination would have a material adverse effect on our business, financial condition and results of operations as our revenue stream is largely dependent upon the continued validity of our Remote Power Patent.

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 32 – 35 hereof).

In September 2011, we initiated patent litigation against sixteen (16) data equipment manufacturers in the United States District Court for the Eastern District of Texas, Tyler Division, for infringement of our Remote Power Patent. We have since settled the litigation against twelve (12) of the defendants. The remaining four defendants in the litigation are Hewlett Packard Company, Inc., Juniper Networks, Inc., Avaya Inc. and AXIS Communications, Inc. The first of the trials for the defendants is scheduled to commence on November 6, 2017 (see "Legal Proceedings" at pages 32-33 hereof).

In April 2014 and December 2014, we initiated patent infringement litigation against Google Inc. and YouTube, LLC in the United States District Court for the Southern District of New York for infringement of several patents within our Cox Patent Portfolio (see "Legal Proceedings" at page 34 hereof). These litigations are currently subject to a court ordered stay pending appeal to the United States Court of Appeals for the Federal Circuit of Final Written Decisions of the Patent Trial and Appeal Board (PTAB) of the USPTO in our favor relating to four Inter Partes Review proceedings and a Covered Business Method Review (CBM) instituted by Google (see "Legal Proceedings" at page 35 of this quarterly report).

In May 2017, we initiated patent infringement litigation against Facebook, Inc. ("Facebook") in the United States District Court for the Southern District of New York, for infringement of our U.S. Patent No. 6,006,227 (the "'227 Patent"), 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) (see "Legal Proceedings" at page 33 hereof).

Professional Liability Settlement

On April 22, 2016, Mirror Worlds Technologies, LLC, our wholly-owned subsidiary, entered into an agreement pursuant to which it received \$17.5 million in connection with a settlement of a professional liability claim relating to services rendered in 2008 - 2010. We acquired the claim in May 2013 as part of our acquisition of the Mirror Worlds Patent Portfolio.

Taxes

We utilized our remaining net operating loss carry-forwards (NOLs) during the year ended December 31, 2016. Current federal, state and local income taxes of \$818,000 and \$1,773,000 were recorded for the three and six months ended June 30, 2017, respectively. The remaining deferred tax assets of \$168,000 at June 30, 2017 relate to temporary (timing) differences with respect to outstanding options and restricted stock units.

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 anytime 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"). At June 30, 2017 (as well as during the second half of prior years), we did not meet the Ownership Test. Due to the significant number of shares held by our largest shareholders, we continually assess our share ownership to determine whether it meets the Ownership Test. If the Ownership Test were met and the income generated by us were determined to constitute "royalties" within the meaning of the Income Test, we would constitute a PHC and we would be subject to a 20% tax on the amount of any PHC Income that we do not distribute to our

shareholders.

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RESULTS OF OPERATIONS

Three Months Ended June 30, 2017 Compared to Three Months Ended June 30, 2016

Revenue. We had revenue of \$4,862,000 for the three months ended June 30, 2017 as compared to revenue of \$20,447,000 for the three months ended June 30, 2016, which included revenue from a one-time payment of \$17,500,000 for the three months ended June 30, 2016 from settlement of a professional liability claim (See Note M to our condensed consolidated financial statements included herein). Excluding revenue from settlement of the professional liability claim for the three months ended June 30, 2016, revenue for the three months ended June 30, 2017 increased \$1,915,000 or 65% as compared to the three months ended June 30, 2016, primarily due to increased revenue from Fully-Paid Licenses of \$1,400,000 and \$515,000 of revenue from Royalty Bearing Licenses for our Remote Power Patent for the three months ended June 30, 2017.

Operating Expenses. Operating expenses for the three months ended June 30, 2017 were \$2,525,000 as compared to \$7,381,000 for the three months ended June 30, 2016. The decrease in operating expenses of \$4,856,000 was primarily due to cost of revenue related to our professional liability settlement (See Note M). We had costs of revenue of \$1,583,000 and \$5,754,000 for the three months ended June 30, 2017 and June 30, 2016, respectively. Included in the costs of revenue for three months ended June 30, 2017 were contingent legal fees and expenses of \$1,340,000 and \$243,000 of incentive bonus compensation payable to our Chairman and Chief Executive Officer pursuant to his employment agreement (see Note H and Note I[1] 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, 2016 were contingent legal fees and expenses of \$4,046,000 payable to our patent litigation counsel and \$1,708,000 of incentive bonus compensation payable to our Chairman and Chief Executive Officer pursuant to his employment agreement. We had contingent patent cost of \$500,000 for the three months ended June 30, 2016 related to the acquisition of our Remote Power Patent and QoS Patents.

General and administrative expenses increased by \$14,000 from \$426,000 for the three months ended June 30, 2016 to \$440,000 for the three months ended June 30, 2017. Amortization of patents was \$50,000 for the three months ended June 30, 2017 as compared to \$297,000 for the three months ended June 30, 2016. Stock-based compensation expense was \$237,000 for the three months ended June 30, 2017 as compared to \$32,000 for the three months ended June 30, 2016, with the increase primarily related to the issuance of restricted stock units. Professional fees and related costs were \$215,000 for the three months ended June 30, 2017 as compared to \$372,000 for the three months ended June 30, 2016.

Interest Income. Interest income for the three months ended June 30, 2017 was \$25,000 as compared to interest income of \$16,000 for the three months ended June 30, 2016.

Operating Income. We had operating income of \$2,337,000 for the three months ended June 30, 2017 compared with an operating income of \$13,066,000 for the three months ended June 30, 2016. The decreased operating income of \$10,729,000 for the three months ended June 30, 2017 was primarily due to increased revenue for the three months ended June 30, 2016 from settlement of our professional liability claim (See Note M). Exclusive of the professional liability settlement for the three months ended June 30, 2016, operating income increased \$1,638,000 or 261% for the three months ended June 30, 2017 as compared to the three months ended June 30, 2016.

Current Taxes. Federal, state and local income taxes of \$818,000 and \$330,000 were recorded for the three months ended June 30, 2017 and June 30, 2016, respectively. The increase in such taxes of \$488,000 was primarily due to our utilization of net operating loss carry-forwards.

Deferred Tax Expense. We recorded deferred tax expense of \$0 and \$4,522,000 for the three months ended June 30, 2017 and June 30, 2016, respectively. The deferred tax expense of \$4,522,000 for the three months ended June 30, 2016 was due to utilization of NOLs.

Net Income. As a result of the foregoing, we realized net income of \$1,544,000 or \$0.06 per share (basic and diluted) for the three months ended June 30, 2017 compared with net income of \$8,230,000 or \$0.35 per share (basic and diluted) for the three months ended June 30, 2016. The decrease in net income of \$6,686,000 was primarily due to income associated with the \$17,500,000 professional liability settlement for the three months ended June 30, 2016 (see Note M to our financial statements included herein).

RESULTS OF OPERATIONS

Six Months Ended June 30, 2017 Compared to Six Months Ended June 30, 2016

Revenue. We had revenue of \$11,083,000 for the six months ended June 30, 2017 as compared to revenue of \$25,637,000 for the six months ended June 30, 2016, which included revenue from a one-time payment of \$17,500,000 for the six months ended June 30, 2016 from settlement of a professional liability claim (See Note M to our condensed consolidated financial statements included herein). Excluding revenue from settlement of the professional liability claim for the six months ended June 30, 2016, revenue for the six months ended June 30, 2017 increased \$2,946,000 or 36% as compared to the six months ended June 30, 2016 primarily due to increased revenue from Fully-Paid Licenses of \$1,400,000 and revenue from Royalty Bearing Licenses for our Remote Power Patent of \$1,546,000 for the six months ended June 30, 2017.

Operating Expenses. Operating expenses for the six months ended June 30, 2017 were \$5,493,000 as compared to \$10,148,000 for the six months ended June 30, 2016. The decrease in operating expenses for the six months ended June 30, 2017 of \$4,655,000 was primarily due to cost of revenue related to our professional liability settlement for the six months ended June 30, 2016 (See Note M). We had costs of revenue of \$3,375,000 and \$7,240,000 for the six months ended June 30, 2017 and June 30, 2016, respectively. Included in the costs of revenue for six months ended June 30, 2017 were contingent legal fees and expenses of \$2,821,000 and \$554,000 of incentive bonus compensation payable to our Chairman and Chief Executive Officer pursuant to his employment agreement (see Note H and Note I[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, 2016 were contingent legal fees and expenses of \$5,273,000 payable to our patent litigation counsel and \$1,967,000 of incentive bonus compensation payable to our Chairman and Chief Executive Officer pursuant to his employment agreement. We had contingent patent cost of \$500,000 for the six months ended June 30, 2016 related to the acquisition of our Remote Power Patent and QoS Patents.

General and administrative expenses increased by \$96,000 from \$828,000 for the six months ended June 30, 2016 to \$924,000 for the six months ended June 30, 2017. Amortization of patents was \$100,000 for the six months ended June 30, 2017 as compared to \$711,000 for the six months ended June 30, 2016. Stock-based compensation expense was \$474,000 for the six months ended June 30, 2017 as compared to \$44,000 for the six months ended June 30, 2016, with the increase primarily related to the issuance of restricted stock units. Professional fees and related costs were \$620,000 for the six months ended June 30, 2017 as compared to \$825,000 for the six months ended June 30, 2016.

Interest Income. Interest income for the six months ended June 30, 2017 was \$34,000 as compared to interest income of \$26,000 for the six months ended June 30, 2016.

Operating Income. We had operating income of \$5,590,000 for the six months ended June 30, 2017 compared with an operating income of \$15,489,000 for the six months ended June 30, 2016. The decreased operating income of \$9,899,000 for the six months ended June 30, 2017 was primarily due to increased revenue for the six months ended June 30, 2016 from settlement of our professional liability claim (See Note M). Exclusive of the professional liability settlement for the six months ended June 30, 2016, operating income increased \$2,335,000 or 135% for the six months ended June 30, 2017 as compared to the six months ended June 30, 2016.

Current Taxes. Federal, state and local income taxes of \$1,773,000 and \$381,000 were recorded for the six months ended June 30, 2017 and June 30, 2016, respectively. The increase in such taxes of \$1,392,000 was due to our utilization of net operating loss carry-forwards.

Deferred Tax Expense. We recorded deferred tax expense of \$39,000 and \$3,084,000 for the six months ended June 30, 2017 and June 30, 2016, respectively. The deferred tax expense of \$39,000 for the six months ended June 30, 2017 relates to temporary (timing) differences with respect to outstanding options and restricted stock units. The deferred tax expense of \$3,084,000 for the three months ended June 30, 2016 was due to utilization of our NOLs.

Net Income. As a result of the foregoing, we realized net income of \$3,812,000 or \$0.16 per share (basic) and \$0.14 per share (diluted) for the six months ended June 30, 2017 compared with net income of \$12,050,000 or \$0.52 per share (basic) and \$0.49 per share (diluted) for the six months ended June 30, 2016. The decrease in net income of \$8,238,000 was primarily due to income associated with the \$17,500,000 professional liability settlement for the six months ended June 30, 2016 (see Note M to our financial statements included herein).

LIQUIDITY AND CAPITAL RESOURCES

We have financed our operations primarily from revenue from licensing our patents. At June 30, 2017, our principal sources of liquidity consisted of cash and cash equivalents of \$51,895,000 and working capital of \$54,608,000. We believe based on our current cash position and projected licensing revenue from our existing license agreements that we will have sufficient cash to fund our operations for the foreseeable future.

At June 30, 2017, we had royalty receivables of \$4,397,000 consisting of \$1,864,000 due from Royalty Bearing Licenses, which are typically paid within sixty days of the end of the quarter, and payments with respect to Fully-Paid Licenses of \$2,533,000 due in 2017.

Working capital increased by \$3,193,000 to \$54,608,000 at June 30, 2017 as compared to working capital of \$51,415,000 at December 31, 2016. The increase in working capital for the six months ended June 30, 2017 was primarily due to increases in royalty receivables of \$1,518,000 and cash and cash equivalents of \$977,000 and decreases in accrued contingency fees and related costs of \$1,035,000 and accrued payroll of \$1,456,000, offset by a decrease in prepaid taxes of \$1,195,000.

Net cash provided by operating activities for the six months ended June 30, 2017 decreased by \$12,581,000 from \$14,749,000 for the six months ended June 30, 2016 to \$2,168,000 for the six months ended June 30, 2017. The decrease in net cash provided by operating activities for the six months ended June 30, 2017 compared with the same period in 2016 was primarily due to a reduction in net income of \$8,238,000 and a \$2,730,000 reduction in accrued expenses.

Net cash used in investing activities for the six months ended June 30, 2017 and June 30, 2016 was \$8,000 and \$3,000, respectively, related to the purchase of patents.

Net cash provided by (used in) financing activities for the six months ended June 30, 2017 and June 30, 2016 was \$(1,183,000) and \$15,000, respectively. The change primarily resulted from the repurchase of our common stock of \$981,000 and a cash dividend of \$1,214,000 offset by \$1,068,000 of proceeds from the exercise of options and warrants for the six months ended June 30, 2017.

We maintain our cash primarily in money market accounts. 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, operating lease obligations, purchase obligations or other long-term liabilities except for the lease obligations set forth in Note H[3] to our condensed consolidated financial statements included in this quarterly report.

CRITICAL ACCOUNTING POLICIES

Our condensed consolidated financial statements are prepared in accordance with GAAP. The preparation of these unaudited condensed consolidated financial statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, costs and expenses, and related disclosures. These estimates form the basis for judgments we make about the carrying values of our assets and liabilities, which are not readily apparent from other sources. We base our estimates and judgments on historical experience and on various other assumptions that we believe are reasonable under the circumstances. On an ongoing basis, we evaluate our estimates and assumptions. Our actual results may differ from these estimates under different assumptions or conditions. We believe that the assumptions and estimates associated with revenue recognition, patents, income taxes, impairment of long lived assets and stock-based compensation have the greatest potential impact on our condensed consolidated financial statements. Therefore, we consider these to be our critical accounting policies and estimates. There have been no material changes to our critical accounting policies and estimates as compared to the critical accounting policies and estimates described in our Annual Report on Form 10-K for the fiscal year ended December 31, 2016. See also Note B to our unaudited condensed consolidated financial statements included in this report.

Effect of New Accounting Pronouncements

In August 2016, the FASB issued Accounting Standards Update ("ASU") No. 2016-15, Classification of Certain Cash Receipts and Cash Payments, which amends ASC 230, Statement of Cash Flows. This ASU provides guidance on the statement of cash flows presentation of certain transactions where diversity in practice exists. The guidance is effective for interim and annual periods beginning after December 15, 2017, and early adoption is permitted. We do not believe that the adoption of this ASU will have a material impact on our consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842). ASU No. 2016-02 is effective for annual periods beginning after December 15, 2018, and requires a lessee to recognize assets and liabilities for leases with a maximum possible term of more than 12 months. A lessee would recognize a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the leased asset (the underlying asset) for the lease term. Early application is permitted. We do not believe that adoption of this accounting standard will have a material impact on our consolidated financial statements.

In May 2014, FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606). ASU No. 2014-09 provides for a single comprehensive model for use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance. The new revenue standard allows for either full retrospective or modified retrospective application. We are required to adopt the amendments in ASU No. 2014-09 using one of the two acceptable methods. In August 2015, the FASB issued ASU No. 2015-14, Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date, which deferred the effective date of ASU No. 2014-09 to annual periods beginning after December 2017, along with an option to permit early adoption as of the original effective date. In April 2016, the FASB issued ASU No. 2016-10, Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing, which amends the guidance in 2014-09 related to identifying performance obligations and accounting for licenses of intellectual property. The ASU does not change the core principle of the guidance in Topic 606. In May 2016, the FASB issued ASU No. 2016-12, Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients, related to disclosures of remaining performance obligations, as well as other amendments to guidance on collectability, non-cash consideration and the presentation of sales and other similar taxes collected from customers. The effective date and transition requirements for the ASUs are the same as the effective date and transition requirements in Topic 606. Public entities should apply the ASUs for annual reporting periods beginning after December 15, 2017, including interim reporting periods therein (i.e., January 1, 2018, for a calendar year entity). Early application for public entities is permitted only as of annual reporting periods beginning after December 15, 2016, including interim reporting periods within that reporting period. We intend to adopt ASU 2014-09 on January 1, 2018. We have elected to apply the modified retrospective method of adoption. We do not expect the impact of the adoption of the new revenue standard to have a material impact on our consolidated financial statements. We will continue to evaluate any new license agreements entered into in the future to determine the impact upon adoption.

In May 2017, FASB issued ASU No. 2017-09 Compensation – Stock Compensation (Topic 718) which provides guidance on determining which changes to the terms and conditions of share-based payment awards require an entity to apply modification accounting in Topic 718. The new standard is effective beginning after December 15, 2017 with early adoption permitted. We do not believe the adoption of this standard will have a material impact on our consolidated financial statements.

Accounting Standards Adopted in the Period

In March 2016, the Financial Accounting Standards Board ("FASB") issued ASU 2016-09, Improvements to Employee Share-Based Payment Accounting, which amends Accounting Standards Codification ("ASC") Topic 718, Compensation - Stock Compensation. ASU 2016-09 simplifies several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. Prior to this amendment, excess tax benefits resulting from the difference between the deduction for tax purposes and the compensation costs recognized for financial reporting were not recognized until the deduction reduced taxes payable. Under the new method we will recognize excess tax benefits in the current accounting period. Additionally, ASU 2016-09 requires that we present excess tax benefits on the Statement of Cash Flows as an operating activity. ASU 2016-09 is effective for fiscal years beginning after December 15, 2016. We adopted ASU 2016-09 in the first quarter of 2017 and elected to apply this adoption prospectively. Prior periods have not been adjusted. The effective tax rate for the six months ended June 30, 2017 differed from the Federal statutory rate primarily due to the recognition of excess tax benefits as a component of the provision for income taxes attributable to the adoption of ASU 2016-09.

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, 2017 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 Legal Proceedings

In September 2011, we initiated patent litigation against sixteen (16) data networking equipment manufacturers (and affiliated entities) in the United States 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. We seek monetary damages based upon reasonable royalties.

In March 2012, we reached settlement agreements with defendants Motorola Solutions, Inc. ("Motorola") and Transition Networks, Inc. ("Transition Networks"). In October 2012, we reached a settlement with defendant GarretCom, Inc ("GarretCom"). In February 2013, we reached settlement agreements with Allied Telesis, Inc. ("Allied Telesis") and NEC Corporation ("NEC"). As part of the settlements, Motorola, Transition Networks, GarretCom, Allied Telesis and NEC each entered into a non-exclusive license agreement for our Remote Power Patent pursuant to which each such defendant agreed to license our Remote Power Patent for its full term (which expires in March 2020) and pay a license initiation fee and ongoing royalties based on their sales of PoE products. In March 2015 and July 2015, we reached settlements with defendants Samsung Electronics Co., Ltd. ("Samsung"), Huawei Technologies Co., Ltd. ("Huawei") and ShoreTel, Inc. ("ShoreTel"). Samsung and Huawei each entered into a non-exclusive fully paid license agreement for our Remote Power Patent for its full term. ShoreTel entered into a non-exclusive license agreement for our Remote Power Patent for its full term and paid a license initiation fee and agreed to pay quarterly royalties based upon its sales of PoE products.

In June 2016, we reached a settlement with Sony Corporation and affiliated entities ("Sony"). With respect to the settlement, Sony received a non-exclusive fully-paid license for our Remote Power Patent for its remaining life.

In July 2016, we reached a settlement with Dell, Inc. Under the terms of the settlement, Dell received a non-exclusive license for our Remote Power Patent for its full term, Dell paid a license initiation fee of \$6,000,000 and agreed to pay quarterly royalties based on its sales of PoE products.

In July 2016, we also reached settlement agreements with Alcatel-Lucent USA, Inc. and Alcatel-Lucent Holdings Inc. (collectively, "Alcatel") and ALE, USA, Inc. ("ALE"). Under the terms of the settlement agreements, Alcatel and ALE received a non-exclusive fully paid license for our Remote Power Patent for its remaining life. The aggregate consideration to be received by us from Alcatel and ALE for the fully-paid license is \$4,200,000 of which \$1,900,000 has been paid and the balance of \$2,300,000 is payable in three equal quarterly payments, the first installment of which we received on June 29, 2017.

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 a license initiation fee of \$5,000,000 for

past sales of its Power over Ethernet ("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 will be paid 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. Such payments in October 2018 and October 2019 have not been included in our revenue to date.

As a result of the aforementioned settlements, the remaining four defendants in the litigation pending in the United States District Court for the Eastern District of Texas are Hewlett Packard Company, Inc., Juniper Networks, Inc., AXIS Communications Inc. and Avaya Inc. The litigation is consolidated for pre-trial purposes and there will be a separate trial for each defendant. On June 2, 2016, a Markman hearing on claim construction was held and oral argument also took place on defendants' motion for summary judgment that all asserted claims of our Remote Power Patent are invalid under 35 U.S.C. §325 for improper broadening. On November 2, 2016, the Court issued its ruling on the Markman hearing and defendants' motion for summary judgment (the motion asserted that all claims of the Remote Power Patent were invalid for improper claim broadening). The Court found that all of the original asserted claims of the Remote Power Patent survived the challenge and only one claim (Claim 23 obtained during a Reexamination of the Remote Power Patent at the USPTO in 2014) was invalid due to improper claim broadening. On January 19, 2017, defendant Avaya Inc. filed for bankruptcy under Chapter 11 of the United States Bankruptcy Code in the United States Bankruptcy Court for the Southern District of New York. As a result of the filing, our litigation against Avaya Inc. is currently subject to an automatic stay. The litigation will continue against the three other remaining defendants. On March 7, 2017, we made a motion for relief from the automatic stay in the United States District Court for the Southern District of New York which is pending. The first of the trials for the defendants is scheduled to commence on November 6, 2017.

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 United States 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 alleges that the asserted patents are infringed by Facebook's core technologies that enable Facebook's Newsfeed and Timeline features. The lawsuit further alleges 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 with more than 1.94 billion monthly active users as of March 2017. We seek, among other things, monetary damages based upon reasonable royalties. On July 5, 2017, Facebook filed its Answer denying our claims and asserting various affirmative defenses.

Prior Litigation

On May 23, 2013, we initiated patent litigation in the United States District Court for the Eastern District of Texas, Tyler Division, against Apple Inc., Microsoft Corporation, Hewlett-Packard Company, Lenovo Group Ltd., Lenovo (United States), Inc., Dell, Inc., Best Buy Co., Inc., Samsung Electronics America, Inc. and Samsung Telecommunications America L.L.C., for infringement of U.S. Patent No. 6,006,227 (the "'227 Patent"). We sought, among other things, monetary damages based upon reasonable royalties. The lawsuit alleged that the defendants have infringed and continue to infringe the claims of the '227 Patent by making, selling, offering to sell and using infringing products including Mac OS and Windows operating systems and personal computers and tablets that include versions of those operating systems, and by encouraging others to make, sell, and use these products. On December 10, 2013, the litigation was severed into two consolidated actions, Mirror Worlds v. Apple, Inc. (Case No. 6:13-cv-419), and Mirror Worlds v. Microsoft, et al. (Case No. 6:13-cv-941).

On November 6, 2015, we entered into a settlement agreement with Microsoft pursuant to which Microsoft (including its customers) received a non-exclusive fully-paid license for our Mirror Worlds Patent Portfolio for its remaining life in consideration of a lump sum payment to us of \$4,650,000. In addition, as customers of Microsoft, the pending litigation was also dismissed against Hewlett-Packard Corporation, Lenovo Group Ltd., Lenovo, Inc., Dell, Inc., Best Buy Co., Inc., Samsung Electronics of America, Inc. and Samsung Telecommunications America L.L.C.

On July 8, 2016, we entered into a settlement agreement with Apple Inc. in connection with litigation in the United States District Court for the Eastern District of Texas, for infringement of our '227 Patent. Under the terms of the settlement agreement, Apple received a fully paid non-exclusive license to the '227 Patent for its full term (which expired in June 2016), along with certain rights to other patents in our patent portfolio. We received \$25,000,000 from Apple for the settlement and fully paid non-exclusive license.

Cox Patent Portfolio – Google and YouTube Legal Proceedings

On April 4, 2014, we initiated litigation against Google Inc. ("Google") and YouTube, LLC ("YouTube") in the United States 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 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 United States District Court for the Southern District of New York in April 2014 and December 2014 against Google and YouTube are currently subject to a court ordered stay which has been in effect since July 2015 as a result of proceedings at the Patent Trial and Appeal Board (PTAB) and the pending appeals of PTAB Final Written Decisions to the United States District Court of Appeals for the Federal Circuit as described below.

In December 2014, Google filed four petitions to institute Inter Partes Review proceedings (the "IPRs") at the PTAB pertaining to certain patents within our Cox Patent Portfolio. In each of the IPRs, Google sought to invalidate certain claims of our patents within our Cox Patent Portfolio which have been asserted in our litigations against Google and YouTube pending in the United States District Court for the Southern District of New York as described above. On June 23, 2015, the PTAB issued an order instituting each of the four IPR petitions for oral hearing. The consolidated oral hearing was held on March 9, 2016. On June 20, 2016, the PTAB issued its Final Written Decisions in the four pending IPRs finding eighty-six (86) claims "not unpatentable" (valid) and in total, one hundred nineteen (119) out of one hundred and twenty-nine (129) or 92% of the challenged claims of the patents survived. None of our asserted claims in the pending litigations against Google and YouTube were found invalid. On August 18, 2016, Google filed Notices of Appeal to appeal the PTAB's Final Written Decisions on the IPRs to the United States Court of Appeals for the Federal Circuit and the appeals are pending.

On April 13, 2015, Google filed a Petition for Covered Business Method Review (CBM) at the PTAB seeking to invalidate claims pertaining to our U.S. Patent No. 8,904,464, the patent asserted in our litigation against Google and YouTube filed on December 3, 2014 as referenced above. On October 19, 2015, the PTAB issued an order instituting the Covered Business Method Review for oral hearing. The oral hearing was held on May 11, 2016. On October 18, 2016, the PTAB issued its Final Written Decision in favor of us with respect to the CBM and ruled that Google had failed to show that any of the thirty-four (34) claims of our U.S. Patent 8,904,464 were unpatentable. On December 20, 2016, Google filed a Notice of Appeal to appeal the PTAB's Final Written Decision on the CBM to the United States Court of Appeals for the Federal Circuit and the appeal is pending.

ITEM 1A. Risk Factors.

Our operations and financial results are subject to various risks and uncertainties that could adversely affect our business, financial condition, results of operations and trading price of our common stock. In addition to the risks described in this quarterly report, our Annual Report on Form 10-K for the year ended December 31, 2016 (pages 16-26) filed with the Securities and Exchange Commission on March 20, 2017 includes a discussion of our risk factors and should be carefully considered by investors.

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, 2017.

Stock Repurchases

On August 22, 2011, we established a share repurchase program ("Share Repurchase Program"). On June 14, 2017, 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 12 month period. 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, 2017 we have repurchased an aggregate of 7,161,725 shares of our common stock at an aggregate cost of \$12,440,000 (exclusive of commissions) or an average per share price of \$1.74. During the three months ended June 30, 2017, we repurchased 235,721 shares of our common stock at an aggregate cost of \$975,834 (exclusive of commissions) or an average per share price of \$4.14. At June 30, 2017, the dollar value of shares that may be repurchased under the Share Repurchase Program was \$4,024,303.

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 ¹⁾
April 1 to April 30, 2017	-0-	—	—	\$ 5,000,000.00
May 1 to May 31, 2017	106,865	\$4.23	106,865	\$ 4,548,292.30
June 1 to June 30, 2017	128,856	\$4.07	128,856	\$ 4,024,303.50
Total	235,721	\$4.14	235,721	

(1) The dollar amounts in this column reflect an extension and increase of the Share Repurchase Program approved by the Board of Directors on June 14, 2017 to repurchase up to \$5,000,000 shares of common stock over the subsequent 24 month period.

ITEM 3. Defaults Upon Senior Securities.

None.

ITEM 5. Other Information.

None.

ITEM 6. 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.INSXBRL Instance Document

101.SCHXBRL Scheme Document

101.CALXBRL Calculation Linkbase Document

101.DEF XBRL Definition Linkbase Document

101.LABXBRL Label Linkbase Document

101.PREXBRL Presentation Linkbase Document

* Filed herewith

** Furnished herewith

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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 11, 2017 By: /s/ Corey M. Horowitz
Corey M. Horowitz
Chairman and Chief Executive Officer

Date: August 11, 2017 By: /s/ David C. Kahn
David C. Kahn
Chief Financial Officer