Prism Technologies Group, Inc.
Form 10-Q
November 14, 2016

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2016

Or

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

For the transition period from to

Commission file number 0-26083

PRISM TECHNOLOGIES GROUP, INC.

(Exact name of Registrant as specified in its charter)

Delaware	**94-3220749**
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification Number)

101 Parkshore Drive, Suite 100 Folsom, CA 95630

(Address of principal executive offices)

(916) 932-2860

(Registrant’s telephone number, including area code)

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of “large accelerated filer,” “accelerated filer,” and “smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer	Accelerated filer
Non-accelerated filer (Do not check if a smaller reporting company)	Smaller reporting company

The aggregate market value of registrant’s voting and non-voting common equity held by non-affiliates of registrant, based upon the closing sale price of the common stock as of the last business day of registrant’s most recently completed second fiscal quarter (June 30, 2016), as reported on the Nasdaq Capital Market, was approximately $1,819,000. Registrant is a smaller reporting company as defined in Regulation S-K. Shares of common stock held by each officer, director and holder of 5% or more of the outstanding common stock have been excluded in that such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

Indicate by check mark whether the registrant is a shell company (as defined by Rule 12b-2 of the Exchange Act).

Yes No

The number of outstanding shares of the Registrant’s Common Stock, par value $0.001 per share, on October 31, 2016 were 10,073,688 shares.

FORM 10-Q

PRISM TECHNOLOGIES GROUP, INC.

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PART I: FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

PRISM TECHNOLOGIES GROUP, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands)

(unaudited)

	September 30, 2016	**December 31, 2015**
Assets		
Current assets:		
Cash and cash equivalents	$ 397	$ 1,756
Short-term investments	-	1,494
Restricted cash equivalents	400	600
Prepaid expenses and other current assets	535	639
Total current assets	1,332	4,489
Intangible assets	16,200	24,694
Goodwill	54	54
Other assets	22	63
Total assets	$ 17,608	$ 29,300
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	$ 285	$ 267
Accrued expenses	331	575
Accrued contingent consideration, current	-	3,525
Notes payable, current	3,097	2,838
Total current liabilities	3,713	7,205
Accrued contingent consideration, non-current	11,464	9,704
Accrued lease obligation, non-current	-	49
Income tax liability	-	101

Other liabilities	45	45
Total liabilities	15,222	17,104
Commitments and contingencies (Note 12)		
Stockholders’ equity:		
Common stock	15	15
Paid-in capital	231,351	231,294
Treasury stock	(10,323)	(10,323)
Accumulated deficit	(218,657)	(208,790)
Total stockholders’ equity	2,386	12,196
Total liabilities and stockholders’ equity	$ 17,608	$ 29,300

See accompanying notes.

PRISM TECHNOLOGIES GROUP, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per share amounts)

(unaudited)

	Three Months Ended September 30,		**Nine Months Ended September 30,**	
	2016	**2015**	**2016**	**2015**
Revenues	$ -	$ 700	$ -	$ 700
Cost of Revenues	-	210	-	210
Gross Margin	-	490	-	490
Operating expenses:				
General and administrative	924	986	3,014	2,974
Depreciation and amortization	1,920	4,246	6,285	8,772
Impairment of long-lived assets	-	-	2,209	-
Total operating expenses	2,844	5,232	11,508	11,746
Loss from operations	(2,844)	(4,742)	(11,508)	(11,256)
Other income	11	3	2,050	12
Interest expense	(167)	(293)	(510)	(628)
Net loss before income taxes	(3,000)	(5,032)	(9,968)	(11,872)
Income tax benefit	101	-	101	-
Net loss	(2,899)	(5,032)	(9,867)	(11,872)
Net loss per share:				
Basic and diluted	$ (0.29)	$ (0.50)	$ (0.98)	$ (1.32)
Shares used in computing per share amounts				
Basic and diluted	10,074	10,074	10,074	8,997

See accompanying notes.

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PRISM TECHNOLOGIES GROUP, INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(in thousands)

(unaudited)

	Three months ended September 30, 2016	**2015**	**Nine months ended September 30, 2016**	**2015**
Net loss	$(2,899)	$(5,032)	$(9,867)	$(11,872)
Comprehensive loss	$(2,899)	(5,032)	$(9,867)	$(11,872)

See accompanying notes.

PRISM TECHNOLOGIES GROUP, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(unaudited)

	Nine Months Ended September 30, 2016	2015
Cash flows from operating activities:		
Net loss	$(9,867)	$(11,872)
Adjustments to reconcile net loss to net cash used in operating activities:		
Stock-based compensation	57	127
Depreciation and amortization	6,285	8,772
Impairment of long-lived assets	2,209	-
Imputed interest expense on contingent consideration	246	437
Imputed interest expense on notes payable	259	189
Gain on revaluation of contingent consideration	(2,011)	-
Net changes in operating assets and liabilities:		
Prepaid expenses and other assets	145	(423)
Accounts payable	18	(434)
Accrued expenses	(293)	(140)
Income tax benefit	(101)	-
Net cash used in operating activities	(3,053)	(3,344)
Cash flows from investing activities:		
Purchase of Prism LLC, net of cash acquired	-	(16,131)
Redemptions of short-term investments	1,494	-
Redemptions of restricted cash equivalents	200	200
Net cash provided by (used in) investing activities	1,694	(15,931)
Cash flows from financing activities:		
Repayment of note payable	-	(1,000)
Net cash used in financing activities	-	(1,000)
Net decrease in cash and cash equivalents	(1,359)	(20,275
Cash and cash equivalents, beginning of period	1,756	23,137
Cash and cash equivalents, end of period	$397	$2,862

Supplemental disclosures of cash flow information and non-cash transactions:

In connection with its acquisition of Prism, the Company assumed liabilities and issued common stock as follows:

Cash paid for acquisition as of September 30, 2015	$16,500
Contingent consideration	32,411
Issuance of common stock	9,380
Value of net assets acquired	$58,291
Liabilities assumed	$3,611

See accompanying notes.

PRISM TECHNOLOGIES GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

1. Business of Prism Technologies Group, Inc.

Prism Technologies Group, Inc. (also referred to as “Company”, “we”, “our” or “us”) was originally incorporated in California in February 1995 and re-incorporated in Delaware in October 1996.The mailing address of our headquarters is 101 Parkshore Drive, Suite 100, Folsom, CA 95630, and the telephone number at that location is (916) 932-2860. Our principal website is www.przmgroup.com.

Our business consists of licensing and enforcing a portfolio of patents. On March 26, 2015, we completed a merger with Prism Technologies, LLC (“Prism LLC”), with Prism LLC becoming a wholly-owned subsidiary of the Company (the “Merger”). Prism LLC also operates a patent licensing and enforcement business. We and our subsidiaries own a portfolio of nine patent families with over 50 issued patents and patent applications in the areas of computer and network security, semiconductors and medical technology. In September 2015, we changed our name to Prism Technologies Group, Inc. to better reflect the operations of the combined companies.

2. Basis of Presentation

The consolidated financial statements include the accounts of Prism Technologies Group, Inc. and its wholly-owned subsidiaries, Goldrush Insurance Services, Inc. and Prism Technologies LLC. All significant inter-company accounts and transactions have been eliminated in the consolidated financial statements.

The accompanying unaudited interim condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Rule 8-03 of Regulation S-X. Accordingly, they do not contain all of the information and footnotes required by U.S. generally accepted accounting principles for complete financial statements. In the opinion of management, the accompanying unaudited interim condensed consolidated financial statements reflect all adjustments, which include only normal recurring adjustments, necessary to present fairly our financial position as of

September 30, 2016 and the results of operations for the three and nine months ended September 30, 2016 and 2015 and of cash flows for the nine months ended September 30, 2016 and 2015. The financial data and other information disclosed in these notes to the condensed consolidated financial statements related to these periods are unaudited. The results for the three and nine months ended September 30, 2016 are not necessarily indicative of the results to be expected for any future period.

The accompanying financial statements have been prepared under the assumption that the Company will continue to operate as a going concern, which contemplates the realization of assets and the settlement of liabilities in the normal course of business. The consolidated financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts of liabilities that may result from uncertainty related to the Company's ability to continue as a going concern.

PRISM TECHNOLOGIES GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(unaudited)

2. Basis of Presentation (continued)

These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in our Annual Report on Form 10-K and other information as filed with the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted pursuant to such rules and regulations. The December 31, 2015 condensed consolidated balance sheet was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States. We believe the disclosures in its notes to the condensed consolidated financial statements are adequate to make the information presented not misleading. We have evaluated subsequent events through the time of filing these financial statements. Based upon the evaluation, there was no material impact on the accompanying condensed consolidated financial statements.

Going Concern

As of September 30, 2016, our cash and cash equivalents totaled $0.4 million, and we are unable to estimate if or when we will receive revenues from our operations due to the uncertainty associated with patent litigation. We have notes payable of $3.1 million, which are due in 2016. As previously reported, on September 15, 2016, the officers and directors agreed to substantially reduce their salaries, which is our single largest use of operating cash. In addition, we expect to receive approximately $350,000 in February 2017 from the release of the security deposit related to our former headquarters in Rancho Cordova, CA. However, unless we are able to restructure our long term liabilities, further reduce our operating expenses, or receive revenues, we anticipate that our cash will be insufficient to fund our operations past the fourth quarter of 2016. Accordingly, we have initiated discussions with various third parties about potential financing alternatives, including a non-recourse financing alternative based on the outcome of specific patent infringement activities. But there can be no assurance that these discussions will be successful. If additional funds were raised through the issuance of equity securities, the percentage ownership of the Company’s then-current stockholders would be reduced. In addition, issuance of a significant number of new shares of our common stock could result in an ownership change under Section 382 of the Code, resulting in a substantial reduction in the usability of NOLs. If we are unable to raise capital on acceptable terms, we may need to cease operations and, as a result, investors could lose their investment.

Reclassifications

Certain reclassifications, which have no effect on previously reported net loss, have been made to the 2015 condensed consolidated balance sheets to conform to our 2016 financial statement presentation.

Summary of Significant Accounting Policies

Revenue recognition

In general, patent licensing arrangements are expected to provide for the payment of contractually determined fees in consideration for the grant of certain intellectual property rights for patented technologies owned or controlled by the Company. Complex revenue arrangements may require significant judgments, assumptions and estimates about when substantial delivery of contract elements will occur, whether any significant ongoing obligations exist subsequent to contract execution, whether collectability is reasonably assured and determination of the appropriate period in which the completion of the earning process occurs.

The Company recognizes revenue when (i) persuasive evidence of a contractual arrangement between the Company and the licensee exists, which create legally enforceable rights and obligations, (ii) delivery of the licensee agreement was provided to the licensee, based upon the point at which control of license transfers to the licensee, (iii) the price to the licensee was fixed or determinable, represents the amount of consideration to which the Company expects to be entitled in exchange for transferring the promised licensee agreement to a licensee and (iv) collectability of consideration to which the Company is entitled to is reasonably assured.

PRISM TECHNOLOGIES GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(unaudited)

Summary of Significant Accounting Policies (continued)

Business Combination Accounting

We account for acquisitions in accordance with ASC 805 *"Business Combinations."* Accordingly, the net assets acquired were recorded at their estimated fair values and Prism LLC's operating results are included in the Company's Consolidated Financial Statements from March 26, 2015 (the "Closing Date"). We recognize, separately from goodwill, the identifiable assets acquired and liabilities assumed at their estimated acquisition date fair values. Goodwill is measured and recognized as of the acquisition date as the excess of: (a) the aggregate of the fair value of consideration transferred, the fair value of any noncontrolling interest in the acquiree (if any) and the acquisition date fair value of our previously held equity interest in the acquiree (if any), over (b) the fair value of net assets acquired and liabilities assumed. At the acquisition date, we measured the fair values of all assets acquired and liabilities assumed that arise from contractual contingencies. The Company measures the fair values of all noncontractual contingencies if, as of the acquisition date, it is more likely than not that the contingency will give rise to an asset or liability. While we use our best estimates and assumptions as a part of the purchase price allocation process to accurately value assets acquired and liabilities assumed at the acquisition date, our estimates are inherently uncertain and subject to refinement. As a result, during the measurement period, which may be up to one year from the acquisition date, the Company will record adjustments to the assets acquired and liabilities assumed, with the corresponding offset to goodwill. Upon the conclusion of the measurement period or final determination of the values of assets acquired or liabilities assumed, whichever comes first, any subsequent adjustments are recorded to the consolidated statements of operations. Prism's operations are included in the Company's Consolidated Financial Statements as of the Closing Date. Acquisition related costs associated with a business combination are expensed as incurred.

Intangible Assets

The fair value amount assigned to each acquired patent asset is being amortized on a straight-line basis over a period ranging from 1.5 to 4.5 years, depending on the patent. The amortization period of the entire acquired patent portfolio is a weighted average of 3.7 years and was determined using the estimated life of each patent, which is represented by the period over which 100% of the expected discounted cash flows are received, and then using a weighted average approach based on the value of the patent and the estimated life.

The amortization period of the covenants not to compete with Prism LLC’s officers is 3 years; the expected term of the agreements.

The Company evaluates the recoverability of its long-lived assets, including intangible assets subject to amortization in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 360, *Property, Plant and Equipment*. ASC 360 requires the recognition of impairment losses related to long-lived assets in the event the net carrying value of such assets exceeds fair value. The Company assesses the impairment of its long-lived assets when events or changes in circumstances indicate that the carrying amount of the intangible asset or asset group may not be recoverable. Significant judgment is required in determining whether a potential indicator of impairment of the assets exists and in estimating future cash flows for any necessary impairment tests. Recoverability of the intangible assets to be held and used is measured by the comparison of the carrying amount of the asset to future undiscounted net cash flows expected to be generated by the asset. If such an asset is considered to be impaired, the impairment to be recognized is measured as the amount by which the carrying amount of the asset exceeds the fair value of the asset. During the year ended December 31, 2015, the Company recorded a $23.8 million impairment charge associated with the patent portfolio it acquired from Prism LLC.

As a result of delays in litigation events in the second quarter of 2016, the Company reassessed the recoverability of the intangible assets recorded in connection with the Merger in accordance with *ASC 360*. The Company determined that the carrying value of the intangible assets were in excess of fair value because the receipt of the forecasted cash flows would likely be delayed. The Company, therefore, recorded impairment charges of $2.2 million in the second quarter of 2016. As a result of the recorded impairment charges, the carrying value of the covenant not to compete and the patent portfolio were decreased by $0.4 million and $1.8 million, respectively. The fair value of the acquired intangible assets were based on estimated future cash flows to be generated from the patent portfolio to be received from Prism by the Company, discounted using a rate commensurate with the risk involved.

PRISM TECHNOLOGIES GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(unaudited)

Summary of Significant Accounting Policies (continued)

Goodwill

Goodwill represents the excess of: (a) the aggregate of the fair value of consideration transferred, the fair value of any noncontrolling interest in the acquiree (if any) and the acquisition date fair value of the Company's previously held equity interest in the acquiree (if any), over (b) the fair value of assets acquired and liabilities assumed. Goodwill, deemed to have an indefinite life is subject to periodic impairment testing as described below.

Goodwill is tested for impairment on a periodic basis, and at least annually in the fourth quarter of the year. In the first step of testing for goodwill and intangible assets impairment, we will estimate the fair value of the net assets associated with the goodwill. If the fair value of these net assets is greater than the carrying value of the net assets, including goodwill, then there will be no impairment. If the fair value is less than the carrying value, then we would perform a second step and determine the fair value of the goodwill. In this second step, the fair value of goodwill is determined by deducting the fair value of the identifiable assets and liabilities from the fair value of the reporting unit as a whole, as if that reporting unit had just been acquired and the purchase price were being initially allocated. If the fair value of the goodwill is less than its carrying value for a reporting unit, an impairment charge would be recorded to earnings in the Company's Consolidated Statements of Operations.

In addition, the Company would evaluate goodwill for impairment if events or circumstances change between annual tests indicating a possible impairment. Examples of such events or circumstances include the following:

- a significant adverse change in legal factors or in the business climate;
- a more likely than not expectation that a segment or a significant portion thereof will be sold; or
- the testing for recoverability of a significant asset group within the segment.

Share-Based Payments

We account for share-based compensation in accordance with ASC 718 *"Compensation – Stock Compensation."* Under the provisions of ASC 718, share-based compensation cost is generally estimated at the grant date based on the award's fair value as calculated by the Black-Scholes-Merton (BSM) option-pricing model. The BSM option-pricing model requires various highly judgmental assumptions including expected option life, volatility, and forfeiture rates. If any of the assumptions used in the BSM option-pricing model change significantly, share-based compensation expense may differ materially in the future from that recorded in the current period. Generally, compensation cost is recognized over the requisite service period. However, to the extent performance conditions affect the vesting of an award, compensation cost will be recognized only if the performance condition is satisfied. Compensation cost will not be recognized, and any previously recognized compensation cost will be reversed, if the performance condition is not satisfied.

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, Revenue from Contracts with Customers, which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The ASU will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective. The new standard is effective for annual reporting periods beginning after December 15, 2017. Early adoption is permitted, beginning in Q1 2017. The standard permits the use of either the retrospective or cumulative effect transition method. We are evaluating the effect that ASU 2014-09 will have on our condensed Consolidated Financial Statements and related disclosures. We have not yet selected a transition method nor have we determined the effect of the standard on our ongoing financial reporting.

PRISM TECHNOLOGIES GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(unaudited)

Summary of Significant Accounting Policies (continued)

On January 9, 2015, the FASB unanimously voted to approve Accounting Standards Update (ASU) 2015-01, which eliminates the concept of extraordinary items in an entity’s income statement. The changes in ASU 2015-01 are effective for fiscal years beginning after December 15, 2015 and interim periods within those fiscal years. Early adoption is permitted provided that the guidance is applied from the beginning of the fiscal year of adoption. The adoption of this standard did not have a material effect on the Company.

In April 2015, the FASB issued ASU 2015-03, Interest - Imputation of Interest (Topic 835-30), which requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by this ASU. In August 2015, the FASB issued ASU 2015-15, which clarified that debt issuance costs related to line-of-credit arrangements could continue to be presented as an asset and be subsequently amortized over the term of the line-of-credit arrangement, regardless of whether there are any outstanding borrowings on the arrangement. The requirements are effective for annual periods (and interim periods within those annual periods) beginning after December 15, 2015, and require retrospective application. The adoption of this standard did not have a material effect on the Company.

In September 2015, the FASB issued ASU 2015-16, Business Combinations (Topic 805): Simplifying the Accounting for Measurement-Period Adjustments. ASU 2015-16 eliminates the requirement that an acquirer in a business combination account for measurement-period adjustments retrospectively. Instead, an acquirer will recognize a measurement-period adjustment during the period in which it determines the amount of the adjustment. The guidance is effective for public business entities for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. For all other entities, it is effective for fiscal years beginning after December 15, 2016. The adoption of this standard did not have a material effect on the Company.

In June 2014, the FASB issued guidance that applies to all reporting entities that grant their employees share-based payments in which the terms of the award provide that a performance target that affects vesting could be achieved after the requisite service period. It requires that a performance target that affects vesting and that could be achieved after the requisite service period be treated as a performance condition and follows existing accounting guidance for the treatment of performance conditions. The standard is effective for annual periods and interim periods within those annual periods beginning after December 15, 2015. The adoption of this standard did not have a material effect on the Company.

In March 2016, the FASB issued ASU 2016-09, *Compensation - Stock Compensation* (Topic 718)*: Improvements to Employee Share-Based Payment Accounting*, related to simplifications of employee share-based payment accounting. This pronouncement eliminates the APIC pool concept and requires that excess tax benefits and tax deficiencies be recorded in the income statement when awards are settled. The pronouncement also addresses simplifications related to statement of cash flows classification, accounting for forfeitures, and minimum statutory tax withholding requirements. The pronouncement is effective for annual periods (and for interim periods within those annual periods) beginning after December 15, 2016. The Company is currently evaluating the potential impact, if any, to its Consolidated Financial Statements and related disclosures.

PRISM TECHNOLOGIES GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(unaudited)

3. Acquisition and Purchase Accounting

On the Closing Date, the Company completed its acquisition of Prism LLC pursuant to the terms of the Merger Agreement. Prism LLC was acquired for a purchase price of $58.3 million paid in a combination of cash, stock and potential contingent earn-out payments as discussed further below.

The maximum purchase price, exclusive of the discounting or probability reductions associated with the contingent consideration, is $75.4 million as of the Closing Date. The $75.4 million maximum purchase price is comprised of: (a) $16.5 million in cash ($1.3 million paid at Closing and $15.2 million paid in April, 2015); (b) $9.4 million associated with the issuance of 3.5 million shares of our common stock at Closing; and (c) a total of up to $49.5 million in cash in future contingent consideration.

Contingent Consideration

The contingent consideration payable to Prism LLC's former members consists of a share of future proceeds from lawsuits filed by Prism LLC prior to the Closing Date ("Open Suits"). Under the terms of the Merger Agreement, we will retain the first $16.5 million in litigation or settlement proceeds received from Open Suits after closing (the "Sharing Threshold"), less any cash remaining in Prism LLC at the time of closing. Prism LLC's former members will receive 70% of the litigation and settlement proceeds related to Open Suits in excess of the Sharing Threshold, up to $49.5 million.

As of the Closing Date, the estimated fair values of the Prism LLC purchase price is comprised of the following (in thousands):

Consideration paid on the Closing Date:	
Cash payment (portion of $16.5 million cash consideration)	$1,343

Common stock	9,380
<u>Consideration paid after the Closing Date:</u>	
Payable to former Prism LLC shareholders (remaining portion of $16.5 million cash consideration paid in April, 2015)	15,157
Contingent consideration expected to be paid	49,500
Discount on contingent consideration	(17,089)
Total purchase price	$58,291

Purchase Price Allocation

The Company recognized $0.1 million in goodwill in 2015, representing the excess purchase consideration over acquired tangible and intangible assets and liabilities assumed. The goodwill relates to expected synergies and the assembled workforce of Prism LLC.

The acquired intangible assets included a patent portfolio valued, for purchase price allocation purposes, at $59.0 million with a weighted average useful life of 3.7 years and $2.5 million of non-compete agreements with a weighted average useful life of three years.

In performing its purchase price allocation, management determined the fair value of intangible assets based on a number of factors, including a third-party valuation, utilizing the income approach in conjunction with discussions with Prism LLC's management and certain forecasts prepared by Prism LLC. The rate utilized to discount net cash flows to their present values was approximately 32% for the non-compete agreements and a range of 34-35% for the patent portfolio. The discount rates were determined using a weighted-average cost of capital which incorporated a number of factors which included the risk-free rate, the market premium, a company size premium and a company-specific premium for the non-compete agreements. In addition, for the patent portfolio, there was an additional premium applied.

PRISM TECHNOLOGIES GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(unaudited)

3. Acquisition and Purchase Accounting (continued)

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at December 31, 2015.

	(in thousands)
Acquired assets:	
Cash and cash equivalents	$ 369
Intangible assets, net	58,961
Covenant not to compete	2,457
Other assets	61
Goodwill	54
Total assets acquired	61,902
Assumed liabilities:	
Notes payable	(3,570)
Accounts payable and other liabilities	(41)
Total liabilities assumed	(3,611)
Total purchase price	$ 58,291

Subsequent to the original purchase price allocation, impairments of intangible assets were recognized. Please see Note 8 to the condensed consolidated financial statements for a description of the impairments recognized.

The Company incurred approximately $0 in acquisition-related expenses for the three and nine months ended September 30, 2016 and $0 and $219,000 for the three and nine months September 30, 2015, respectively. These costs are included in the consolidated statement of operations in general and administrative operating expenses for the three and nine months ended September 30, 2015.

4. Fair Value Measurements

The following table presents the assets measured at fair value on a recurring basis as of September 30, 2016 (in thousands):

	Total	Level 1	Level 2	Level 3
Assets:				
Cash equivalents	$ 209	$ 209	$ —	$ —
Restricted cash equivalents	400	400	—	—
Total assets at fair value	$ 609	$ 609	$ —	$ —

The following table presents the financial assets measured at fair value on a recurring basis as of December 31, 2015 (in thousands):

	Total	Level 1	Level 2	Level 3
Assets:				
Cash equivalents	$ 1,613	$ 1,613	$ —	$ —
Short-term investments	1,494	1,494	—	—
Restricted cash equivalents	600	600	—	—
Total assets at fair value	$ 3,707	$ 3,707	$ —	$ —

PRISM TECHNOLOGIES GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(unaudited)

4. Fair Value Measurements (continued)

Cash equivalents, short-term investments and restricted cash equivalents include certificates of deposit, money market deposit accounts and money market funds. The carrying value of these cash equivalents, short-term investments and restricted cash equivalents approximates fair value. For these securities, we use quoted prices in active markets for identical assets to determine their fair value and are considered to be Level 1 instruments.

5. Restricted Cash Equivalents

As of September 30, 2016 and December 31, 2015, restricted cash equivalents consisted of $0.4 million and $0.6 million respectively. A portion of the cash equivalents is used as collateral for a letter of credit of the same amount which secures our remaining rent obligations under the office space lease for our former corporate headquarters.

6. Other Assets

Prism owns several life insurance policies (also referred to as “life settlement contracts”). These life settlement contracts were acquired through a broker and are part of the assets we acquired in the Merger. A life settlement contract is the payment of cash to an insured in return for an assignment of ownership or beneficial interest in, and the right to receive the value of, a life insurance policy upon the death of the insured. In 2015, the Company and Prism LLC paid $51,000 in premiums on these life settlement contracts and anticipates paying $38,000 for each of the five succeeding fiscal years to keep the life settlement contracts in force. The reduction in premiums was due to the sale of two life insurance policies mentioned below.

Life settlement contracts are preliminarily recorded at cash surrender value, with premium payments expensed as incurred. The policies are not subject to amortization; however, we analyze the carrying value for the impairment annually. Based upon our analysis, no impairment was noted for the three months ended September 30, 2016. In June and July 2016, two life insurance policies were sold with net proceeds of $26,000 and $11,000 respectively.

Life settlement contracts consist of the following at September 30, 2016 (in thousands):

	September 30, 2016	**December 31, 2015**
Number of individual life insurance policies held	4	6
Aggregate face/maturity value of all policies	$ 1,800	$ 2,200
Cash surrender value of all policies	$ 18	$ 58

7. Intangible Assets

Intangible assets, net, include the following amounts (in thousands):

	September 30, 2016	**December 31, 2015**
Goodwill	$ 54	$ 54
Patent portfolio	34,030	35,819
Covenant not to compete	1,332	1,752
Total goodwill and other intangible assets	35,416	37,625
Accumulated amortization patent portfolio	(18,217)	(12,249)
Accumulated amortization covenant not to compete	(945)	(628)
Total goodwill and other intangible assets, net	$ 16,254	$ 24,748

PRISM TECHNOLOGIES GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(unaudited)

7. Intangible Assets (continued)

Goodwill, the excess of the purchase price paid to former members of Prism LLC over the fair market value of the net assets acquired, in the amount of $0.1 million was recorded as of the Closing Date. We did not have goodwill prior to the acquisition of Prism LLC.

Acquisition-related intangible assets are amortized using the straight-line method over their estimated economic lives from 3 to 4.5 years. As of September 30, 2016, the weighted-average remaining useful life for acquisition-related intangible assets was approximately 1.84 years.

As of September 30, 2016, the Company expects to record $1.9 million in acquisition-related amortization expense for the remaining three months of 2016. In addition, future amortization of acquisition-related intangibles that will be recorded in the Consolidated Statement of Operations is estimated as follows (in thousands):

Year Ended December 31,	
2017	$7,684
2018	5,780
2019	815
2020	—
Thereafter	—
Total	$14,279

8. Impairment of long-lived assets

On the Closing Date, the Company completed its acquisition of Prism pursuant to the terms of the Merger Agreement. Prism was acquired for a purchase price of $58.3 million paid in a combination of cash, stock and potential contingent earn-out payments as discussed further below.

The maximum purchase price, exclusive of the discounting or probability reductions associated with the contingent consideration, is $75.4 million as of the Closing Date. The $75.4 million maximum purchase price is comprised of: (a) $16.5 million in cash ($1.3 million paid at Closing and $15.2 million paid in April, 2015); (b) $9.4 million associated with the issuance of 3.5 million shares of our common stock at Closing; and (c) a total of up to $49.5 million in cash in future contingent consideration.

As previously reported, the Company reassessed the recoverability of the patent assets and recorded the following impairment charges:

In the fourth quarter of 2015, the Company recorded impairment charges of $23.8 million. As a result of the recorded impairment charges, the carrying value of the covenant not to compete and the patent portfolio were decreased by $0.7 million and $22.7 million, respectively. The fair value of the acquired asset was based on estimated future cash flows to be generated from the patent portfolio to be received from Prism by the Company, discounted using a rate commensurate with the risk involved.

Also, as a result of the lower than forecasted revenues, the Company reassessed the contingent consideration liability in connection with this transaction by comparing the estimated future undiscounted cash flows expected to be generated relating to this liability to its carrying amount on the balance sheet as of December 31 2015. As a result of the lower than forecasted undiscounted cash flows, $19.9 million was included in Other Income, Net in the Condensed Consolidated Statements of Income. This represented the difference between the contingent consideration as of the acquisition date and accrued imputed interest compared to the contingent consideration expected to be paid, based upon the estimated future undiscounted cash flows expected to be generated.

PRISM TECHNOLOGIES GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(unaudited)

8. Impairment of long-lived assets (continued)

We also reassessed the contingent consideration liability in connection with this transaction by comparing the estimated future undiscounted cash flows expected to be generated relating to this liability to its carrying amount. As a result of the lower than forecasted revenues, the fair value of the contingent consideration liabilities were adjusted based upon the revised cash flows on the balance sheet as of December 31, 2015 by $19.9 million.

As a result of delays in litigation events in the second quarter of 2016, the Company reassessed the recoverability of the asset recorded in connection with the Merger in accordance with *ASC 360*. The Company determined that the carrying value of the asset was in excess of fair value because the receipt of the forecasted cash flows would likely be delayed. The Company, therefore, recorded impairment charges of $2.2 million in the second quarter of 2016. As a result of the recorded impairment charges, the carrying value of the covenant not to compete and the patent portfolio were decreased by $0.4 million and $1.8 million, respectively. The fair value of the acquired asset was based on estimated future cash flows to be generated from the patent portfolio to be received from Prism by the Company, discounted using a rate commensurate with the risk involved.

The delays in the litigation process noted in the second quarter of 2016 resulted in a reduction of the contingent consideration liability in connection with the Merger by comparing the estimated future undiscounted cash flows expected to be generated relating to this liability to its carrying amount. As a result of the delay in forecasted revenues, the fair value of the contingent consideration liabilities were adjusted by $2.0 million, based upon the deferral of cash flows on the balance sheet as of June 30, 2016.

9. Accrued Expenses

Accrued expenses consist of the following (in thousands)**:**

	September 30,	December 31,

	2016	2015
Accrued lease obligations	$ 86	$ 194
Maxim arbitration award	-	381
Payroll accrual	167	-
Incentive compensation accrual	78	-
Total accrued expenses	$ 331	$ 575

10. Notes payable

As part of the Merger, the Company assumed $3.6 million in two discounted non-interest bearing notes payable due in four semi-annual installments of $1,000,000 from June 2015 to December 2016. The notes include imputed interest of 12% based on management's assumptions about the risk associated with satisfying the payment obligations, including the fact that certain patents serve as security for the notes.

The aggregate maturities of the notes payable as of September 30, 2016 are as follows (in thousands):

Year Ending December 31,	
2016	$3,190
Less imputed interest	(93)
Fair Value	$3,097

The installment payments due on December 31, 2015 and June 30, 2016 have not been paid as of the date of this report. The Company has postponed payments of the note payable based upon permission from the note holder.

PRISM TECHNOLOGIES GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(unaudited)

11. Net Loss Per Share

Basic net loss per share is computed using the weighted-average number of shares of common stock outstanding. Diluted income per share is a measure of the potential dilution that would occur if stock options had been exercised.

The following table reconciles the numerator and denominator used to calculate basic and diluted net loss per share of common stock:

(In thousands, except per share amounts)	Three months ended September 30, 2016	2015	Nine months ended September 30, 2016	2015
Numerator for basic and diluted net loss per share:				
Net loss available to common stockholders	$(2,899)	$(5,032)	$(9,867)	$(11,872)
Denominator for net loss per share:				
Basic and diluted —weighted average shares of common stock outstanding	10,074	10,074	10,074	8,997
Net loss per share:				
Basic and diluted	$(0.29)	$(0.50)	$(0.98)	$(1.32)

Potentially dilutive securities are not included in the diluted net loss calculation, because we had a net loss from operations, net of tax. There were no antidilutive securities to include in the calculation above for employee stock options and non-employee directors to purchase shares for the three and nine months ended September 30, 2016 and for the comparable periods in 2015.

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PRISM TECHNOLOGIES GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(unaudited)

12. Commitments and Contingencies

Leases

We have a non-cancelable 24 month lease though May 15, 2017 for approximately 650 square feet of office space in Folsom, California, which is currently our corporate headquarters. We also have a non-cancelable sixty month lease for approximately 2,200 square feet of office space in Omaha, Nebraska through August 31, 2017.

We have a non-cancelable through February 14, 2017 for approximately 16,000 square feet of office space in a building that housed our headquarters until May 2013. The lease includes negotiated annual increases in the monthly rental payments. On April 16, 2013, we subleased this space for the remainder of our term. The monthly sublease rent is less than our rent obligation to the landlord. As of September 30, 2016, we expect to receive $57,000 from the sub-lessee for the remainder of our lease.

13. Legal Proceedings

On June 23, 2015, Prism won a jury verdict in its patent infringement lawsuit against Sprint Spectrum LP d/b/a Sprint PCS (“Sprint”). At the end of a seven-day trial in Omaha, Nebraska, the jury in the United States District Court (“USDC”) for the District of Nebraska found that Sprint’s network systems and methods infringe multiple claims of Prism’s U.S. Patent Nos. 8,387,155 and 8,127,345. Prism was awarded trial damages of $30 million. No portion of the judgment has been paid by Sprint, and approximately $2 million of post judgment interest has accrued as of the date of this Quarterly Report on Form 10-Q. Sprint has appealed the jury verdict and Prism has appealed the District Court’s ruling that the jury verdict included amounts for future infringement. Briefing for the appeal has concluded and oral argument is scheduled for December 8, 2016.

On October 30, 2015, a jury found that T-Mobile USA, Inc. did not infringe the asserted claims of U.S. Patent Nos. 8,387,155 and 8,127,345. On April 6, 2016, the District Court denied T-Mobile's motion for judgment as a matter of law and its motion for attorney fees; the court also denied Prism's motion for judgment as a matter of law and its motion for a new trial. On July 11, 2016, Prism filed an appeal with the U.S. Court of Appeals for the Federal Circuit, arguing that a new trial is necessary because T-Mobile's non-infringement arguments at trial were improper, highly misleading and contrary to the court's claim construction order. T-Mobile also has appealed, arguing that the patents-in-suit are invalid and requesting attorneys fees.

On July 21, 2016, the U.S. District Court for the Eastern District of Texas held a claim construction hearing in Secure Axcess, LLC v. HP Enterprise Services, LLC. The parties participated in a mediation on November 9, 2016, which has resulted in a settlement of the litigation. The Company does not expect the settlement to have a material impact on our cash position or results of operations.

14. Equity and Stock Options

As of September 30, 2016, there was $116,000 in unrecognized compensation cost for all stock options outstanding under the Company's stock option plans. A portion of the unrecognized compensation cost relates to options to purchase 500,000 shares of common stock to five executive officers of Prism LLC under employment agreements executed in connection with the Merger. The exercise price of all of the options granted to the executive officers of Prism LLC is $2.68. One-half of the options granted to each such executive officer is serviced based and vest as follows: (i) 33.33% will vest upon the first anniversary of the first date of employment, and (ii) 1/24 of the remaining 66.67% will vest at the end of each of the 24 months following such anniversary, so long as the individual remains employed pursuant to the terms of his or her employment agreement.

PRISM TECHNOLOGIES GROUP, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

(unaudited)

14. Equity and Stock Options (continued)

The remaining one-half of the options granted to the five Prism LLC officers are performance based and vest as follows: (i) 33.33% will vest upon the first anniversary of the first date of employment based on achievements measured against financial targets for such period; (ii) 33.33% will vest upon the second anniversary of the first date of employment based on achievements measured against financial targets for the second year of employment; and (iii) 33.34% will vest upon the third anniversary of the first date of employment based on achievements measured against financial targets for the third year of employment. The employee must remain employed for the service based and performance based options to vest; however, all unvested options will immediately vest upon: (A) termination of such person's employment without good cause; or (B) the occurrence of a change of control as defined in such person's employment agreement.

On June 11, 2015, the Company granted 72,500 performance based stock options, 72,500 service based stock options and 70,000 stock options which vested immediately, to members of management. The service based stock options vest 33% after one year and ratably over the next two years. The performance based stock options vest annually, if financial targets are met.

For the performance based options noted above, in accordance with ASC 718 *"Compensation – Stock Compensation."*, a performance condition must be met for the award to vest and compensation cost will be recognized only if the performance condition is satisfied. The performance based option vesting criteria uses a tiered vesting structure between 0% to 100% based upon a comparison of annual licensing and enforcement outcomes to an annual target approved by the Company's board of directors. The 2016 and 2017 financial targets have not been set by the Company's board of directors, therefore no compensation costs are required to be recorded. When we are able to assess the probability of achieving target levels, the fair value will be calculated at that time. As of September 30, 2016, 50% of the 2015 performance-based options have been vested.

The 2008 Stock Option Plan provides that each non-employee director receive a fully-vested option to purchase 5,000 shares of common stock on July 1st (or the first business day thereafter) of each year in which the director remains in office. Pursuant to the Option Plan, on July 1, 2015, fully-vested options to purchase 5,000 shares of common stock were granted to each of the three non-employee directors with an exercise price of $3.06.

The Company recognized $19,000 and $57,000 in stock compensation expense for the three and nine months ended September 30, 2016, respectively, and $32,000 and $127,000 for the comparable periods in 2015.

During the three and nine months ended September 30, 2016 and 2015 there were no common share issuances associated with the exercise of stock options. The Company has reserved common shares for issuance in conjunction with the issuance of options underlying the Company's stock option plans.

15. Subsequent Event.

On November 9, 2016, the Company was notified by Nasdaq that, due to the passing of Mr. Thomas Orr, the Company no longer complies with Nasdaq's independent director and audit committee requirements set forth in Listing Rule 5605. However, consistent with Listing Rules 5605(b)(1)(A) and 5605(c)(4), Nasdaq has provided the Company a cure period in order to regain compliance as follows:

- until the earlier of the Company's next annual shareholders' meeting or October 27, 2017; or
- if the next annual shareholders' meeting is held before April 25, 2017, then the Company must evidence compliance no later than April 25, 2017.

In the event the Company does not regain compliance by this date, Nasdaq rules require Staff to provide written notification to the Company that its securities will be delisted. At that time, the Company may appeal the delisting determination to a hearings panel.

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

This Quarterly Report on Form 10-Q, and in particular Management's Discussion and Analysis of Financial Condition and Results of Operations, contains "forward-looking statements" with respect to ours future financial performance. The words or phrases "expects," "anticipates," "intends," "plans," "believes," "seeks," "estimates," and similar expressions are generally intended to identify forward-looking statements. Such forward-looking statements are subject to various known and unknown risks and uncertainties, and we caution you that any forward-looking information provided by, or on behalf of, us is not a guarantee of future performance. Actual results could differ materially from those anticipated in such forward-looking statements due to a number of factors, some of which are beyond our control, including, but not limited to, our ability to generate revenues from our business model; our ability to effectively and efficiently manage patent infringement litigation we initiate; the unpredictable nature of patent licensing and patent litigation; the risk that one or more of our patents will be declared invalid; the potential loss of key employees critical to the ongoing success of our business; potential adverse changes in the laws and regulations relating to patents and patent litigation; the risk that the combined company created by the Prism LLC acquisition will not be profitable and the possibility that the expected value creation from the Prism LLC acquisition will not be realized or will not be realized within the expected time period; and changes in the taxation of the combined company's income due to the disallowance or expiration of our net operating losses . These risks and uncertainties, as well as other risks and uncertainties, which are described in greater detail in our Annual Report on Form 10-K for the year ended December 31, 2015 and other documents filed with the Securities and Exchange Commission, could cause the Company's actual results to differ materially from historical results or those currently anticipated. All forward-looking statements are based on information available to us on the date hereof, and we assume no obligation to update such statements.

Overview

Our business consists of licensing and enforcing a portfolio of patents. On March 26, 2015, we completed a merger with Prism Technologies, LLC ("Prism LLC"), with Prism LLC becoming a wholly-owned subsidiary of the Company (the "Merger"). Prism LLC also operates a patent licensing and enforcement business. We and our subsidiaries own a portfolio of nine patent families with over 50 issued patents and patent applications in the areas of computer and network security, semiconductors and medical technology. In September 2015, we changed our name to Prism Technologies Group, Inc. to better reflect the operations of the combined companies.

In the Merger, Prism LLC's former security owners received an aggregate of $16.5 million in cash and 3.5 million shares of our common stock. Subject to certain conditions, we have also agreed to make future earnout payments to former Prism LLC security holders. An "Earnout Event" is defined as receipt by Prism of any amount more than $16.5 million, minus the cash balance of Prism LLC as of closing (the "Sharing Threshold"), in "Prism patent proceeds" from lawsuits filed by Prism LLC on or prior to the closing date of the Merger. Prism patent proceeds include total cash recoveries from litigation or settlement, royalties, license fees and proceeds from patent sales actually received by Prism in connection with its business minus costs, expenses and fees associated with the production of such revenue (including sales commissions, attorney contingency fees, expert fees and deferred purchase amounts paid to third parties)   minus Prism LLC cash operating expenses other than amortization and other noncash expenses for the applicable measurement period. Upon the occurrence of an Earnout Event, an earnout payment in cash equal to 70% of the amount of Prism patent proceeds exceeding the Sharing Threshold shall be paid to the former Prism LLC members, provided, however, that the aggregate amount of such earnout payments, including certain permitted pre-closing distributions, shall not exceed $55 million. As of March 25, 2015, such permitted pre-closing distributions were approximately $5.5 million, resulting in a maximum potential earnout payment of approximately $49.5 million.

Results of Operations

Revenues, Cost of Revenues and Gross Margin

(in thousands, except percentages)	Three months ended September 30, 2016	2015	Percentage change from prior period
Revenues	$ -	$ 700	nm
Cost of revenues	-	210	nm
Gross margin	$ -	$ 490	

Operating Expenses (in thousands, except percentages)	Three months ended September 30, 2016	2015	Percentage change from prior period
General and administrative	$924	$986	(6%)
Depreciation and amortization	1,920	4,246	(55%)

Revenues, Cost of Revenues and Gross Margin

	Nine months ended September 30,	Percentage change from

(in thousands, except percentages)	2016	2015	prior period
Revenues	$ -	$ 700	nm
Cost of revenues	-	210	nm
Gross margin	$ -	$ 490	

Operating Expenses	Nine months ended September 30,		Percentage change from prior period
(in thousands, except percentages)	2016	2015	
General and administrative	$3,014	$2,974	1%
Depreciation and amortization	6,285	8,772	(28%)

Revenues. We did not generate revenues during the third quarter of 2016. Other than a one-time payment in 2015, our patent licensing and enforcement business has not generated any revenues. We expect that the timing and amount of future revenues from the patent licensing business, if any, will be unpredictable because of the significant uncertainty associated with patent licensing and patent enforcement litigation.

Results of Operations (continued)

General and Administrative. General and administrative expenses consist primarily of payroll and related expenses, including employee benefits, facility costs, accounting and legal services and insurance for our general management, administrative and accounting personnel, as well as other general corporate expenses. General and administrative expenses for the three months ended September 30, 2016 decreased slightly to $0.9 million from $1.0 million. The decrease was primarily due to decreases in legal expenses of $0.2. million, offset by an increase in incentive compensation related expenses of $0.1 million. General and administrative expenses for the nine months ended September 30, 2016 were relatively the same from the comparable period in 2015. The Company's operating initiatives are focused on preserving cash. The Company, therefore, expects general and administrative expenses for the remainder of 2016 to increase due to non-cash expenses, including amortization, and accruals for incentive compensation.

Depreciation and amortization. Depreciation and amortization expenses consisted of amortization of intangible assets. Depreciation and amortization expense for the three months ended decreased to $1.9 million from $4.2 million. The decrease was primarily due to a reduction in the value of intangible assets from impairment charges of $2.2 million and $23.8 million in 2016 and 2015 respectively. Depreciation and amortization expense for the nine months ended September 30, 2016 decreased slightly from $8.8 million to $6.3 million, due to the impairment charges mentioned above. Significant amortization expenses are expected for the remainder of 2016 and beyond.

Other Income. Other income was $11,000 and $2.1 million for the three and nine months ended September 30, 2016 as compared to $3,000 and $12,000 for the comparable period in 2015. For the nine months ended September 30, 2016, as a result of the delay in timing we reassessed the contingent consideration liability in connection with this transaction by comparing the estimated future undiscounted cash flows expected to be generated relating to this liability to its carrying amount. As a result of the delay in forecasted revenues, the fair value of the contingent consideration liabilities were adjusted by $2.0 million based upon the deferral of cash flows on the balance sheet as of September 30, 2016. We recorded this decrease as other income. In June and September 2016, life insurance policies were also sold with net proceeds of $37,000 recognized as other income. Other income for the three and nine months ended September 30, 2016 and 2015 also consisted of interest earned on our investment portfolio of cash, cash equivalents and short-term investments. We expect that other income will consist entirely of returns received from our investment portfolio in the near future, which will be negligible given the conservative nature of our investment policy and the current economic conditions in the United States.

Interest Expense. Interest expense was $0.2 million and $0.5 million for the three and nine months ended September 30, 2016 as compared to $0.3 million and $0.6 million for the comparable periods in 2015. For the three and nine months ended September 30, 2016 interest expense consisted of imputed interest related to assuming certain debt from Prism LLC in the Merger and imputed interest associated with the contingent consideration agreed to in the Merger agreement. Additional information related to the Merger is included in Notes 3 and 7. We expect that interest expense will be significant over the next several years as a result of the interest on the note payable and imputed interest on the earnout.

Income Taxes. We recognized an income tax benefit of $101,000 for the three and nine months ended September 30, 2016. We recognized no expense for, and did not receive a benefit from income taxes for the three and nine months ended September 30, 2015.

Results of Operations (continued)

Significant Events During the Quarter Relating to Our Patent Licensing Business

On June 23, 2015, Prism won a jury verdict in its patent infringement lawsuit against Sprint Spectrum LP d/b/a Sprint PCS (“Sprint”). At the end of a seven-day trial in Omaha, Nebraska, the jury in the United States District Court (“USDC”) for the District of Nebraska found that Sprint’s network systems and methods infringe multiple claims of Prism’s U.S. Patent Nos. 8,387,155 and 8,127,345. Prism was awarded trial damages of $30 million. No portion of the judgment has been paid by Sprint, and approximately $2 million of post judgment interest has accrued as of the date of this Quarterly Report on Form 10-Q. Sprint has appealed the jury verdict, and Prism has appealed the District Court’s ruling that the jury verdict included amounts for future infringement. Briefing for the appeal has concluded and oral argument is scheduled for December 8, 2016.

On October 30, 2015, a jury found that T-Mobile USA, Inc. did not infringe the asserted claims of U.S. Patent Nos. 8,387,155 and 8,127,345. On April 6, 2016, the District Court denied T-Mobile’s motion for judgment as a matter of law and its motion for attorney fees; the court also denied Prism’s motion for judgment as a matter of law and its motion for a new trial. On July 11, 2016, Prism filed an appeal brief with the U.S. Court of Appeals for the Federal Circuit, arguing that a new trial is necessary because T-Mobile’s non-infringement arguments at trial were improper, highly misleading and contrary to the court’s claim construction order. T-Mobile has also appealed, arguing that the patents-in-suit are invalid and requesting attorneys fees.

On July 21, 2016, the U.S. District Court for the Eastern District of Texas held a claim construction hearing in Secure Axcess, LLC v. HP Enterprise Services, LLC. The parties participated in a mediation on November 9, 2016, which has resulted in a settlement of the litigation. The Company does not expect the settlement to have a material impact on our cash position or results of operations.

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2014-09, Revenue from Contracts with Customers, which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The ASU will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective. The new standard is effective for annual reporting periods beginning after December 15, 2017. The standard permits the use of either the retrospective or cumulative effect transition method. We are evaluating the effect that ASU 2014-09 will have on our Condensed Consolidated Financial Statements and related disclosures. We have not yet selected a transition method nor have we determined the effect of the standard on our ongoing financial reporting.

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Recent Accounting Pronouncements (continued)

On January 9, 2015, the FASB unanimously voted to approve Accounting Standards Update (ASU) 2015-01, which eliminates the concept of extraordinary items in an entity's income statement. The changes in ASU 2015-01 are effective for fiscal years beginning after December 15, 2015 and interim periods within those fiscal years. Early adoption is permitted provided that the guidance is applied from the beginning of the fiscal year of adoption. The adoption of this standard did not have a material effect on the Company.

In April 2015, the FASB issued ASU 2015-03, Interest - Imputation of Interest (Topic 835-30), which requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by this ASU. In August 2015, the FASB issued ASU 2015-15, which clarified that debt issuance costs related to line-of-credit arrangements could continue to be presented as an asset and be subsequently amortized over the term of the line-of-credit arrangement, regardless of whether there are any outstanding borrowings on the arrangement. The requirements will be effective for annual periods (and interim periods within those annual periods) beginning after December 15, 2015, and will require retrospective application. Early adoption is permitted. The adoption of this standard did not have a material effect on the Company.

In September 2015, the FASB issued ASU 2015-16, Business Combinations (Topic 805): Simplifying the Accounting for Measurement-Period Adjustments. ASU 2015-16 eliminates the requirement that an acquirer in a business combination account for measurement-period adjustments retrospectively. Instead, an acquirer will recognize a measurement-period adjustment during the period in which it determines the amount of the adjustment. The guidance is effective for public business entities for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. For all other entities, it is effective for fiscal years beginning after December 15, 2016. The adoption of this standard did not have a material effect on the Company.

In June 2014, the FASB issued guidance that applies to all reporting entities that grant their employees share-based payments in which the terms of the award provide that a performance target that affects vesting could be achieved after the requisite service period. It requires that a performance target that affects vesting and that could be achieved after the requisite service period be treated as a performance condition and follows existing accounting guidance for the treatment of performance conditions. The standard will be effective for annual periods and interim periods within those annual periods beginning after December 15, 2015, with early adoption permitted. The adoption of this standard did not have a material effect on the Company.

In March 2016, the FASB issued ASU 2016-09, *Compensation - Stock Compensation* (Topic 718)*: Improvements to Employee Share-Based Payment Accounting*, related to simplifications of employee share-based payment accounting. This pronouncement eliminates the APIC pool concept and requires that excess tax benefits and tax deficiencies be recorded in the income statement when awards are settled. The pronouncement also addresses simplifications related to statement of cash flows classification, accounting for forfeitures, and minimum statutory tax withholding requirements. The pronouncement is effective for annual periods (and for interim periods within those annual periods) beginning after December 15, 2016. The Company is currently evaluating the potential impact, if any, to its Consolidated Financial Statements and related disclosures.

Critical Accounting Policies

The discussion and analysis of our financial condition and results of operations are based on our consolidated financial statements which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. We base our estimates and judgments on historical experience and on various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. We believe the following critical accounting policies affect our more significant judgments and estimates used in the preparation of its consolidated financial statements.

Revenue recognition. In general, patent licensing arrangements are expected to provide for the payment of contractually determined fees in consideration for the grant of certain intellectual property rights for patented technologies owned or controlled by the Company. Complex revenue arrangements may require significant judgments, assumptions and estimates about when substantial delivery of contract elements will occur, whether any significant ongoing obligations exist subsequent to contract execution, whether collectability is reasonably assured and determination of the appropriate period in which the completion of the earning process occurs.

The Company recognizes revenue when (i) persuasive evidence of a contractual arrangement between the Company and the licensee exists, which create legally enforceable rights and obligations, (ii) delivery of the licensee agreement was provided to the licensee, based upon the point at which control of license transfers to the licensee, (iii) the price to the licensee was fixed or determinable, represents the amount of consideration to which the Company expects to be entitled in exchange for transferring the promised licensee agreement to a licensee and (iv) collectability of consideration to which the Company is entitled to is reasonably assured.

Assessment of Impairment of Goodwill, Intangibles, and Other Long-Lived Assets. Current accounting standards require that we assess the recoverability of our finite lived acquisition-related intangible assets and other long-lived assets whenever events or changes in circumstances indicate the remaining value of the assets recorded on our Consolidated Balance Sheets is potentially impaired. In order to determine if a potential impairment has occurred, management must make various assumptions about the estimated fair value of the asset by evaluating future business prospects and estimated future cash flows. For some assets, our estimated fair value is dependent upon predicting which of our products will be successful. This success is dependent upon several factors, such as which operating platforms will be successful in the marketplace. Also, our revenue and earnings are dependent on our ability to meet our product release schedules. Judgments and assumptions about future cash flows and remaining useful lives are complex and often subjective. They can be affected by a variety of factors, including but not limited to, significant negative industry or economic trends, significant changes in the manner of our use of the assets or the strategy of our overall business and significant under-performance relative to projected future operating results. When we consider such assets to be impaired, the amount of impairment we recognize is measured by the amount by which the carrying amount of the asset exceeds its fair value.

In assessing impairment on our goodwill, we first analyze qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test. The qualitative factors we assess include long-term prospects of our performance, share price trends and market capitalization, and Company specific events. If we conclude it is more likely than not that the fair value of a reporting unit exceeds its carrying amount, we do not need to perform the two-step impairment test. If based on that assessment, we believe it is more likely than not that the fair value of the reporting unit is less than its carrying value, a two-step goodwill impairment test will be performed. The first step measures for impairment by applying fair value-based tests at the reporting unit level. The second step (if necessary) measures the amount of impairment by applying fair value-based tests to the individual assets and liabilities within each reporting unit. Reporting units are determined by the components of operating segments that constitute a business for which (1) discrete financial information is available, (2) segment management regularly reviews the operating results of that component, and (3) whether the component has dissimilar economic characteristics to other components.

Critical Accounting Policies (continued)

Income Taxes. Under the asset and liability method prescribed under ASC 740, "*Income Taxes*", we recognize deferred tax assets and liabilities for the future tax consequences attributable to differences between financial statement carrying amounts of assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be realized or settled.

For those benefits to be recognized, a tax position must be more-likely-than-not to be sustained upon examination by taxing authorities. At September 30, 2016 and September 30, 2015, we had unrecognized tax benefits of approximately $0.2 million and $0.3 million, respectively (none of which, if recognized, would affect our effective tax rate). We do not believe there will be any material changes in our unrecognized tax positions over the next twelve months.

For tax return purposes, we had net operating loss carry forwards at September 30, 2016 of approximately $156.8 million and $22.1 million for federal income tax and state income tax purposes, respectively. Included in these amounts are unrealized federal and state net operating loss deductions resulting from stock option exercises of approximately $10.3 million each. The benefit of these unrealized stock option-related deductions has not been included in deferred tax assets and will be recognized as a credit to additional paid-in capital when realized. Federal and state net operating loss carry forwards began expiring in 2019 and 2015, respectively.

The carrying value of our deferred tax assets, which was approximately $61.0 million at September 30, 2016, is dependent upon our ability to generate sufficient future taxable income. We have established a full valuation allowance against our net deferred tax assets to reflect the uncertainty of realizing the deferred tax benefits, given historical losses. A valuation allowance is required when it is more likely than not that all or a portion of a deferred tax asset will not be realized. This assessment requires a review and consideration of all available positive and negative evidence, including our past and future performance, the market environment in which we operate, the utilization of tax attributes in the past, and the length of carryforward periods and evaluation of potential tax planning strategies. We expect to continue to maintain a full valuation allowance until an appropriate level of profitability is sustained or we are able to develop tax strategies that would enable us to conclude that it is more likely than not that a portion of our deferred tax assets would be realizable.

Critical Accounting Policies (continued)

The discussion and analysis of our financial condition and results of operations are based on our consolidated financial statements which have been prepared in accordance with accounting principles generally accepted in the United

States. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. We base our estimates and judgments on historical experience and on various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. We believe the following critical accounting policies affect our more significant judgments and estimates used in the preparation of its consolidated financial statements.

Liquidity and Capital Resources

Summarized cash flow information is as follows (in thousands):

	Nine months ended September 30,	
	2016	**2015**
Cash used in operating activities	$(3,053)	$(3,344)
Cash provided by (used) in investing activities	1,694	(15,931)
Cash used in financing activities	-	(1,000)

At September 30, 2016, our principal source of liquidity was $0.4 million in cash and cash equivalents. We adhere to an investment policy with minimal market or settlement risk with our current holdings. There are no restrictions or limitations regarding access to the $1.1 million in cash and cash equivalents. Since inception, we have financed operations primarily through the sale of preferred and common stock and cash flow from operations.

As detailed in the September 30, 2016 balance sheet and Note 10 to the condensed consolidated financial statements, we have significant debt payments due in conjunction with the debt that we assumed as part of its Merger with Prism LLC. We also expect to incur significant outflows of cash associated with the earnout to the former owners of Prism LLC, but these payments are required only if future revenues generated by Prism's patent portfolio exceed $16.5 million. Please see Note 3 to the condensed consolidated financial statements for a description of the contingent consideration.

For the nine months ended September 30, 2016, net cash used in operating activities was $3.1 million, primarily consisting of our net loss of $10.0 million, gain on reduction of contingent consideration of $2.0 million and an decrease to accrued expenses of $0.3 million, offset by amortization of intangibles of $6.3 million, impairment of long-lived assets of $2.2 million, imputed interest on notes payable and contingent consideration of $0.3 million and $0.2 million respectively, prepaid expenses and other assets of $0.1 million and stock-based compensation of $0.1 million. .

For the nine months ended September 30, 2015, net cash used in operating activities was $3.3 million, primarily consisting of our net loss of $11.9 million and cash used of $1.0 million, primarily due to a decrease in accounts payable, an increase in prepaid and other assets and a decrease in accrued expenses, offset by amortization of intangibles of $8.8 million, imputed interest on contingent consideration and notes payable of $0.6 million and stock-based compensation of $0.1 million.

For the nine months ended September 30, 2016, net cash provided by investing activities was $1.7 million, due to redemptions of short-term investments of $1.5 million and redemptions of restricted cash equivalents of $0.2 million.

For the nine months ended September 30, 2015, net cash used in investing activities was $15.9 million, due to purchase of Prism LLC, net of cash acquired for $16.1 million, offset by redemptions of restricted cash equivalents of $0.2 million.

For the nine months ended September 30, 2015, net cash used in financing activities was $1.0 million, due to an installment payment due on June 30, 2015.

We have a non-cancelable 24 month lease though May 15, 2017 for approximately 650 square feet of office space in Folsom, California, which is currently our corporate headquarters. We also have a non-cancelable 60 month lease for approximately 2,200 square feet of office space in Omaha, Nebraska through August 31, 2017.

Liquidity and Capital Resources (continued)

We have a non-cancelable lease through February 14, 2017 for approximately 16,000 square feet of office space in a building that housed our corporate headquarters until May 2013. The lease includes negotiated annual increases in the monthly rental payments. On April 16, 2013, we subleased this space for the remainder of our term. The monthly sublease rent is less than our rent obligation to the landlord. As of September 30, 2016, we expect to receive $57,000 from the sub-lessee for the remainder of our lease.

Future minimum lease commitments, as of September 30, 2016 are summarized as follows (in thousands):

Years ending December 31	**Future minimum lease commitments**
2016	$ 105
2017	99
	$ 204

The aggregate maturities of the note payable are as follows (in thousands):

Year Ending December 31,	
2016	$3,190
Less imputed interest	(93)
Fair value	$3,097

The installment payments due on December 31, 2015 and June 30, 2016 have not been paid as of the date of this report. The Company has postponed payments of the note payable based upon permission from the note holder.

We currently anticipate that our cash and cash equivalents may not be sufficient to meet anticipated cash needs to fund operations and capital expenditures for at least the next 12 months. We have implemented certain initiatives to preserve cash, including a previously reported reduction in the salaries for executive officers and cash retainers for non-employee board members. We expect to receive approximately $350,000 in February 2017 from the release of the security deposit relating to our former headquarters in Rancho Cordova, CA. In addition to the expenses associated with the patent licensing business, such as salaries and overhead, we have notes payable of $3.1 million, which are due in 2016. Moreover, we cannot estimate when we will receive revenues from our operations due to the uncertainty associated with patent litigation. Unless we are able to restructure our long term liabilities, substantially reduce our operating expenses, or receive revenues, we anticipate that our cash will be insufficient to fund our operations past the fourth quarter of 2016. Accordingly, we have initiated discussions with various third parties about potential financing alternatives, including a non-recourse financing alternative based on the outcome of specific patent infringement activities. But there can be no assurance that these discussions will be successful. If additional funds were raised through the issuance of equity securities, the percentage ownership of the Company's then-current stockholders would be reduced. In addition, issuance of a significant number of new shares of our common stock could result in an ownership change under Section 382 of the Code, resulting in a substantial reduction in the usability of NOLs. If we are unable to raise capital on acceptable terms, we may need to cease operations and, as a result, investors could lose their investment.

ITEM 4. CONTROLS AND PROCEDURES

(a) Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we evaluated the effectiveness of our disclosure controls and procedures, as such term is defined under Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amended. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of the end of the period covered by this quarterly report.

(b) There has been no change in the Company’s internal control over financial reporting during the quarter ended September 30, 2016 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

We and our operating subsidiaries are often required to engage in litigation to enforce our patents and patent rights. Please see Item 2 “Management’s Discussion And Analysis Of Financial Condition And Results Of Operations”, for a description of the significant patent litigation events involving the Company and its subsidiaries during the quarter.

In the ordinary course of business, we are the subject of, or party to, various pending or threatened legal actions, including various counterclaims in connection with our patent enforcement activities. A defendant also may request and/or a court may rule that we have violated statutory authority, regulatory authority, federal rules, local court rules, or governing standards relating to the substantive or procedural aspects of such patent enforcement actions. In such event, a court may issue monetary sanctions against us or our operating subsidiaries or award attorney’s fees and/or expenses to a defendant(s), which could be material, and if required to be paid by us or our operating subsidiaries, could materially harm our operating results and our financial position.

ITEM 1A. RISK FACTORS

Risks Related to Our Business

There is substantial doubt about our ability to continue as a going concern.

The financial statements presented in this report have been prepared under the assumption that the Company will continue to operate as a going concern, which contemplates the realization of assets and the settlement of liabilities in the normal course of business. The consolidated financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts of liabilities that may result from uncertainty related to the Company's ability to continue as a going concern.

Our patent licensing business has generated minimal revenues and we have relied on our cash and investments to fund our operations. As of September 30, 2016 our cash and cash equivalents totaled $0.4 million. In addition to the expenses associated with the patent licensing business, such as salaries and overhead, we have notes payable of $3.1 million, which are due in 2016. We have implemented certain initiatives to preserve cash and we have discussed restructuring our long term liabilities with the note holder, but there can be no assurance that the discussions will be successful. We cannot estimate when we will receive revenues from our operations due to the uncertainty associated with patent litigation. As a result, we anticipate that our cash will be insufficient to fund our operations through year end 2016. Accordingly, we have initiated discussions with various third parties about potential financing alternatives, including a non-recourse alternative based on the outcome of specific patent infringement litigation, but there can be no assurance that these discussions will be successful. If additional funds were raised through the issuance of equity securities, the percentage ownership of the Company's then- current stockholders would be reduced. In addition, issuance of a significant number of new shares of our common stock could result in an ownership change under Section 382 of the Code, resulting in a substantial reduction in the usability of NOLs. If we are unable to raise capital on acceptable terms, we may need to cease operations and, as a result, investors could lose their investment.

Our revenues are unpredictable.

In 2015, we received a one-time payment in the amount of $700,000 in connection with our patent licensing and enforcement business. Other than this $700,000 payment, we have not generated any revenues since the closing of our asset sale to Bankrate, Inc. on December 21, 2011. We expect that future revenues from the patent licensing business, if any, will be unpredictable because of the significant uncertainty associated with patent licensing and patent enforcement litigation. In addition, defendants will often choose to appeal an adverse damage award, which will delay our receipt of revenue. For example, a jury awarded our subsidiary, Prism Technologies, LLC, $30 million in a patent infringement suit against Sprint Spectrum, LP. No amount has been paid as of the date of this report and the case has been appealed. We will continue to incur salary, legal and other expenses of operating our business and our results of operations and financial condition will be materially, adversely affected if we fail to effectively manage overhead costs associated with patent licensing and enforcing patented technologies, become involved in expensive litigation or settlement proceedings (which may or may not have successful outcomes) or the patent licensing business does not perform to our expectations.

If the validity of any of our patents is challenged, our business may be harmed.

The success of the patent licensing business will depend on our ability to generate royalty fees from licensing technology. It is possible, however that one or more of our patents might be declared invalid if challenged. These challenges to the validity of our patents may be made by defendants in the course of litigation or by requesting a reexamination before the USPTO. Several of our patents have been subject to inter partes review or covered business methods proceedings before the USPTO. A final determination that some or all of the patent claims are not patentable might mean that we would be unable to pursue and generate further licensing revenues for that patent. For example, on July 24, 2015, the Court of Appeals for the Federal Circuit upheld a trial court's determination that our Dynamic Tabs patent did not meet the requirements for patent eligible subject matter. We did not appeal the Federal Circuit's decision and the four cases involving the Dynamic Tabs patent have been terminated. Even if the claims in our patents are upheld as valid, we may incur significant legal and expert fees and costs in the litigation and/or the reexamination process, which may take several years to conclude and delay revenues. In addition, proceedings before the USPTO challenging the patentability of claims in previously issued patents are becoming more common and defendants may also use the pendency of any such action to delay or otherwise impair any pending litigation to enforce our patents.

Even if our patents are determined to be valid, third parties may choose to alter their business operations rather than pay us an on-going royalty.

We believe that our patents represent unique technologies that a wide range of third parties have or will find valuable to their operations. Nevertheless, we expect that litigation will often be needed to recover damages for past infringement of our patent rights and to incentivize the defendant to accept a license and pay royalties for future use of the technology. Defendants may, however, choose to modify their operations to work around the claims covered by our patents. In that case, such defendants would not pay us royalties for future use and our business, financial condition, results of operations and future prospects may be adversely affected.

We and our potential licensees serve markets that frequently undergo transitions in which products rapidly incorporate new features and performance standards on an industry-wide basis. As a result, our ability to prevent such workarounds by a defendant and to remain competitive in the future will depend on our ability to identify and ensure compliance with evolving industry standards.

Our success depends in part upon our ability to retain qualified legal counsel to represent us in licensing efforts and patent enforcement litigation.

The success of our patent licensing business depends upon our ability to retain qualified legal counsel to represent us in our patent enforcement activities. As such patent enforcement actions increase, it may become more difficult to find qualified legal counsel to handle all of our cases because legal counsel at larger law firms may have a conflict of interest with other clients, while legal counsel at smaller law firms may not have the resources to handle multiple lawsuits. In addition, contingency fee arrangements, although common in patent enforcement litigation, require legal counsel to be willing to devote substantial time to the case based on an expectation of a successful outcome. Accordingly, the Company must spend considerable time and resources evaluating a potential infringement case before it will be accepted by a law firm on a contingency basis.

We are dependent on certain key personnel, and the loss of such key personnel, could have a material adverse effect on our business, financial condition and results of operations.

The success of our patent licensing and enforcement business largely depends on the skills, experience and efforts of key personnel, many of whom are highly skilled and would be difficult to replace. We have entered into three-year employment agreements and non-competition agreements with four Prism employees, but these agreements cannot guarantee their continued employment with us. For a variety of reasons, including our financial condition and the salary reductions we implemented, a key employee could terminate his or her employment with us. The loss of any of our senior management or other key personnel could harm our ability to implement our business strategy and respond to the rapidly changing market conditions in which we operate. Our future success will depend to a significant extent on the ability of these executives to effectively drive execution of our business strategy, and on the ability of our management team to work together effectively.

As patent enforcement litigation becomes more prevalent, it may become more difficult for us to voluntarily license our patents to other entities.

In 2015, the number of new patent cases increased 15% over the prior year. We believe that the more prevalent patent enforcement actions become, the more difficult it will be for us to license our patents to other entities on a voluntary basis. As a result, we may need to increase the number of our patent enforcement actions, resulting in increased expenses and delays in generating revenue.

Trial judges and juries often find it difficult to understand complex patent enforcement litigation, and as a result, we may need to appeal adverse decisions by lower courts in order to successfully enforce our patents.

It is difficult to predict the outcome of patent enforcement litigation at the trial level because juries and trial judges may find it hard to understand complex, patented technologies. As a result, there is a higher rate of successful appeals in patent enforcement litigation than other business litigation. Such appeals are expensive and time-consuming and result in increased costs and delayed revenue. Although we may diligently pursue enforcement litigation, we cannot predict with significant reliability the decisions made by juries and trial courts.

Our acquisition of patent portfolios may not be successful.

A substantial portion of the patent assets of Prism and its subsidiaries were acquired from third parties. We expect to continue to build our patent portfolio by acquisitions from third parties. The terms of any acquisition may require us to pay cash upfront, share a portion of future licensing proceeds, or both. Such acquisitions are subject to numerous risks, including the following:

our inability to enter into a definitive agreement with respect to any potential acquisition, or if we are able to enter into such agreement, our inability to consummate the potential acquisition

difficulty in accurately forecasting financial and other benefits of the specific acquisition

diversion of our management's attention from other business concerns and

failure of our due diligence process to identify significant issues with respect to patented technologies and patent portfolios, and other legal and financial contingencies.

Analyzing the validity and enforceability of patents is a complex and uncertain process and there can be no assurance that a patent that is acquired will produce positive returns on the investment.

We may, in certain circumstances, rely on representations, warranties and opinions made by third-parties that, if determined to be false or inaccurate, may expose it to certain material liabilities.

We may rely upon representations and warranties made by third parties from whom we acquire patents or the exclusive rights to license and enforce patents. We may also rely upon the opinions of purported experts. In certain instances, we may not have the opportunity to independently investigate and verify the facts upon which such representations, warranties and opinions are made. By relying on these representations, warranties and opinions, we may be exposed to liabilities in connection with the licensing and enforcement of certain patents and patent rights which could have a material adverse effect on our operating results and financial condition.

Our patent licensing and enforcement activities are time-consuming and require significant management and financial resources.

Our patent licensing and enforcement activities could continue for years and consume significant financial and management resources. The counterparties to our licensing and enforcement activities may be large, well-financed companies with substantially greater resources than us. We cannot predict with any certainty the outcome of our licensing and enforcement efforts. In addition, even if we obtain favorable interim rulings or verdicts in particular litigation matters, such rulings may not be predictive of the ultimate resolution of the dispute. Also, we may become subject to claims or sanctions which may be costly or impossible to defend. Unfavorable or adverse outcomes may result in losses, exhaustion of our financial resources or other adverse effects which could adversely impact our ability to generate revenues.

Federal courts are becoming more crowded, and as a result, patent enforcement litigation is taking longer.

If we are required to litigate to enforce our patented technologies, our patent enforcement actions will be almost exclusively prosecuted in federal court. Federal trial courts that hear patent enforcement actions also hear criminal cases, which will take priority over patent enforcement actions. As a result, it is difficult to predict the length of time it will take to complete an enforcement action. Moreover, we believe an increasing number of civil lawsuits and criminal proceedings are coming before federal judges, increasing the risk of delays in patent enforcement actions which may in turn have an adverse effect on our business.

Our business and operations could suffer in the event of security breaches.

Attempts by others to gain unauthorized access to information technology systems are becoming more sophisticated. While we have not identified any material incidents of unauthorized access to date, the theft, unauthorized use or publication of our intellectual property or confidential business or personal information could harm our competitive or negotiating positions, reduce the value of our investment in research and development and other strategic initiatives, compromise our patent enforcement strategies or outlook, damage our reputation or otherwise adversely affect our business. In addition, to the extent that any future security breach results in inappropriate disclosure of our employees', licensees' or customers' confidential or personal information, we may incur liability or additional costs to remedy any damages caused by such breach. We could also be impacted by existing and proposed laws and regulations, as well as government policies and practices related to cybersecurity, privacy and data protection.

We expect to depend upon relationships with others to provide technology-based opportunities that can develop into profitable royalty-bearing licenses and, if we are unable to maintain and generate new relationships, we may not be able to sustain existing levels of revenue or increase revenue.

We may apply for patents on technologies we develop, but we expect to depend increasingly upon the identification and acquisition of new patents and inventions through relationships with inventors, universities, research institutions, technology companies and others. If we are unable to demonstrate success in licensing acquired patents, it will be difficult to maintain those relationships, continue to grow new relationships and sustain revenue and growth.

Competition for the acquisition of high quality patent assets is intense and, as a result, we may not be able to grow our portfolio of technologies and patents.

We expect to encounter competition in the area of patent acquisition, including competition from venture capital firms and patent aggregators. Most of these competitors have more financial and human resources than we do. Our market share in one or more technology industries may be reduced as more companies seek to acquire these technologies, which could adversely impact our future revenue generation.

In connection with our patent enforcement actions, a court may rule that we violated certain statutory, regulatory, federal, local or governing rules or standards, which may expose us to certain material liabilities.

In connection with any of our patent enforcement actions, it is possible that a defendant may claim and/or a court may rule that we violated statutory authority, regulatory authority, federal rules, local court rules or governing standards relating to the substantive or procedural aspects of such enforcement actions. In such event, a court may issue monetary sanctions against us or award attorneys’ fees and/or expenses to a defendant, which if material, could harm our operating results and financial position.

Usage of our net operating loss carryforwards may be limited as a result of an ownership change or otherwise.

Federal and state tax laws impose substantial restrictions on the utilization of net operating loss carryforwards (“NOLs”) in the event of an “ownership change,” as defined in Section 382 of the Internal Revenue Code (as amended and together with any applicable regulations promulgated thereunder, the “Code”), and in certain other circumstances. On November 30, 2012, our stockholders approved an amendment to our Certificate of Incorporation creating a Section 382 stockholder rights plan (the “Stockholder Rights Plan”) designed to preserve NOLs under Section 382 of the Code. If we experience an ownership change, the Company’s ability to fully utilize NOLs will be substantially limited, and the timing of the usage of NOLs could be substantially delayed, which could significantly impair the value of those benefits. The Stockholder Rights Plan is intended to act as a deterrent to any person or group from acquiring beneficial ownership of 4.9% or more of the outstanding shares of our common stock. Our stockholders also approved that certain Section 382 Rights Agreement between us and American Stock Transfer & Trust Company, LLC (the “Rights Agreement”). Although our Stockholder Rights Plan and the Rights Agreement are designed to protect against the occurrence of an ownership change under Section 382 of the Code, there is no assurance that such an ownership change could not occur or that the utilization of our NOLs could not be otherwise restricted by legislative, judicial or regulatory developments. In addition, an ownership change could occur if we issue a significant number of new shares of common stock to raise capital.

Risks Related to the Merger

We may not realize the potential value and benefits created by the Merger.

As disclosed above in “Item 1.—Business,” on the Closing Date, we completed a merger with Prism, with Prism becoming our wholly-owned subsidiary. We may not be able to realize the expected potential value and benefits created by the Merger due to many factors, including the unpredictable nature of patent litigation. Based on our periodic evaluation of the recoverability of the asset recorded in connection with this transaction, we determined that the carrying value of the asset was in excess of fair value and therefore recorded impairment charges in the fourth quarter of 2015 and the second quarter of 2016. For more information, see Note 8 to our Combined Consolidated Financial Statements.

If we are unable to make the payments on the notes assumed in connection with the Merger, our business and financial condition would be materially and adversely affected.

As part of the Merger, we assumed $3.6 million in two discounted non-interest bearing notes payable, due in four semi-annual installments of $1,000,000 from June 2015 to December 2016. The notes include imputed interest of 12.0% per annum based on management’s assumptions about the risk associated with satisfying the payment obligations, including the fact that certain patents sere as security for the notes. The installment payment due on

December 31, 2015 was deferred to June 30, 2016 with the consent of the note holder. We have not paid the installments due in June 2016, but we have discussed restructuring the notes payable with the notes holder. If we fail to negotiate a restructuring of the notes and do not pay any installment due, the note holder may assert the right to accelerate the entire outstanding balance, impose additional late charges, or contest our ownership of the patents serving as collateral. Any of these actions could result in additional expenses or delay revenues and our business would be materially harmed.

We may incur unforeseen or unexpected liabilities as a result of the Merger.

As a result of the Merger, Prism became a wholly owned subsidiary of the Company and Prism's liabilities, including contingent liabilities, were consolidated with ours. There may be unforeseen or unexpected liabilities related to the Merger or Prism. Among other things, if Prism's liabilities are greater than expected, or if there are obligations of Prism of which we were not aware at the time of completion of the Merger, our business and financial condition could be materially and adversely affected.

If we fail to successfully integrate Prism into our internal control over financial reporting or if the current internal control of Prism over financial reporting is found to be ineffective, the integrity of our financial reporting could be compromised which could result in a material adverse effect on our reported financial results.

As a private company, Prism was not subject to the requirements of the Securities Exchange Act of 1934, as amended, with respect to internal control over financial reporting, and for a period of time after the consummation of the Merger, our management's evaluation of the effectiveness of our internal control over financial reporting will be permitted to exclude the operations of Prism. The integration of Prism into our internal control over financial reporting will require significant time and resources from our management and other personnel and will increase our compliance costs. If we fail to successfully integrate these operations, our internal control over financial reporting may not be effective. Failure to achieve and maintain an effective internal control environment could have a material adverse effect on our ability to accurately report our financial results and the market's perception of our business and stock price. In addition, if Prism's internal control over financial reporting is found to be ineffective, the integrity of Prism's past financial statements could be adversely impacted.

We may be required to make substantial cash payments to Prism's former members.

Subject to certain conditions, in connection with the Merger we agreed to make future earnout payments to the members of Prism immediately prior to the Merger. An "Earnout Event" is defined in the merger agreement as receipt by Prism of any amount more than $16.5 million, minus the cash balance of Prism as of the Closing Date (the "Sharing Threshold"), in Prism Patent Proceeds from lawsuits filed by Prism on or prior to the Closing Date ("Open Suits"). "Prism Patent Proceeds" include total cash recoveries from litigation or settlement, royalties, license fees and proceeds from patent sales actually received by Prism in connection with its business minus costs, expenses and fees associated with the production of such revenue (including sales commissions, attorneys' contingency fees, expert fees and deferred purchase amounts paid to third parties) minus Prism cash operating expenses other than amortization and other noncash expenses for the applicable measurement period. Upon the occurrence of an Earnout Event, an earnout payment in cash equal to 70% of the amount of Prism Patent Proceeds from Open Suits exceeding the Sharing Threshold shall be paid to the former members of Prism, provided, however, that the aggregate amount of such earnout payments, including certain permitted pre-closing distributions, shall not exceed $55 million. As of September 30, 2016, such permitted pre-closing distributions were approximately $5.5 million, resulting in a maximum potential earnout payment of approximately $49.5 million.

Risks Related to the Industry

Our industry is subject to rapid technological change, uncertainty and shifting market opportunities.

Our success depends, in part, on our ability to define and keep pace with changes in industry standards, technological developments and varying customer requirements. Changes in industry standards and needs could adversely affect the development of, and demand for, our technology, rendering our technology currently under development obsolete and unmarketable. The patents and applications comprising our portfolio have fixed terms and, if we fail to anticipate or respond adequately to these changes through the development or acquisition of new patentable inventions, patents or other technology, we could miss a critical market opportunity, reducing or eliminating our ability to capitalize on our patents, technology solutions or both.

Potential patent and litigation reform legislation, USPTO rule changes, legislation affecting mechanisms for patent enforcement and available remedies, and unfavorable court decisions may affect our investments in research and development and our strategies for patent prosecution, licensing and enforcement and could have a material adverse effect on our licensing business as well as our business as a whole.

Potential changes to certain U.S. laws, rules and regulations may occur in the future, some or all of which may affect our research and development investments, patent prosecution costs, the scope of future patent coverage we secure, remedies that we may be entitled to in patent litigation, and attorneys' fees or other remedies that could be sought against us, and may require us to reevaluate and modify our research and development activities and patent prosecution, licensing and enforcement strategies. The U.S. Congress is considering multiple patent reform measures, including bills that would implement heightened pleadings requirements, fee-shifting, limitations on discovery, disclosure of real party-in-interest information and stays of customer suits. If passed, such bills could significantly increase the cost and risk of patent enforcement litigation. There can be no assurance that these bills, or similar future legislative developments, will not have a material adverse effect on our business, financial condition and results of operations.

Rulings in our legal proceedings as well as those of third parties may also affect our strategies for patent prosecution, licensing and enforcement. For example, in recent years, U.S. courts, including the U.S. Supreme Court and the U.S. Court of Appeals for the Federal Circuit, have taken some actions that have been viewed as unfavorable to patentees, including the Company. Court decisions may change the law applicable to various patent law issues, such as, for example, patentability, validity, patent exhaustion, patent misuse, remedies, permissible licensing practices, claim construction and damages, in ways that are detrimental to the abilities of patentees to enforce patents and obtain damages awards.

Delays in getting patents issued by the USPTO could result in delays in recognizing revenues.

We will continue to pursue several patent applications currently pending before the USPTO and we intend to continue to apply for additional patents. In addition, we expect to acquire patent applications from third parties. Patent applications have been increasing each year and we believe it is resulting in longer delays in obtaining approval of pending patent applications. The application delays could cause delays in recognizing revenue from these patents and could cause us to miss opportunities to license patents before other competing technologies are developed or introduced into the market.

Risks Related to our Common Stock

Our stock price has been volatile and may continue to fluctuate widely.

The trading price of our common stock has been volatile. During the period from January 1, 2015 through September 30, 2016, the trading price per share of our common stock ranged from a high of $3.40 to a low of $0.14. The trading price of our common stock may be significantly affected by factors including actual or anticipated operating results, announcements regarding licensing or litigation developments, disputes concerning the validity of one or more of our patents, our limited trading volume and expectations regarding our future cash reserves. Any negative change in the public's perception of the prospects of the patent licensing business could also depress our stock price regardless of our results.

Our common stock may be delisted from the Nasdaq Capital Market if we fail to satisfy the continued listing standards of that market.

If we are unable to satisfy the continued listing standards of the Nasdaq Capital Market, our common stock may be delisted from that market. On February 17, 2016, we received written notice from Nasdaq indicating that we were not in compliance with the $1.00 minimum bid price requirement for continued listing on the Nasdaq Capital Market, as set forth in Listing Rule 5550(a)(2). In accordance with Listing Rule 5810(c)(3)(A), we have a period of 180 calendar days, or until August 15, 2016, to regain compliance with the minimum bid price requirement. To regain compliance, the closing bid price of our common stock must meet or exceed $1.00 per share for at least ten consecutive business days during this 180-day period. If we are not in compliance by August 15, 2016, we may be afforded a second 180-day period to regain compliance if we meet the continued listing requirement for market value of publicly held shares and all other initial listing standards for the Nasdaq Capital Market, except for the minimum bid price requirement. In addition, we would be required to notify Nasdaq of our intent to cure the minimum bid price deficiency by implementing a reverse stock split if necessary. If we do not regain compliance within the allotted compliance period(s), including any extensions that may be granted by Nasdaq, Nasdaq will provide us with notice that our common stock will be subject to delisting. We would then be entitled to appeal the Nasdaq Staff's determination to a Nasdaq Listing Qualifications Panel and request a hearing.

Due to the death of a director in October 2016, we also are no longer compliant with Nasdaq rules requiring that a majority of our board be comprised of independent directors. Nasdaq provided a short term exemption and Nasdaq rules generally allow a listed company at least 180 days to regain compliance.

If our common stock were to be delisted from the Nasdaq Capital Market for failure to meet the minimum bid price, board composition or other listing standards, trading of our common stock most likely would be conducted in the over-the-counter market on an electronic bulletin board established for unlisted securities such as the Pink Sheets or the OTC Bulletin Board. Such trading could substantially reduce the market liquidity of our common stock. As a result, an investor would find it more difficult to dispose of, or obtain accurate quotations for the price of, our common stock.

Our adoption of the Stockholder Rights Plan and the Rights Agreement may reduce the attractiveness of our stock to investors because it limits the ability of persons or entities from acquiring a significant percentage of our outstanding stock.

The Stockholder Rights Plan and the Rights Agreement are intended to act as deterrents to any person or group, together with such person's or group's affiliates and associates, from being or becoming a beneficial owner of 4.9% or more of our common stock. The inability of some stockholders to acquire a significant position could substantially reduce the market liquidity of our common stock, making it more difficult for a stockholder to dispose of, or obtain accurate quotations for the price of, our common stock.

Delaware law and our charter documents contain provisions that could discourage or prevent a potential takeover, even if such a transaction would be beneficial to our stockholders.

Provisions of Delaware law and our Certificate of Incorporation and Bylaws could make the acquisition of the Company through a tender offer, a proxy contest or other means more difficult and could make the removal of incumbent directors and officers more difficult. We expect these provisions to discourage takeover practices and inadequate takeover bids and to encourage persons seeking to acquire control of the Company to first negotiate with our board of directors.

ITEM 6. EXHIBITS

Exhibit Number	Description of Document
31.1	Certification of Chief Executive Officer, pursuant to Exchange Act Rule 13a-14(a).
31.2	Certification of Chief Financial Officer, pursuant to Exchange Act Rule 13a-14(a).
32	Certification of Chief Executive Officer and Chief Financial Officer, pursuant to 18 U.S.C. Section 1350.
101.INS*	XBRL Instance
101.SCH*	XBRL Taxonomy Extension Schema
101.CAL*	XBRL Taxonomy Extension Calculation
101.DEF*	XBRL Taxonomy Extension Definition
101.LAB*	XBRL Taxonomy Extension Labels
101.PRE*	XBRL Taxonomy Extension Presentation

* XBRL information is furnished and not filed or a part of a registration statement or prospectus for purposes of sections 11 or 12 of the Securities Act of 1933, as amended, is deemed not filed for purposes of section 18 of the Securities Exchange Act of 1934, as amended, and otherwise is not subject to liability under these sections.

SIGNATURE

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

Dated: November 14, 2016	**PRISM TECHNOLOGIES GROUP, INC.** **(Registrant)**
	/s/ STEVEN J. YASUDA Steven J. Yasuda Chief Financial Officer and Chief Accounting Officer

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