

Prism Technologies Group, Inc.  
Form 10-K  
April 15, 2016  
**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**FORM 10-K**

**(Mark One)**

**Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
for the fiscal year ended December 31, 2015**

**or**

**Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
for the transition period from \_\_\_\_\_ to \_\_\_\_\_**

**Commission File Number 001-35359**

**PRISM TECHNOLOGIES GROUP, INC.**

(Exact name of registrant as specified in its charter)

**DELAWARE**                      **94-3220749**

(State or other jurisdiction of (I.R.S. Employer  
Incorporation or organization) Identification No.)

**101 Parkshore Drive, Suite 100**

**Folsom, California 95630**

(Address of principal executive offices and zip code)

**(916) 932-2860**

(Registrant's telephone number, including area code)

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

<b>Title of each class</b>	<b>Name of each exchange on which registered</b>
Common Stock	Nasdaq Capital Market

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

**None**

(Title of Class)

Indicate by check mark whether the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. YES NO

Indicate by check mark whether the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Exchange Act. YES NO

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or such shorter period that the registrants was required to submit and post such files). YES NO

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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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

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

YES NO

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, 2015), as reported on the Nasdaq Capital Market, was approximately \$19,627,000. 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.

As of April 11, 2016, 10,073,688 shares of registrant’s common stock, \$0.001 par value, were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant’s definitive proxy statement to be filed pursuant to Regulation 14A in connection with the registrant’s 2016 annual meeting of stockholders are incorporated by reference into Items 10, 11, 12, 13 and 14 of Part III of this Form 10-K.

**PRISM TECHNOLOGIES GROUP, INC.**

**Annual Report on Form 10-K**

**For the Fiscal Year Ended December 31, 2015**

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*Unless otherwise indicated or required by the context, as used in this Annual Report on Form 10-K, the terms “we,” “our,” “us” and the “Company” refer to Prism Technologies Group, Inc. and its subsidiaries that are consolidated in conformity with accounting principles generally accepted in the United States (“GAAP”).*

*Certain information contained in this Annual Report on Form 10-K, including information contained in “Item 7.—Management's Discussion and Analysis of Financial Condition and Results of Operations,” should be considered “forward-looking statements” as defined by Section 21E of the Private Securities Litigation Reform Act of 1995. All statements in this report other than historical information may be deemed forward-looking statements. These statements present (without limitation) the expectations, beliefs, plans and objectives of management and future financial performance and assumptions underlying, or judgments concerning, the matters discussed in the statements. The words “believe,” “estimate,” “anticipate,” “project” and “expect,” and similar expressions, are intended to identify forward-looking statements. Forward-looking statements involve certain risks, estimates, assumptions and uncertainties, including: 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 acquisition of Prism will not be profitable and the possibility that the expected value creation from the acquisition of Prism 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. A variety of factors could cause actual results or outcomes to differ materially from those expected and expressed in our forward-looking statements. Some important risk factors that could cause actual results or outcomes to differ from those expressed in the forward-looking statements are described in “Item 1A.—Risk Factors.”*

*The list of factors that may affect future performance and the accuracy of forward-looking statements described in “Item 1A.—Risk Factors” is illustrative, but by no means exhaustive. Additional risk factors may be described from time to time in our future filings with the U.S. Securities and Exchange Commission (“SEC”). All such risk factors are difficult to predict, contain material uncertainties that may affect actual results and may be beyond our control. Accordingly, all forward-looking statements contained in this Annual Report on Form 10-K should be evaluated with the understanding of their inherent uncertainty. Unless legally required, we undertake no obligation to update publicly any forward-looking statements, whether as a result of new information, future events or otherwise.*

## **Item 1. Business.**

### **Background**

Prism Technologies Group, Inc. 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](http://www.przmgroup.com).

From our inception through December 21, 2011, we operated an online insurance marketplace that electronically matched consumers and providers of automobile, property, health, term life and small business insurance. We discontinued this business in connection with the sale of substantially all of our assets (the “Disposition”) to Bankrate, Inc. in a transaction that closed on December 21, 2011 (“Disposition Date”). On the Disposition Date and in connection with the Disposition, we changed our name from InsWeb Corporation to Internet Patents Corporation. Since the Disposition Date, our business has consisted of licensing and enforcing a portfolio of patents relating to technology that we developed or acquired.

On March 26, 2015 (the “Closing Date”), pursuant to the terms of that certain Agreement and Plan of Merger, dated as of November 12, 2014 (the “Merger Agreement”), we completed our acquisition of Prism Technologies, LLC (“Prism”), with Prism becoming our wholly-owned subsidiary (the “Merger”). Prism is a Nebraska limited liability company headquartered in Omaha, Nebraska. Prism has two primary operating subsidiaries: Secure Axxess, LLC, a Texas limited liability company and Millenium Biologix, LLC, a Nebraska limited liability company. Prism also operates a patent licensing and enforcement business. Prism and its subsidiaries own a portfolio of patents with over 50 issued patents 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’s former members received an aggregate of \$16.5 million in cash and 3.5 million shares of our common stock. Subject to certain conditions, we also agreed to share future revenue related to Prism’s patents with Prism’s former members up to a maximum amount of approximately \$49.5 million. Our board of directors and officers and Prism’s officers did not change following the Merger, except that Gregory J. Duman, a manager, executive officer and former member of Prism, was appointed to our board of directors.

## **Overview of our Business**

Our future revenues, if any, are expected to consist of royalties from licensing our patents and damages for past infringement. In addition to general and administrative expenses, we expect to incur expenses associated with patent infringement litigation, including contingency fees arrangements with our attorneys and revenue sharing payments to third parties, both of which are typically based on a negotiated percentage of the gross settlement amount or award of money damages.

Under U.S. law, a patent owner is entitled to exclude others from making, selling or using the patented invention for the life of the patent, generally for a period of twenty years from our filing date, with some possible term extensions provided by statute. The patent holder may grant one or more licenses to the patented invention, typically allowing the licensee to make, use and/or sell the patented invention in return for a royalty paid to the patent owner. A patent owner also may sue and recover damages from unlicensed parties for past patent infringement and sometimes future royalties. Although we intend to attempt to negotiate a reasonable royalty for licenses to our patented technologies, we may not be able to reach a negotiated settlement with the accused infringer. In that case, we expect to vigorously litigate our infringement claims.

Patent infringement lawsuits often last more than two years from the date the complaint is filed until a trial is concluded, unless the parties are able to settle the dispute before the conclusion of the trial. The timeframe is influenced by a number of factors, including the jurisdiction in which the case is filed. Patent litigation is costly. A 2015 report from the American Intellectual Property Law Association estimates that the median litigation cost of a patent infringement lawsuit is \$5 million where the amount in controversy exceeds \$25 million. The costs consist of outside and local counsel, associates, paralegal services, travel and living expenses, fees and costs for court reporters, copies, couriers, exhibit preparation, analytical testing, expert witnesses, translators, surveys, jury advisors and similar expenses. Patent holders, however, often enter into contingent fee arrangements under which outside counsel are paid a percentage of the proceeds from the litigation or settlement.

A third party sued for patent infringement often will challenge the validity of the patent-in-suit in an administrative proceeding before the U.S. Patent and Trademark Office (the "USPTO"). Such proceedings can result in a final determination by the USPTO that some or all of the patent claims are not patentable. Unless the adverse patentability ruling from the USPTO is overturned on appeal, any pending or future litigation involving those claims would be dismissed. The post grant review process and subsequent appeals often take more than 18 months to complete.

### ***Our Patent Portfolio***

The following table describes our patent portfolio as of April 14, 2016:



<b>Patent Family</b>	<b>Technology</b>	<b>Potential Market Applications</b>
		Wireless and Mobile Commerce
Gregg Patents	Device Authentication, Access to Protected Resources	Online Content Delivery Software Activation Corporate Systems Access  Banking and Financing Services
Glazer Patents	Image Recognition, Web Site Authentication	Electronic Commerce Online Banking and Financial Services
Weber Patents	Multiple Screen Computer Display	Multi-Screen Computer / Gaming Devices
Pugh Patents	Synthetic Biomaterial Compound	Biotech
Wallace Patents	Encrypted Cookies	Electronic Commerce
Quizid Patents	Authentication Tokens	Electronic Commerce, Wireless & Mobile Commerce
System on Chip Patents	Secure Transactions	Multiple Applications including Software Defined Networks
Prism Technologies Group Patents	E-Commerce	Online retail and financial services

All of the patents described above, other than the Gregg Patents and the Prism Technologies Group Patents, were acquired from third parties, many of whom have a continuing right to receive a portion of the proceeds, if any, from our patent licensing and enforcement activities with respect to these acquired patents.

## **Employees**

As of December 31, 2015, we had eight full-time employees, four of whom are parties to three-year employment agreements. We have never had a work stoppage among our employees, and no employees are currently represented under a collective bargaining agreement. We believe that our future success will depend in part on the continued service of our senior management.

## **Competition**

Although other companies perform services similar to ours, we believe that each of our patents represents a unique technology. We therefore do not believe that we face direct competition in enforcing our patents. However, we may from time to time seek to acquire additional patents, and we expect to compete with other patent enforcement firms in acquiring additional patents. We may also compete with venture capital firms and various industry leaders for patent licensing opportunities. We also face a form of competition known as royalty stacking. Royalty stacking refers to situations in which a single product potentially infringes on many patents, and thus may bear multiple royalty burdens. Our customers' willingness and ability to pay reasonable royalties is, in part, affected by the number of patents infringed by a particular customer product, the concentration of the holders of those patents, the customer's cost of licensing those patents, and the profitability of the infringing product.

The key competitive factors include financial and management resources, the breadth and scope of the patent portfolio, experience in patent licensing, reputation as a licensee, litigation history and licensing strategy for the subject portfolio. Some of our competitors have more financial and management resources than we do.

## Available Information

For further discussion concerning our business, see the information included in “Item 7.—Management’s Discussion and Analysis of Financial Condition and Results of Operations” and “Item 8.—Financial Statements and Supplementary Data.”

You may obtain free copies of our annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K and amendments to those reports, as well as other Corporate Governance Materials, on the investor relations tab on our website at <http://ir.przmgroup.com>, or by contacting our corporate office by calling (916) 932-2860, or by sending an e-mail message to [info@przmgroup.com](mailto:info@przmgroup.com).

We electronically file our annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K with the SEC pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). Any materials we file with the SEC are accessible to the public at the SEC’s Public Reference Room at 450 Fifth Street, NW, Washington, D.C. 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The public may also utilize the SEC’s Internet website, which contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC. The address of the SEC website is <http://www.sec.gov>.

**Item 1A.Risk Factors.**

**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. For example, certain adverse litigation events in the fourth quarter of 2015 resulted in our reassessment of the recoverability of the asset recorded in connection with this transaction. Based on our evaluations, we determined that the carrying value of the asset was in excess of fair value and therefore recorded impairment charges of \$23.8 million in 2015. For more information, see Note 7 to our Consolidated Financial Statements included in “Item 8.—Financial Statements and Supplementary Data.”

*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 serve 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. If we fail to 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 former security holders of Prism. 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 December 31, 2015, 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 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 December 31, 2015 our cash, cash equivalents and short-term investments totaled \$3.3 million. In addition to the expenses associated with the patent licensing business, such as salaries and overhead, we have notes payable of \$2.8 million, which are due in 2016. Also, 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 second quarter of 2016. Accordingly, we have initiated discussions with various firms 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.*

During the year ended December 31, 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. 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.

***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, 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. It is often difficult for juries and trial judges to understand complex, patented technologies and, 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 as the number of companies entering this market increases. As new technological advances occur, some of our patented technologies may become obsolete before they are completely monetized. If we are unable to replace obsolete technologies with more technologically advanced patented technologies, then this obsolescence could have a negative effect on our ability to generate future revenues.

We may also compete with venture capital firms and various industry leaders for patent licensing opportunities. 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 enter the market for similar technology opportunities, 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.

## **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. As of the end of its 2015 session, U.S. Congress was 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 April 8, 2016, the trading price per share of our common stock ranged from a high of \$3.40 to a low of \$0.22. 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.

If our common stock were to be delisted from the Nasdaq Capital Market for failure to meet the minimum bid price 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 1B. Unresolved Staff Comments.**

Not applicable.

**Item 2. Properties.**

We have a non-cancelable twenty-four month lease through May 15, 2017 for approximately 1,300 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 2,500 square feet of combined office space in Omaha, Nebraska and cancelable leases in Plano, Texas and Brentwood, Tennessee for an additional 1,100 square feet.

The Company has a non-cancelable five-year full-service lease through February 14, 2017 for approximately 16,000 square feet of office space in Rancho Cordova, California, that housed our headquarters until May 2013. 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 December 31, 2015, we expect to receive \$159,000 from the sub-lessee for the remainder of our lease.

**Item 3. Legal Proceedings.**

We and our operating subsidiaries are often required to engage in litigation to enforce our patents and patent rights. The “Results of Operations” section in “Item 7.—Management’s Discussion and Analysis of Financial Condition And Results of Operations” describes the significant events relating to our patent licensing business.

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. We believe that any liability arising from these actions will not have a material adverse effect on our consolidated financial position, results of operations or cash flows.

In connection with any of our patent enforcement actions, it is possible that a defendant 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 enforcement actions. In such event, a court may issue monetary sanctions against us or our operating subsidiaries or award attorneys’ fees and/or expenses to defendant(s) in the action, 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.

On March 19, 2015, Maxim Group LLC (“Maxim”) sent Prism a letter demanding payment of a fee under an Advisory Agreement dated September 19, 2013 (the “Advisory Agreement”). Prism rejected the demand and on April 10, 2015, Maxim filed a Statement of Claim with the Financial Industry Regulatory Authority (“FINRA”) to initiate arbitration of the dispute. In the Statement of Claim, Maxim alleges that Prism is liable for payment to Maxim of a percentage of the Merger consideration as an advisory fee under the Advisory Agreement. Prism has answered the Statement of Claim and contested FINRA’s jurisdiction. However, Prism also filed a declaratory judgment action in Nebraska state district court seeking a declaration that the Advisory Agreement is void, no advisory fee is owed and staying the FINRA arbitration proceeding. In the Nebraska state district court action Prism argues that: (i) Maxim did not introduce Prism to the Company and Prism did not seek Maxim’s assistance with the Merger; (ii) Maxim was not registered as an investment advisor and cannot charge an advisory fee; and (iii) the advisory fee demanded by Maxim is grossly excessive under applicable law. On August 8, 2015, the Nebraska state district court denied our motion to stay, and an appeal has been made to the Nebraska Court of Appeals. While the appeal was pending, on April 6, 2016 the FINRA arbitration panel awarded Maxim \$357,000, plus 9% interest from the date of the closing of the Merger. Prism has 30 days to decide whether to petition a federal court to vacate the award. Although the arbitration award to Maxim would be paid by the Company, it relates to a pre-Merger dispute and would reduce the maximum earnout payable to Prism’s former security holders. The Company recognized \$382,000 in operating expenses for the year ended December 31, 2015, which includes both the award and accrued interest from the date of closing until December 31, 2015.

**Item 4. Mine Safety Disclosures.**

Not applicable.

**PART II****Item 5. Market for the Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.**

Our common stock is quoted on the Nasdaq Capital Market under the symbol "PRZM." As of April 14, 2016, there were approximately 1,100 stockholders of record. Certain shares are held by brokers and other institutions on behalf of stockholders, and we are unable to determine the total number of stockholders represented by those record holders. The following table sets forth the high and low sales price per share of our common stock for each full quarterly period within the two most recent fiscal years, all as reported on the Nasdaq Capital Market:

<b>Quarter Ended</b>	<b>Price Range</b>	
	<b>High</b>	<b>Low</b>
<b>2015</b>		
December 31, 2015	\$2.80	\$0.76
September 30, 2015	\$3.28	\$2.65
June 30, 2015	\$3.40	\$2.37
March 31, 2015	\$2.90	\$2.56
<b>2014</b>		
December 31, 2014	\$3.09	\$2.60
September 30, 2014	\$3.15	\$2.96
June 30, 2014	\$3.40	\$3.00
March 31, 2014	\$3.35	\$2.96

We have not paid any cash dividends on our capital stock other than the special distribution of \$5.00 per share that was paid to our stockholders on March 9, 2012 in conjunction with the Disposition. We do not expect to pay any dividends in the foreseeable future.

**Equity Compensation Plan Information**

We currently maintain two equity compensation plans that provide for the issuance of our common stock to employees, officers, directors, independent contractors and consultants of the Company and its subsidiaries. These consist of the Prism Technologies Group, Inc. 2008 Stock Option Plan and the 1999 Employee Stock Purchase Plan, each of which has been approved by our stockholders. The following table sets forth information regarding outstanding options and shares reserved for future issuance under the foregoing plans as of December 31, 2015:

<b>Plan Category</b>	<b>Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)</b>	<b>Weighted average exercise price of outstanding options, warrants and rights(b)</b>	<b>Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))(c)</b>
Equity compensation plans approved by security holders	179,588	\$ 2.99	1,001,000
Equity compensation plans not approved by security holders	—	—	—

On November 21, 2014 and November 25, 2014, we entered into stock purchase agreements with two significant stockholders, an affiliate of the significant stockholders and a stockholder and certain of his affiliates, pursuant to which we agreed to repurchase an aggregate of 1,178,264 shares of our common stock at a price of \$3.00 per share, for a total purchase price of \$3,534,792. The purchase of such shares was completed on December 1, 2014. The \$3.00 per share price was consistent with the stock price for the two-week period prior to announcement of the Merger.

On December 8, 2014, one of our directors purchased 110,000 shares of our common stock from a significant stockholder at a price of \$3.00 per share, for a total purchase price of \$330,000.

#### **Purchases of Equity Securities by the Issuer and Affiliated Purchasers**

None

#### **Item 6. Selected Financial Data.**

Not applicable.

#### **Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.**

##### **Overview**

From its inception through December 21, 2011, the Company operated an online insurance marketplace that electronically matched consumers and providers of automobile, property, health, term life and small business insurance. The Company discontinued this business in connection with the Disposition. As a result of the Disposition, we no longer conduct the insurance lead generation business, and have agreed not to reenter that business for a period of ten years from the Disposition Date.

Since the Disposition Date, the Company has operated its patent licensing and enforcement business, which generated revenues of \$0.7 million and \$0 in 2015 and 2014, respectively. On the Closing Date, the Company completed a merger with Prism, with Prism becoming a wholly owned subsidiary of the Company. Prism also operates a patent licensing and enforcement business. As a result of the Merger, the Company and its subsidiaries own a portfolio of patents with over 50 issued patents as of April 14, 2016 as described in "Item 1.—Business".



In the Merger, the members of Prism 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 the former security holders of Prism. 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 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 December 31, 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**

### **Significant Events 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, representing a reasonable royalty for Sprint's infringement for the period from February 2012 through December 2014. No portion of the judgment has been paid by Sprint as of the date of this Annual Report on Form 10-K. 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 is underway and oral argument is expected to be scheduled in the latter half of 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 24, 2015, the Court of Appeals for the Federal Circuit held 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.

On September 3, 2015, Secure Axxess, a subsidiary of Prism, settled its lawsuit filed in the United District Court for the Eastern District of Texas against GE Capital Bank, GE Capital Retail Bank (currently Synchrony Bank), General Electric Capital Corporation, and General Electric Company (collectively, "Defendants") alleging that the Defendants infringed on U.S. Patent No. 7,631,191. In exchange for a license and release, the Defendants collectively made a one-time payment in the aggregate amount of \$700,000. The payment, less the cost of revenues of \$311,000, was



received in September 2015.

On September 8, 2015, the Patent Trial and Appeal Board of the United States Patent & Trademark Office issued decisions concerning the patentability of certain claims of the Glazer patent owned by our subsidiary, Secure Access:

In CBM2014-00100 (consolidated with CBM2015-00009), the PTAB determined that claims 1–32 of the Glazer patent would have been obvious to one of ordinary skill in the art, and the claims were, therefore, unpatentable under 35 U.S.C. § 103(a).

In IPR2014-00475, the PTAB determined that claims 1–23 and 25-32 of the Glazer patent are unpatentable.

Secure Access timely filed a notice of appeal to the U.S. court of Appeals for the Federal Circuit on November 9, 2015. The Glazer patent is the subject of patent infringement litigation in the U.S. District Court for the Eastern District of Texas, but the litigation has been stayed pending the *inter partes* review and covered business method proceedings.

In March 2015, Secure Access filed lawsuits against six companies in the U.S. District Court for the Eastern District of Texas alleging infringement of patents in the System on Chip patent family. Five of these cases have been dismissed, without prejudice, pursuant to Secure Access' motion or by joint stipulations of dismissal. The defendant in the remaining case is HP Enterprise Services, LLC.

Fiscal 2015 compared to Fiscal 2014

The following table sets forth selected statement of operations data with the respective percentage changes from the prior year (dollars in thousands):

			<b>% Change</b>	<b>% Change</b>		
	<b>2015</b>	<b>2014</b>	<b>from</b>	<b>from</b>		
			<b>the</b>	<b>the</b>		
			<b>Prior</b>	<b>Prior</b>		
			<b>Year</b>	<b>Year</b>		
			<b>2015</b>	<b>2014</b>		
Revenues	\$700	\$-	N/A	N/A		
Cost of revenues	311	-	N/A	N/A		
Gross margin	389	-	N/A	N/A		
Operating expenses:						
General and administrative	4,289	2,676	46	% -	%	
Depreciation and amortization	12,877	1	nm	N/A		
Impairment of long-lived assets	23,847	-	nm	N/A		
Total operating expenses	41,013	2,677	1,532	% -	%	
Loss from operations	(40,624)	(2,677)	1,518	% -	%	
Other income	19,901	30	nm	20	%	
Interest expense	(920 )	-	nm	N/A		
Net loss before income taxes	(21,643)	(2,647)	818	% 1	%	
Income tax benefit	-	-	N/A	N/A		
Net loss	(21,643)	(2,647)	818	% 1	%	
Comprehensive loss	\$(21,643)	\$(2,647)	818	% 1	%	

**Revenues.** In 2015, we generated \$700,000 in revenues from our patent licensing and enforcement business; in 2014, we did not generate any revenues. Although our new wholly-owned subsidiary, Prism, generated revenues from licensing and enforcing its patent portfolio prior to the Merger, we expect revenues for 2016 and future periods, if any, will be unpredictable because of the significant uncertainty associated with patent licensing and patent enforcement litigation.

**Cost of Revenues.** Cost of revenues consist of contingent fee based legal expenses and third party revenue share agreements, which grant the former owners of the respective patents or patent rights, the right to receive revenue or profit splits based upon future proceeds. We expect the cost of revenue amounts to vary in proportion to our patent licensing revenues.

**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 increased from \$2.7 million in 2014 to \$4.3 million in 2015. The increase was primarily attributable to the inclusion of Prism's operating expenses of \$2.5 million after the closing of the Merger and \$0.2 million related to our legal expenses, professional services, accounting services and consulting services related to the acquisition of Prism. We also recognized \$0.4 million which resulted from the Maxim arbitration award on April 6, 2016. (see Note 8 to our Consolidated Financial Statements, included in "Item 8.—Financial Statements and Supplementary Data") The increases were offset by acquisition related and legal expenses of \$1.4 million recognized in 2014.

**Depreciation and Amortization** Depreciation and amortization expenses consisted of amortization of intangible assets in 2015 of \$12.9 million and depreciation expense of \$1,000 in 2014. The increase was attributable to the acquisition of Prism in March 2015.

**Impairment of long-lived assets.** Impairment of long-lived assets (see Note 7 to our Consolidated Financial Statements, included in "Item 8.—Financial Statements and Supplementary Data") consists of a write-down of \$23.4 million associated with impairment of our patent portfolio. This write-down was the result of significantly lower than anticipated revenues associated with the patent portfolio acquired from Prism.

**Other Income.** Other income was \$19.9 million and \$30,000 for 2015 and 2014, respectively. In 2015, as a result of significantly lower than anticipated revenues from the acquisition of Prism, 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 lower than forecasted revenues, the fair value of the contingent consideration liabilities were decreased by \$19.9 million based upon the revised cash flows on the balance sheet as of December 31, 2015. We recorded this decrease as other income. Other income for 2015 and 2014 also consisted of interest earned on our investment portfolio of cash, cash equivalents and short-term investments of \$14,000 and \$30,000, respectively. 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, the current relatively low interest rates in the United States, and our use of cash to fund operations.

**Interest Expense.** Interest expense was \$920,000 and \$0 for 2015 and 2014, respectively. For 2015, interest expense consisted of imputed interest related to assuming certain debt from Prism 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 6 to our Consolidated Financial Statements, included in “Item 8.—Financial Statements and Supplementary Data.” We expect that interest expense will be significant over the next several years as a result of the interest on the notes payable and imputed interest on the earnout.

**Income Taxes.** We recognized no expense for and did not receive a benefit from income taxes for 2015 or 2014.

**Off-Balance Sheet Arrangements.** We had no off-balance sheet arrangements in 2015 or 2014.

### **Critical Accounting Policies**

Our discussion and analysis of our financial condition and results of operations is based on our Consolidated Financial Statements which have been prepared in accordance with GAAP. 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 our 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 us. 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.

We recognize revenue when (i) persuasive evidence of a contractual arrangement between us and the licensee exists, which create legally enforceable rights and obligations, (ii) the license agreement is delivered to the licensee, based upon the point at which control of the license transfers to the licensee, (iii) the price to the licensee is fixed or determinable and represents the amount of consideration to which we expect to be entitled to in exchange for transferring the license agreement to a licensee, and (iv) the collectability of consideration to which we are entitled to is reasonably assured.

**Fair Value Estimates.** The preparation of financial statements in conformity with U.S. GAAP often requires us to determine the fair value of a particular item in order to fairly present our financial statements. Without an independent market or another representative transaction, determining the fair value of a particular item requires us to make several assumptions that are inherently difficult to predict and can have a material impact on the accounting.

There are various valuation techniques used to estimate fair value. These include (1) the market approach where market transactions for identical or comparable assets or liabilities are used to determine the fair value, (2) the income approach, which uses valuation techniques to convert future amounts (for example, future cash flows or future earnings) to a single present value amount, and (3) the cost approach, which is based on the amount that would be required to replace an asset. For many of our fair value estimates, including our estimates of the fair value of acquired intangible assets, we use the income approach. Using the income approach requires the use of financial models, which require us to make various estimates including, but not limited to (1) the potential future cash flows for the asset or liability being measured, (2) the timing of receipt or payment of those future cash flows, (3) the time value of money associated with the expected receipt or payment of such cash flows, and (4) the inherent risk associated with the cash flows (risk premium). Making these cash flow estimates is inherently difficult and subjective, and if any of the estimates used to determine the fair value using the income approach turns out to be inaccurate, our financial results may be negatively impacted. Furthermore, relatively small changes in many of these estimates can have a significant impact to the estimated fair value resulting from the financial models or the related accounting conclusion reached. For example, a relatively small change in the estimated fair value of an asset may change a conclusion as to whether an asset is impaired.

While we are required to make certain fair value assessments associated with the accounting for several types of transactions, the following areas are the most sensitive to these assessments.

**Business Combinations.** We must estimate the fair value of assets acquired, liabilities and contingencies assumed, acquired patent portfolios, and contingent consideration issued in a business combination. Our assessment of the estimated fair value of each of these can have a material effect on our reported results as intangible assets are amortized over various estimated useful lives. Furthermore, the estimated fair value assigned to an acquired asset or liability has a direct impact on the amount we recognize as goodwill, which is an asset that is not amortized. Determining the fair value of assets acquired requires an assessment of the related expected future cash flows. Determining the fair value of contingent consideration requires an assessment of the probability-weighted expected future cash flows over the period in which the obligation is expected to be settled, and applying a discount rate that appropriately captures the risk associated with the obligation. The significant unobservable inputs used in the fair value measurement of the contingent consideration payable are forecasted earnings. Significant changes in forecasted earnings would result in significantly higher or lower fair value measurement. This fair value assessment is also required in periods subsequent to a business combination. Such estimates are inherently difficult and subjective and can have a material impact on our Consolidated Financial Statements.

**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.

**Share-Based Compensation.** 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.

**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 both December 31, 2015 and December 31, 2014, we had unrecognized tax benefits of approximately \$0.3 million (\$0.1 million 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 NOLs at December 31, 2015 of approximately \$149.8 and \$24.2 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 NOLs begin to expire in 2019. State NOLs began to expire in 2015.

The carrying value of our deferred tax assets, which was approximately \$56.4 million at December 31, 2015, 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.

## **Liquidity and Capital Resources**

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

<b>Year Ended</b>	
<b>December 31,</b>	
<b>2015</b>	<b>2014</b>



Cash Flows used in:

Operating activities	\$ (4,450 )	\$ (2,396)
Investing activities	(15,931)	(1,045)
Financing activities	(1,000 )	(3,535)
Decrease in cash and cash equivalents	\$ (21,381)	\$ (6,976)

At December 31, 2015, our principal source of liquidity was \$1.8 million in cash and cash equivalents and \$1.5 million in short-term investments. We adhere to an investment policy with minimal market or settlement risk with our current holdings. Accordingly, substantially all of our invested assets are in the form of certificates of deposit issued by highly rated banking institutions. There are no restrictions or limitations regarding access to the \$1.8 million in cash and cash equivalents and \$1.5 million in short-term investments.

In 2015, net cash used in operating activities was \$4.5 million, primarily consisting of our net loss of \$21.6 million, gain on reduction of contingent consideration of \$19.9 million and cash used of \$0.7 million primarily due to increases in prepaid expenses and other current assets and decreases in accounts payable, accrued expenses and other current liabilities. This was partially offset by impairment of long-lived assets of \$23.8 million, amortization of intangibles of \$12.9 million, imputed interest on contingent consideration and notes payable of \$0.9 million and stock-based compensation of \$0.1 million.

In 2014, net cash used in operating activities was \$2.4 million, primarily consisting of our net loss of \$2.6 million and cash provided of \$0.5 million, primarily due to an increase in accounts payable and a decrease in other assets. This was partially offset by cash used of \$0.3 million, which consisted of a decrease in accrued expenses, other current liabilities and other liabilities.

In 2015, net cash used in investing activities was \$15.9 million, due to the purchase of Prism, net of cash, acquired for \$16.1 million and purchases of short-term investments of \$1.5 million, offset by redemptions of short-term investments of \$1.5 million and redemptions of restricted cash equivalents of \$0.2 million.

In 2014, net cash used in investing activities was \$1.0 million representing \$4.0 million relating to the purchases of short-term investments, offset by redemptions of short-term investments of \$2.8 million and redemptions of restricted short-term investments of \$0.2 million.

Net cash used in financing activities in 2015 was \$1.0 million, due to an installment payment due on June 30, 2015. A \$1.0 million installment payment due on December 31, 2015 was deferred to June 30, 2016 with the consent of the note holder.

Net cash used in financing activities in 2014 was \$3.5 million for the repurchase of 1,178,264 shares of common stock on December 1, 2014 at a price of \$3.00 per share. For more information, see Note 5 to our Consolidated Financial Statements, included in "Item 8.—Financial Statements and Supplementary Data."

As of December 31, 2015, our cash and cash equivalents totaled \$1.8 million and our short-term investments totaled \$1.5 million. In addition to the expenses associated with the patent licensing business, such as salaries and overhead, we have notes payable of \$2.8 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 second quarter of 2016. Accordingly, we have initiated discussions with various firms 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 7A. Quantitative and Qualitative Disclosures About Market Risk.**

Not applicable.

**Item 8. Financial Statements and Supplementary Data.**

The Report of Independent Registered Public Accounting Firm, Consolidated Financial Statements and Notes to Consolidated Financial Statements follow below on pages F-1 to F-26.

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**PRISM TECHNOLOGIES GROUP, INC.**

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## **Report of Independent Registered Public Accounting Firm**

The Board of Directors and Stockholders of Prism Technologies Group, Inc.

We have audited the accompanying consolidated balance sheets of Prism Technologies Group, Inc. as of December 31, 2015 and 2014, and the related consolidated statements of operations and comprehensive loss, stockholders' equity, and cash flows for each of the two years in the period ended December 31, 2015. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Prism Technologies Group, Inc. at December 31, 2015 and 2014, and the consolidated results of its operations and its cash flows for each of the two years in the period ended December 31, 2015, in conformity with U.S. generally accepted accounting principles.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the consolidated financial statements, the Company has incurred losses since inception and has a working capital deficiency as of December 31, 2015, which raises substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 1. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ Ernst & Young LLP

Sacramento, California

April 14, 2016

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**PRISM TECHNOLOGIES GROUP, INC.****CONSOLIDATED BALANCE SHEETS***(Amounts in thousands, except per share amounts)*

	<b>December 31,</b>	
	<b>2015</b>	<b>2014</b>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$1,756	\$23,137
Short-term investments	1,494	1,494
Restricted cash equivalents	600	800
Prepaid expenses and other current assets	639	143
Total current assets	4,489	25,574
Intangible assets	24,694	-
Goodwill	54	-
Other assets	63	4
Total assets	\$29,300	\$25,578
<b>Liabilities and stockholders' equity</b>		
Current liabilities:		
Accounts payable	\$648	\$675
Accrued expenses	194	194
Accrued contingent consideration, current	3,525	-
Note payable, current	2,838	-
Total current liabilities	7,205	869
Accrued contingent consideration, non-current	9,704	-
Accrued lease obligation, non-current	49	251