MIND CTI LTD
Form 20-F
April 06, 2017

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 20–F

REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR 12(g) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

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

For the fiscal year ended December 31, 2016

OR

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

For the transition period from ____________ to ____________

OR

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

Date of event requiring this shell company report _____________

Commission file number 000-31215

MIND C.T.I. LTD.

(Exact name of Registrant as specified in its charter
and translation of Registrant's name into English)

ISRAEL

(Jurisdiction of incorporation or organization)

Industrial Park, Building #7, Yoqneam, 2069202, Israel

(Address of principal executive offices)

Aviram Cohen
c/o MIND C.T.I. Ltd.
Industrial Park, Building #7
Yoqneam, 2069202, Israel
Tel: +972-4-9936666
investor@mindcti.com

(Name, Telephone, E-mail and/or Facsimile number and Address of Company Contact Person)

Securities registered or to be registered pursuant to Section 12(b) of the Act.

Title of each class	Name of each exchange on which registered
Ordinary Shares, nominal value NIS 0.01 per share	**Nasdaq Global Market**

Securities registered or to be registered pursuant to Section 12(g) of the Act.

<u>None</u>

(Title of Class)

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act.

<u>None</u>

(Title of Class)

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report.

As of December 31, 2016, the Registrant had outstanding 19,261,418 Ordinary Shares, nominal value NIS 0.01 per share.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. 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 (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large accelerated filer Accelerated filer Non-accelerated filer

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP Other

International Financial Reporting Standards as issued by the International Accounting Standards Board

If "Other" has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow. Item 17 Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

Unless the context requires otherwise, "MIND", "us", "we" and "our" refer to MIND C.T.I. Ltd. and its subsidiaries.

FORWARD LOOKING STATEMENTS

Statements in this Annual Report concerning our business outlook or future economic performance; anticipated revenues, expenses or other financial items; introductions and advancements in development of products, and plans and objectives related thereto; and statements concerning assumptions made or expectations as to any future events, conditions, performance or other matters, are “forward-looking statements” as that term is defined under the United States Federal Securities Laws. Forward-looking statements are subject to risks, uncertainties and other factors, which could cause actual results to differ materially from those stated in such statements. Factors that could cause or contribute to such differences include, but are not limited to, those set forth under “Risk Factors” in this Annual Report as well as those discussed elsewhere in this Annual Report and in our other filings with the Securities and Exchange Commission.

PART I

Item 1. Identity of Directors, Senior Management and Advisers

Not applicable.

Item 2. Offer Statistics and Expected Timetable

Not applicable.

Item 3. Key Information

A. Selected Financial Data

Except as otherwise indicated, all financial statements and other financial information included in this Annual Report are presented solely under U.S. GAAP.

The following table presents selected consolidated financial data as of and for each of the five years in the period ended December 31, 2016. The selected consolidated financial data presented below are derived from our audited consolidated financial statements for these periods, and should be read in conjunction with these financial statements and the related notes thereto. Our audited consolidated balance sheets as of December 31, 2015 and 2016 and our audited consolidated statements of operations and cash flows for each of the three years ended December 31, 2016 and the related notes thereto are included elsewhere in this annual report. You should read the selected financial data in conjunction with Item 5 "Operating and Financial Review and Prospects."

	Years ended December 31,				
	2012	**2013**	**2014**	**2015**	**2016**
	($ in thousands, except share and per share data)				
Consolidated Statements of Operations Data:					
Total revenues	$20,209	$18,480	$25,020	$20,928	$18,052
Gross profit	12,357	10.609	15,070	12,298	11,221
Operating income	4,372	2.159	7,457	6,416	5,206
Other Financial income (expenses) - net	298	163	(306)	(114)	166

Net income	4,278	2,185	5,483	5,018	4,203
Earnings per ordinary share:					
Basic	$0.23	$0.12	$0.29	$0.26	$0.22
Diluted	$0.23	$0.12	$0.29	$0.26	$0.22
Weighted average number of ordinary shares used in computation of earnings per ordinary share – in thousands:					
Basic	18,767	18,869	18,949	19,183	19,234
Diluted	18,846	18,890	19,032	19,283	19,307

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	As of December 31,				
	2012	2013	2014	2015	2016
	($ in thousands)				
Consolidated Balance Sheet Data:					
Cash and cash equivalents	$13,310	$8,212	$8,100	$11,475	$9,165
Working capital	17,055	14,540	14,818	14,734	15,217
Total assets	28,731	29,624	30,347	30,225	29,000
Share capital and additional paid-in capital	30,192	30,250	25,778	25,916	26,052
Treasury Shares	(2,360)	(2,287)	(1,863)	(1,692)	(1,607)
Total shareholders' equity	23,106	20,989	22,411	21,848	21,285

B. Capitalization and Indebtedness

Not applicable.

C. Reasons for the Offer and Use of Proceeds

Not applicable.

D. Risk Factors

We believe that the occurrence of any one or some combination of the following factors would have a material adverse effect on our business, financial condition and results of operations.

Risks Relating to Our Business

If we are unable to compete effectively in the marketplace, we may suffer a decrease in market share, revenues and profitability.

Competition in our industry is intense and we expect competition to increase. We compete both with established global billing companies, such as Amdocs and Oracle, as well as with local billing companies. Some of our competitors have greater financial, technical, sales, marketing and other resources and greater name recognition than we do. Some of our competitors, mainly the ones that focus on specific markets, compete with us on pricing. New competitors may emerge and rapidly acquire significant market share. We cannot guarantee that we will be able to compete effectively against current or future competitors or that competitive pressure will not harm our financial results.

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Our backlog, revenues and operating results may vary significantly from quarter to quarter.

Our backlog, revenues and operating results may vary significantly from quarter to quarter due to a number of factors, including the following:

- the timing of orders and/or deliveries for our software may be delayed as customers typically order and/or implement our billing and customer care software only after other vendors have provided the network infrastructure, a process that is subject to delay. It is therefore difficult for us to predict the timing of orders and/or revenue recognition;

- the ability of our customers to expand their operations and increase their subscriber base, including their ability to obtain financing;

- potential termination of contracts by our customer due to lack of financing, internal changes or any other reason; and

- changes in our pricing policies or competitive pricing by our competitors.

Due to all of the foregoing, we cannot predict revenues for any future quarter with any significant degree of accuracy. Accordingly, we believe that period-to-period comparisons of our operating results are not necessarily meaningful and you should not rely upon them as indications of future performance. In future quarters, our operating results may be below the expectations of public market analysts and investors, and as a result, the price of our ordinary shares may fall.

The customer base for our wireline and wireless billing and customer care products is characterized by very small to medium size telephony carriers. If this market segment fails to grow, the demand for our billing and customer care software would diminish substantially.

Our wireline and wireless billing and customer care products target very small to medium size carriers. Our growth in this field depends on continued growth of carriers of this size. We cannot be certain that carriers of this size will be able to successfully compete with large telephony carriers in existing markets or will successfully develop in new and emerging markets. If this market segment fails to grow, the demand for our billing and customer care software would diminish substantially and our business would suffer. In addition, there may never be significant demand for new billing and customer care software by providers of telecom services.

If we fail to attract and retain qualified personnel we will not be able to implement our business strategy or operate our business effectively.

Our products require sophisticated software development, sales, professional services and technical customer support. Our success depends on our ability to attract, train, motivate and especially retain highly skilled personnel within each of these areas of expertise. Qualified personnel in these areas are in great demand worldwide and are likely to remain a limited resource. We cannot assure you that we will be able to retain the skilled employees we require. In addition, the resources required to retain such personnel may adversely affect our operating margins. The failure to retain qualified personnel may harm our business. In particular, we maintain a large engineering and support center in Iasi, Romania and have encountered many successful attempts from other technology companies to recruit our employees after we have trained them. If this phenomenon continues and increases, we may not be able to retain the highly skilled personnel and may be forced to significantly raise the salaries of our Romanian employees and our results of operations will be consequently harmed.

Because our revenues are generated in numerous countries, our results of operations could suffer if we are unable to manage international operations effectively.

Our sales are made in many countries, with different legislation and complex taxation rules and in many states in the United States. Managing our existing international operations and additional international markets requires significant management attention and financial resources. Our ability to penetrate some international markets may be limited due to different technical standards, protocols and requirements for our products in different markets. In addition, conducting our business internationally subjects us to a number of risks, including:

- the burden of compliance with a wide variety of foreign laws and regulations;
- staffing and managing foreign operations;
- increased risk of collection;
- potentially adverse tax consequences;
- burdens that may be imposed by tariffs and other trade barriers; and
- adverse effects of political and economic instability.

We currently benefit from local tax benefits that may be discontinued or reduced.

We derived benefits from various programs including Israeli tax benefits relating to our "Approved and Preferred Enterprise" programs.

To be eligible for tax benefits as an "Approved and Preferred Enterprise," we must continue to meet certain conditions. Should it be determined that our Approved or Preferred Enterprise programs have not met, or do not meet, the statutory conditions, our income taxes will increase.

Additional tax liabilities could materially adversely affect our results of operations and financial condition.

As a global corporation, we are subject to income and other taxes both in Israel and various foreign jurisdictions. Our domestic and international tax liabilities are subject to the allocation of revenues and expenses in different jurisdictions and the timing of recognizing revenues and expenses. Additionally, the amount of income taxes paid or accrued is subject to our interpretation of applicable laws in the jurisdictions in which we do business. From time to time, we are subject to income and other tax audits in various jurisdictions, the timings of which are unpredictable. While we believe we comply with applicable tax laws, there can be no assurance that a governing tax authority will not have a different interpretation of the law and assess us with additional taxes. Should we be assessed additional taxes, there could be a material adverse effect on our results of operations and financial condition.

If we experience loss of one or more existing customers, we may suffer a decrease in revenues, reputation and profitability.

A significant part of our revenues is derived from maintenance agreements and managed services agreements. Small service providers may be acquired by larger carriers and replace our solutions with the buyer's existing billing platform or cease operations due to lack of funding, as occurred with customers of ours over the years. If one or more customers cease using our solutions or services due to replacements or any other reason, our business and results of operations would suffer.

Because some of our customers require highly complex implementations and we sell fixed price projects, we may underestimate the effort and time required to implement such projects, resulting in a lower or negative profit margin for such projects and the incurrence of contractual penalties for late performance. This could materially harm our results of operations.

In 2016, we derived 81% of our revenues from the sale of software and related services to telecommunications service providers. As the deal size increases, our projects become more complex and the risk of on-time and on-budget implementation increases. Each such contract may include penalties and potential liability for damages arising from our late performance. These customers conduct a lengthy and complex approval and purchasing process, and the pricing for each project needs to be competitive in order to win. Our cost of sales increases as the length of the approval process increases because we need to support each opportunity during the time required for the customer to determine their specifications and the time required for the customer to receive internal approval to commit significant resources towards acquisition of the billing solution. The project implementation may be delayed due to customer related reasons such as lack of resources, delay in the build-up of the customer's network infrastructure or deferral in making implementation scope related decisions. Our estimate for the cost includes the effort required to release new versions comprising enhanced functionality specifically requested by the customer.

All the delays, either by us or by a third party, increase the cost of supplying the project and expose us to potential claims from customers and may decrease our revenues and could materially harm our profitability, business and results of operations.

Our business may be negatively affected by exchange rate fluctuations.

Although the majority of our revenues are denominated in U.S. dollars, approximately 39% of our expenses are incurred in New Israeli Shekel, or NIS, and approximately 47% of our expenses are tied to the Euro. As a result, we may be negatively affected by fluctuations in the exchange rates between the Euro or the NIS and the U.S. dollar. We cannot predict any future trends in the rate of inflation in Israel or the rate of devaluation or appreciation of the NIS or of the Euro against the U.S. dollar. If the U.S. dollar cost of our operations in Israel and/or Romania increases, our U.S. dollar-measured results of operations will be adversely affected. In addition, some of our revenues are denominated in Euro, some are denominated in Canadian dollar, or CAD and some are denominated in Great Britain Pound, or GBP. As a result, our U.S. dollar-measured results of operations will be adversely affected by devaluation in the GBP, CAD or Euro relative to the U.S. dollar. We may choose to limit these exposures by entering into hedging transactions. However, hedging transactions may not enable us to avoid exchange-related losses, and our business may be harmed by exchange rate fluctuations.

From time to time, our software and the systems into which it is integrated contain undetected errors. This may cause us to experience a significant decrease in market acceptance and use of our software products and we may be subject to warranty and other liability claims.

From time to time, our software, as well as the systems into which it is integrated, contains undetected errors. Because of this integration, it can be difficult to determine the source of the errors. Also, from time to time, hardware systems we resell contain certain defects or errors. As a result, and regardless of the source of the errors, we could experience one or more of the following adverse results:

diversion of our resources and the attention of our personnel from our research and development efforts to address these errors;

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- negative publicity and injury to our reputation that may result in loss of existing or future customers; and
- loss of or delay in revenue and loss of market share.

In addition, we may be subject to claims based on errors in our software or mistakes in performing our services. Our licenses and agreements generally contain provisions such as disclaimers of warranties and limitations on liability for special, consequential and incidental damages, designed to limit our exposure to potential claims. However, not all of our contracts contain these provisions and we cannot assure you that the provisions that exist will be enforceable. In addition, while we maintain product liability and professional indemnity insurance, we cannot assure you that this insurance will provide sufficient, or any, coverage for these claims. A product liability or professional indemnity claim, whether or not successful, could adversely affect our business by damaging our reputation, increasing our costs, and diverting the attention of our management team.

We may expand our business through acquisitions that could result in diversion of resources and extra expenses, and which may involve other risks that could disrupt our business and harm our financial condition.

We may pursue acquisitions of business, products and technologies, or the establishment of joint venture arrangements, that could expand our business. The negotiation of potential acquisitions or joint ventures as well as the integration of an acquired or jointly developed business, technology or product could cause diversion of management's attention from the day-to-day operation of our business. This could impair our relationships with our employees, customers, distributors, resellers and marketing allies. Future acquisitions could result in:

- potentially dilutive issuances of equity securities;
- the incurrence of debt and contingent liabilities;
- amortization of intangible assets;
- changes in our business model and margins;
- research and development write-offs; and
- other acquisition-related expenses.

In addition, we have limited experience with respect to negotiating an acquisition and operating an acquired business. If future acquisitions disrupt our operations, our business may suffer.

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We depend on a limited number of key personnel who would be difficult to replace. If we lose the services of these individuals, our business may be harmed.

Because our markets are constantly changing, the success of our business depends in large part upon the continuing contributions of our senior management. Specifically, continued growth and success largely depend on the managerial and technical skills of our founder and CEO, Monica Iancu, and other members of senior management. Because the demand for highly qualified senior personnel exceeds the supply of this type of personnel, it will be difficult to replace members of our management if one or more of them were to leave us. If either Ms. Iancu or other members of the senior management team are unable or unwilling to continue their employment with us, our business may be harmed.

Our success depends on our ability to continually develop and market new and more technologically advanced products and enhancements.

The market for our products and the services they are used to support is characterized by:

- rapid technological advances like the development of new standards for communications protocols;
- frequent new service offerings and enhancements by our customers, such as value-added IP-based services and new rating plans; and
- changing customer needs.

We believe that our future success will largely depend upon our ability to continue to enhance our existing products and successfully develop and market new products on a cost-effective and timely basis. We cannot assure you that we will be successful in developing and marketing new products that respond adequately to technological change. Our failure to do so would have a material adverse effect on our ability to market our own products.

If we are unable to adequately protect our intellectual property or become subject to a claim of infringement, our business may be materially adversely affected.

Our success and ability to compete depend substantially upon our internally developed or acquired technology. Any misappropriation of our technology could seriously harm our business. In order to protect our technology and products, we rely on a combination of trade secret, copyright and trademark law. Despite our efforts to protect our intellectual property rights, unauthorized parties may attempt to copy or otherwise obtain and use our software or technology or to develop software with the same functionality. Policing unauthorized use of our products is difficult and we cannot be certain that the steps we have taken will prevent misappropriation, particularly in foreign countries where the laws may not protect our intellectual property rights as fully as in the United States.

If anyone asserts a claim against us relating to proprietary technology or information, we might seek to license his intellectual property or to develop non-infringing technology. We might not be able to obtain a license on commercially reasonable terms or on any terms. Alternatively, our efforts to develop non-infringing technology could be unsuccessful. Our failure to obtain the necessary licenses or other right or to develop non-infringing technology could prevent us from selling our software and could therefore seriously harm our business.

Breaches in the security of the data collected by our systems could adversely affect our reputation and hurt our business.

Customers rely on third-party security features to protect privacy and integrity of customer data. Our products may be vulnerable to breaches in security due to failures in the security mechanisms, the operating system, the hardware platform or the networks linked to the platform. All our solutions provide web access to information, presenting additional security issues for our customers. Security vulnerabilities could jeopardize the security of information stored in and transmitted through the computer systems of our customers. A party that is able to circumvent our security mechanisms could misappropriate proprietary information or cause interruptions in the operations of our customers. Security breaches could damage our reputation and product acceptance would be significantly harmed, which would cause our business to suffer.

We use certain "open source" software tools that may be subject to intellectual property infringement claims or that may subject our derivative works or products to unintended consequences, possibly impairing our product development plans, interfering with our ability to support our clients or requiring us to allow access to the source code of our products or necessitating that we pay licensing fees.

Certain of our products contain open source code and we may use more open source code in the future. In addition, certain third party software that we embed in our products contains open source code. Open source code is code that is covered by a license agreement that permits the user to liberally use, copy, modify and distribute the software without cost, provided that users and modifiers abide by certain licensing requirements. The original developers of the open source code provide no warranties on such code.

As a result of the use of open source software, we could be subject to suits by parties claiming ownership of what they believe to be their proprietary code or we may incur expenses in defending claims alleging non-compliance with certain open source code license terms. In addition, third party licensors do not provide intellectual property protection with respect to the open source components of their products, and we may be unable to be indemnified by such third-party licensors in the event that we or our customers are held liable in respect of the open source software contained in such third party software. If we are not successful in defending against any such claims that may arise, we may be subject to injunctions and/or monetary damages or be required to remove the open source code from our products. Such events could disrupt our operations and the sales of our products, which would negatively impact our revenues and cash flow.

Moreover, under certain conditions, the use of open source code to create derivative code may obligate us to make the resulting derivative code available to others at no cost. The circumstances under which our use of open source code would compel us to offer derivative code at no cost are subject to varying interpretations. If we are required to publicly disclose the source code for such derivative products or to license our derivative products that use an open source license, our previously proprietary software products may be available to others without charge. If this happens, our customers and our competitors may have access to our products without cost to them, which could harm our business. Certain open source licenses require as a condition to use, modification or distribution of such open source that proprietary software incorporated into, derived from or distributed with such open source be disclosed or distributed in source code form, be licensed for the purpose of making derivative works or be redistributable at no charge. The foregoing may under certain conditions be interpreted to apply to our software, depending upon the use of the open source and the interpretation of the applicable open source licenses.

We monitor our use of open source code to avoid subjecting our products to conditions we do not intend. The use of open source code, however, may ultimately subject some of our products to unintended conditions so that we are required to take remedial action that may divert resources away from our development efforts.

We are subject to ongoing costs and risks associated with complying with extensive corporate governance and disclosure requirements.

As an Israeli company subject to U.S. federal securities laws, we spend a significant amount of management time and resources to comply with laws, regulations and standards relating to corporate governance and public disclosure, including the Sarbanes-Oxley Act of 2002, SEC regulations, Nasdaq listing rules and the Israeli Companies Law. In connection with our compliance with Section 404 and the other applicable provisions of the Sarbanes-Oxley Act, our management and other personnel devote a substantial amount of time to assure that we continue to comply with these requirements. There is no guarantee that these efforts will result in management assurance that our internal control over financial reporting is adequate in future periods. If our internal controls are found to be ineffective in future periods, it could harm our operations, financial reporting or financial results.

<u>Risks Relating to the Market of our Ordinary Shares</u>

Our share price has fluctuated and could continue to fluctuate significantly.

The market for our ordinary shares, as well as the prices of shares of other technology companies, has been volatile. The price of our ordinary shares has fluctuated significantly over the years. A number of factors, many of which are beyond our control, may cause the market price of our ordinary shares to fluctuate significantly, such as:

- sales of a substantial number of our ordinary shares;
- fluctuations in our quarterly revenues and earnings and those of our publicly held competitors;
- public announcements concerning us or our competitors;
- changes in pricing policies by us or our competitors;
- market conditions in our industry; and
- the general state of the securities market (particularly the technology sector).

We do not control these matters and any of them may adversely affect our share price. In addition, trading in shares of companies listed on the Nasdaq Global Market in general and trading in shares of technology companies in particular has been subjected to extreme price and volume fluctuations that have been unrelated or disproportionate to operating performance. These broad market and industry factors may depress our share price, regardless of our actual operating results. Given the likely volatility that exists for our ordinary shares, sales of a substantial number of our ordinary shares could cause the market price of our ordinary shares to decline.

If we are characterized as a passive foreign investment company, our U.S. shareholders will be subject to adverse tax consequences.

If, for any taxable year, either, (1) 75% or more of our gross income is passive income or (2) 50% or more of our assets, averaged over the year and generally determined based upon value, including cash (even if held as working capital), produce or are held to produce passive income, we may be characterized as a "passive foreign investment company", or PFIC for United States federal income tax purposes. For this determination, passive income includes dividends, interest, royalties, rents, annuities and the excess of gain over losses from the disposition of assets that produce passive income.

As a result of our cash position and the value of our assets, we may be deemed to be a PFIC for U.S. federal income tax purposes.

If we are characterized as a PFIC, our shareholders who are residents of the United States will be subject to adverse U.S. tax consequences. Our treatment as a PFIC could result in a reduction in the after-tax return to shareholders resident in the United States and may cause a reduction in the value of our shares. If we were to be treated as a PFIC, our shareholders will be required, absent certain elections, to pay an interest charge together with tax calculated at the then prevailing highest tax rates on ordinary income on certain "excess distributions" including any gain on the sale of Ordinary Shares. The consequences of holding shares in a PFIC are described below under "Additional Information - United States Federal Income Tax Consequences - Passive Foreign Investment Companies." Prospective investors should consult with their own tax advisors with respect to the tax consequences applicable to them of investing in our Ordinary Shares.

Risks Relating to Our Location in Israel

Potential political, economic and military instability in Israel may harm our operating results.

We are organized under the laws of the State of Israel and most of our senior management is located in Israel. Accordingly, our operating results are directly influenced by economic, political and military conditions in and relating to Israel. Since the establishment of Israel in 1948, a number of armed conflicts have taken place between Israel and its Arab neighbors, Hamas (an Islamist militia and political group in the Gaza Strip) and Hezbollah (an Islamist militia and political group in Lebanon). Recent political uprisings, social unrest and violence in various countries in the Middle East and North Africa, including Israel’s neighbor Syria, are affecting the political stability of those countries and have enabled the development of extremist groups. This instability may lead to deterioration of the political relationships that exist between Israel and these countries and has raised concerns regarding security in the region and the potential for armed conflict. In addition, Iran has threatened to attack Israel and is believed to be developing nuclear weapons. Iran is also believed to have a strong influence among parties hostile to Israel in areas that neighbor Israel, such as the Syrian government, Hamas in Gaza and Hezbollah in Lebanon. Any armed conflicts or political instability in the region could negatively affect business conditions and harm our results of operations. We cannot predict the effect on the region of the increase in the degree of violence between Israel and the Palestinians. Furthermore, several countries and trade groups restrict business with Israel and Israeli companies, and additional countries and trade groups may restrict doing business with Israel and Israeli companies for political reasons. These restrictive laws and policies may seriously harm our operating results, financial condition or the expansion of our business. In addition, the current situation in Israel could adversely affect our operations if our customers and/or strategic allies believe that instability in the region could affect our ability to fulfill our commitments.

It may be difficult to enforce a U.S. judgment against us, our officers and directors or to assert U.S. securities laws claims in Israel.

We are incorporated in the State of Israel. Substantially most of our executive officers and directors are nonresidents of the United States, and a substantial portion of our assets and the assets of these persons are located outside the United States. Therefore, it may be difficult for a shareholder, or any other person or entity, to collect a judgment obtained in the United States against us or any of these persons, or to effect service of process upon these persons in the United States.

We have been informed by our legal counsel in Israel that it may be difficult to bring original actions in Israel to enforce civil liabilities under the Securities Act and the Exchange Act. Israeli courts may refuse to hear a claim based on a violation of U.S. securities laws because Israel is not the most appropriate forum to bring such a claim. In addition, even if an Israeli court agrees to hear a claim, it may determine that Israeli law and not U.S. law is applicable to the claim. If U.S. law is found to be applicable, the content of applicable U.S. law must be proved as a fact, which can be a time-consuming and costly process. Certain matters of procedure will also be governed by Israeli law. There is little binding case law in Israel addressing these matters.

Subject to specified time limitations and legal procedures, under the rules of private international law currently prevailing in Israel, Israeli courts may enforce a U.S. judgment in a civil matter, including judgments based upon the civil liability provisions of the U.S. securities laws and including a monetary or compensatory judgment in a non-civil matter, provided that the following key conditions are met:

subject to limited exceptions, the judgment is final and non-appealable;

the judgment was given by a court competent under the laws of the state of the court and is otherwise enforceable in such state;

the judgment was rendered by a court competent under the rules of private international law applicable in Israel;

the laws of the state in which the judgment was given provide for the enforcement of judgments of Israeli courts;

adequate service of process has been effected and the defendant has had a reasonable opportunity to present his arguments and evidence;

the judgment and its enforcement are not contrary to the law, public policy, security or sovereignty of the State of Israel;

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the judgment was not obtained by fraud and does not conflict with any other valid judgment in the same matter between the same parties; and

an action between the same parties in the same matter was not pending in any Israeli court at the time the lawsuit was instituted in the U.S. court.

Provisions of Israeli law and our articles of association may delay, prevent or make difficult a change of control and therefore may depress the price of our stock.

Some of the provisions of our articles of association and Israeli law could, together or separately:

discourage potential acquisition proposals;

delay or prevent a change in control; and

limit the price that investors might be willing to pay in the future for our ordinary shares.

In particular, our articles of association provide that our board of directors will be divided into three classes that serve staggered three-year terms and authorize our board of directors to adopt protective measures to prevent or delay a coercive takeover, including without limitation the adoption of a "Shareholder Rights Plan." In addition, Israeli corporate law regulates mergers and acquisitions of shares through tender offers, requires approvals for transactions involving significant shareholders and regulates other matters that may be relevant to these types of transactions. See Item 10.B "Memorandum and Articles of Associations - Mergers and Acquisitions under Israeli Law." Furthermore, Israeli tax law treats stock-for-stock acquisitions between an Israeli company and a foreign company less favorably than does U.S. tax law. For example, Israeli tax law may subject a shareholder who exchanges his ordinary shares for shares in another corporation to taxation prior to the sale of the shares received in such stock-for stock swap.

Item 4. Information on the Company

A. History and Development of the Company.

General

Our name is MIND C.T.I. Ltd. for both legal as well as commercial purposes. We were incorporated under the laws of the State of Israel on April 6, 1995 as a company with limited liability, and we are subject to the Israeli Companies Law, 1999 and the regulations promulgated thereunder. Our principal executive offices are located at Industrial Park, Building 7, Yoqneam 2069202, Israel. Our telephone number is +972 4 993 6666. Our agent in the United States is MIND Software Inc. and its principal offices are located at 12520 Prosperity Drive, Suite 220, Silver Spring, MD 20904, USA.

Principal Capital Expenditures

During 2014, 2015 and 2016, the aggregate cash amount of our capital expenditures were $201,000, $146,000 and $68,000, respectively. These expenditures were mainly for the purchase of equipment and licenses for software tools to be used by our engineering teams. We currently have no material commitments for capital expenditures.

B. Business Overview

Overview

We develop, manufacture, market and implement real-time and off-line convergent billing and customer care software solutions for various types of communication providers, including traditional wireline and wireless, voice over IP, or VoIP, and broadband IP network operators, LTE operators, cable operators and mobile virtual network operators, or MVNOs.

Our convergent billing and customer care solution supports multiple services, including voice, data and content services as well as prepaid, postpaid and pay-in-advance payment models in a single platform. Prepaid subscribers can enjoy the full range of services offered by the provider, with their special bundles, rating plans and limits. The prepaid solution authorizes each service and controls each session in real time, taking care that the balance is not exceeded.

Postpaid subscribers, including credit-limited and non-limited, retail or business customers, represent the loyal and the higher average revenue per user, or ARPU, market. All services used by a postpaid subscriber appear in a single bill, which includes all charges, including one-time, recurring and usage-related charges. Our billing solution (MINDBill) is unique as it is truly convergent and it includes our own integrated real-time mediation product that provides interfaces with IP, Intelligent Networks, or IN, and traditional telecommunication equipment, as well as our own point-of-sale solution.

Our billing and customer care solution includes a powerful workflow engine to support the implementation of business processes such as subscriber registration, order management, trouble ticket and debt collection. It also includes an integral point of sale (POS) solution that covers all dealer, store and cashier management and sales processes. We base our solution on a multi-layered architecture supporting real-time distributed processing, achieving performance, scalability and high availability. It uses an open architecture, including Service Oriented Architecture (SOA) and robust Application Programming Interfaces (API's) thus enabling fast and seamless integration with other systems and third party applications. The MIND solution is built using standardized best-of-breed object-oriented design concepts and development technologies such as Java, Angular, Spring and XML. It is JEE based and is powered by a commercial application server.

MINDBill can be installed on-premises or in a cloud environment.

We also provide professional services, primarily to our billing and customer care customers, consisting of installation, turnkey project implementation services, customer support, training and maintenance services, software and process customization and project management. Our professional services also include enhanced support options, known as managed services, which are mainly offered to customers in the United States and Europe and are performed from our offices. These managed services include performing day to day billing operational tasks.

In addition to our billing and customer care solutions, we offer unified communications solutions call management systems used by organizations for call accounting, telecom expense management, traffic analysis and fraud detection. Our enterprise software product has been installed on about 20,000 switches around the world, for traditional telephony, for IP switches and hybrid networks. Our latest product, PhonEX-ONE, delivers one unified solution for all voice communication expenses including traditional, IP and mobile telephony. The flexible and scalable architecture of PhonEX-ONE meets the needs of large enterprises, supporting an unlimited number of extensions and sites, it provides full functionality through a web browser, based on Microsoft SQL database and the advanced ASP.NET technology.

Our Market Opportunity

Billing and Customer Care Industry

Billing and customer care are critical to telecommunications service providers as they enable them to manage customer relations, track and bill for usage, and launch, deploy and charge new services, marketing programs and rate plans. The need for comprehensive billing solutions is driven by the market trend that requires service providers to introduce new services, to be innovative in creating new product offerings and to optimize business processes for maximum efficiency. We provide tier 2 and tier 3 service providers with flexible, easy to deploy, truly convergent and scalable billing solutions.

From time to time, telecommunications service providers initiate searches for billing solutions to replace existing ones in order to offer additional services, reduce costs and improve service. In addition, our existing customers occasionally consider adding new modules that we developed to their existing platform, replacing other vendors or migrating to a newer version with up-to-date technology and enhanced functionality.

Also, from time to time, new providers surface and introduce new offering to the market or try to attract a specific targeted customer base. They build new infrastructure or resell traffic and initiate searches for billing solutions.

An additional market opportunity is the trend towards all-IP networks, offering multiple next generation services. New billing solutions are required to enable the new services, and we are well positioned to support this need. As a pioneer in VoIP billing since 1997, we have the experience and the solution portfolio that is proven to be capable of delivering these technically demanding projects for all-IP networks.

Convergence

Implementation of convergent solutions has become a common demand and we encounter opportunities as carriers seek to replace multiple existing solutions with one convergent platform.

The convergent billing solution in the telecommunications industry enables operators to manage efficiently, on one platform, all subscribers and all services. It includes convergence of payment methods like prepaid and postpaid, as well as services like fixed telephony, mobile telephony, broadband, cable and IPTV.

Mobile Market and IP Services Industry

The two niches in the mobile market in which we see opportunities are the rural mobile carriers market in the United States and the new generation operators that offer high-speed mobile internet services over 4G LTE networks. We have a number of such carriers as customers and we are focused on delivering solutions that address these particular markets.

Providers of multiple services typically require billing and customer care products that can handle authentication, authorization and accounting needs in real-time in order to determine the types of services to which the subscriber is entitled, as well as any applicable limits to the availability of the services. This real-time functionality is particularly important for prepaid billing plans. Our proven solutions cover all these needs, as described below.

Our Billing and Customer Care Solution

We develop, market and support real-time and off-line, scalable billing and customer care software, including mediation and rating, for providers of voice, data and content services that are designed to meet their complex, mission-critical provisioning, authentication, authorization, accounting and reporting needs. Our billing and customer care software provides our customers with the following benefits:

Real-Time Solution. Service providers require a system that enables authentication, authorization and accounting and, if needed, cut-off, all in real-time. We believe that the MIND solution is one of the few billing and customer care products that offers real-time functionality for both prepaid and postpaid billing plans, and that has a real-time rating engine able to support rating of voice, data and content services simultaneously;

Mediation and Service Fulfillment. IP and traditional networks that can offer voice, data, video and content services are based on various network elements each of which generates billable information. We believe that the MIND solution is one of the few billing and customer care products that provide real-time collection and correlation of various events from multiple sources that relate to the same session and convert them into billable records. In addition, the MIND solution enables end-to-end automated flow for service creation and activation, meaning that from the order for service handled by the customer care representative until the service activation, the activities that need to be completed are automatically fulfilled by MIND;

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Scalability. Our billing solution (MINDBill) is designed to support millions of subscribers and at the same they enable service providers to grow from accommodating a small number of subscribers to a large number of subscribers, primarily through the addition of hardware and licenses. Our solutions' design allows a service provider to expand its infrastructure, business model and subscriber base without the need to replace its billing and customer care software; and

Improved Time to Market. MINDBill is modular, extensible software products, based on software architecture designed for easy adaptability and implementation. These features allow each of our customers to tailor our products to meet their individual needs in terms of the number of subscribers serviced and the variety of services provided. In addition our products can be customized relatively quickly, enabling our customers to improve their time to market as they initially implement their networks and, later, as they add and modify the services they provide.

Our Strategy

Our objective is to be a leader in the market for convergent billing and customer care software for tier 2 and tier 3 service providers and to maintain and increase profitability.

As we increase our focus on end-to-end billing solutions for tier 2 and tier 3 service providers, projects are now generally more complex in nature, with revenue recognized over longer periods. These factors typically extend the recognition period of both license and service revenue streams and have some balance sheet impacts. We consider this a normal and expected development for our business as it grows and matures. We continue to build the professional services team required to support the growth in services offered to customers. Our long-term business model contemplates that licenses, maintenance and services will each represent approximately 30-40% of revenues and gross margins will be around 60%. The key elements of our strategy to become a leader in the market for convergent billing and customer care software for tier 2 and tier 3 service providers include:

Leverage our brand name recognition and technical expertise. We introduced our billing and customer care software in 1997. We believe that our early position in the market and our reputation for offering high quality, reliable billing and customer care software has provided us with brand name recognition. We intend to leverage our reputation, brand name and recognition in the wireline and wireless markets;

Maintain and expand our technological expertise. We believe that our reputation in the market is due in large part to our technological expertise. We make significant investments in research and development to continually enhance our products to meet the changing needs in the telecom industry. We intend to continue our commitment to technology, both to enhance our existing products and to develop new products for growing markets; and

Expand professional services opportunities. As our projects are of larger scale and as convergent service offerings become more complex, our customers require more consulting services, especially for customization, as well as for project management, installation and training, technical support and maintenance. We aim to increase our revenues from consulting services.

Billing and Customer Care Solutions

The key functionalities of our billing and customer care solutions are as follows:

Mediation. Providing real-time and batch event collection, interfacing with the voice, content, data, service delivery and routing network elements;

Provisioning. Setting up the ability of a subscriber to use services, enabling features and quantitative limits on network elements and legacy billing solutions;

Authentication & Authorization. Authenticate subscribers who connect to the network to use voice or data services, and authorize a particular usage by reviewing the type of service, the account balance, pre-rating the service and calculating the resulting cut-off parameters;

Accounting. When each session is completed, the rating engine calculates the amount to be charged to the subscriber and updates the balance of the account in real-time. In addition, the usage detail records are stored for invoicing and reporting;

Interconnect Billing. MINDBill generates reports that enable providers to bill for traffic and services that are being transported across their networks by other providers;

Roaming. MINDBill provides the ability to define and manage the required roaming contract terms and the applicable tariff plan for each roaming partner;

Virtual Providers. MINDBill allows carriers to have resellers of traffic under different brand names and manage them as Virtual Providers;

Multiple Services and Products Support. MINDBill allows operators to provide advanced voice, data, content and video services. Our product catalog allows bundling of groups of services into tailor-made packages with special rates, discounts and promotions;

Rating. MINDBill includes a flexible real-time rating engine that facilitates a wide variety of billing plans and tariff parameters. Our rating engine includes support for content based rates, rates based on the day of the week, time of the day, call origin and destination and multi-currency rates for international services. It supports an unlimited number of free-unit and money-bundle, voucher based payment models and much more;

Invoicing. MINDBill supports all stages of invoice generation, multiple billing cycles and invoice on demand. Invoices include usage details, monthly recurring charges, discounts and taxes. Invoices can be printed locally or exported to printing service bureaus, using a customizable invoice layout;

Account Receivables (A/R). MINDBill manages all A/R activities, monitors the A/R status online and ensures a continuous cash flow. It supports multiple payment methods: cash, check, credit and debit cards, vouchers and more.

It offers a flexible open API for payments interfaces to banks and credit card clearing houses and has pre-integrated interfaces with major financial institutions, banks, clearinghouses and credit bureaus. The A/R module supports deposits life cycle management, including payments and refunds, dispute management and resolution, resulting in the appropriate adjustments. MINDBill identifies the ageing debt for every open invoice according to the company classification policy (30-60-90 days) and initiates the built-in debt collection process;

Collection procedures. The MINDBill flexible collection facility defines the collection policy using different collection paths. The solution provides full monitoring and control of the collection treatment (dunning process). It identifies customers with past due debts and ensures that they are handled in accordance with the company policy;

Subscriber Self-Care Web Interface. MINDBill includes a user-friendly subscriber web interface that allows subscribers to obtain real time information about their account, including invoice information, call details and payment history. Our solution also offers a set of APIs to facilitate seamless integration of an existing customer self-care application with our billing solution;

Customer Support Representative Web Interface. MINDBill includes a powerful and user-friendly customer support representative web interface that allows operators to perform customer care from any location;

Point of Sale (POS). Our POS enables operators to offer their products and services in retail stores, selling services, equipment and accessories to new and existing customers and even to non-subscribers. POS integrates with external systems, such as credit card clearinghouses, external taxation engines and address validation systems. POS main modules:

Sales Module – a cashier station that facilitates services, equipment and accessories sales, returns and repairs, through an easy to use interface on a single receipt. It enables cash, check and credit card payments and supports cash drawer, credit card swipe, barcode reader and ribbon printer;

Resource Management Module – an inventory system that supports the operator’s warehouses and stores, automating the management and tracking of goods sold. It manages the equipment by serial number, status, and location, supporting the full goods life-cycle.

Business Processes Workflow Environment. MINDBill includes an automated business processes workflow engine to implement our customers’ unique business rules, creating tailored business processes such as managing subscriptions, order management, trouble tickets and debt collection. For example, a tailored account creation process may include account registration, package selection, provisioning and activation steps, it may involve different users from various departments, integration with external legacy systems and third party services and more;

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Call Management and Traffic Analysis Reports (CMS). This module allows service providers to generate reports and graphic analysis of usage activity. Information such as peak hours, usage loads or duration of sessions enables operators to analyze subscriber behavior and improve their marketing and business development strategies. In addition, the traffic analysis reports assist service providers in planning the growth and development of their networks;

Fraud Detection. MINDBill includes a customizable fraud detection tool that enables detection of “stolen” calls and telephone misuse. It detects, locates and warns of any suspicious activity by activating alarms; and

Monitoring. MINDBill includes a monitoring tool that enables 24x7 operational control, proactive monitoring and historical analysis of the behavior and well-being of our platform and the resources it is using, such as database and operating system. This tool can forward monitoring information to external network managing systems using simple network management protocol (SNMP).

Enterprise Software

Our enterprise product, known as PhonEX-ONE, is used by corporations for telecom expense management, call accounting, traffic analysis and fraud detection. PhonEX ONE is a call management system that collects, records and stores all call information and enables:

to generate near real-time reports on the enterprise's telephone use;

monitor quality of experience;

track agents performance in contact centers

produce sophisticated reports and graphics for easy and effective analysis of call activity; and

allocate telephone expenses to specific departments, individual clients or projects.

These functions allow organizations to more effectively manage their telecommunications resources. The system is easy to install and configure, user-friendly and compatible with any switchboard system, traditional or IP. The system performs call management and traffic analysis as well as fraud management in the same manner as our billing solutions. In addition, the system is multi-lingual and multi-currency, which means that reports can be generated in any currency defined in the system, or in two currencies simultaneously.

PhonEX-ONE can be installed on-premises or in a cloud environment.

PhonEX-ONE, delivers one unified solution for management of all telecom expenses, including traditional voice, IP voice and data, and mobile telephony. The flexible and scalable architecture of PhonEX-ONE meets the needs of large enterprises, supporting an unlimited number of extensions and sites. PhonEX-ONE provides tools to monitor, budget and manage voice traffic in order to achieve maximum control over telecommunication expenses. Some of its major advantages are:

Fully web-based solution. The PhonEX-ONE fully web-based solution enables managers and users to conveniently access their telecom expenses management system anytime and from anywhere, using a web browser without decreasing their control over the traffic;

Quality of Service (QoS) Monitoring. PhonEX ONE enables quantification of the user's perceived audio call quality so the organization can ensure the relevant communication quality of experience of its contact centers, calls between branches, out-going calls, etc.

User centric. The PhonEX-ONE user-centric architecture provides a consolidated solution for the collection, analysis, reporting, and managing of all the telecommunication and data traffic expenses;

Dashboard. A visual representation of the most significant information regarding calls, a useful tool that helps administrators to get a quick and relevant image of the general system activity. The Dashboard can quickly provide - through its graphical and non-graphical monitors - a snapshot over the outgoing and incoming calls, traffic and exceptions as well as several top requested reports;

Multi-site solution. The PhonEX-ONE scales to support large multi-site organizations using voice and data equipment from multiple vendors. PhonEX-ONE supports complex hierarchies on which any employee can be associated to any branch of the organization and under a separate matrix to any corporate department;

ASP.NET and MS-SQL database. PhonEX-ONE is designed using the Microsoft .Net technology and has extensive configuration capabilities using XML files with server – client interaction;

Certification by IP switch vendors. PhonEX-ONE is interoperable and certified on a timely manner with new releases of IP switch vendors, including Cisco and Microsoft;

Enhanced security. PhonEX-ONE security management includes user authentication, security group restrictions, event log monitoring and encryption methodology of data base entries. This management tool enables a secure and easy control over the system;

Modular architecture supporting high scalability. The PhonEX-ONE's scalable system architecture supports an unlimited number of sites and extensions;

Guard and Alerter. The PhonEX-ONE Guard and Alerter provide sophisticated tools for fraud prevention, alerting on phone misuse, budget surpass, possible toll fraud or other abnormal behaviors within the organization; and

Multilingual and multicurrency. The built-in support of multiple languages and multiple currencies enables telecom expense management for multinational organizations.

We intend to further develop and market these products as the market for Voice over IP systems for enterprises grows.

Professional Services

We provide professional services to our customers, consisting primarily of project management, customization, installations, customer support, training and maintenance services. As our projects become more complex, more customers require customization services to add specialized features to their systems. We also offer enhanced support options, called managed services, which are mainly offered to customers in the United States and are performed from our offices. The managed services include performing day to day billing operational tasks. The managed services contracts are usually for a term of three to five years and are paid on a monthly basis. We also have the ability to implement Software-as-a-Service (SaaS) models in a similar way.

Technology

Our software products are based on an open architecture, which was developed using industry standard application server programming interfaces (API) that enables it to readily integrate with other software applications. These application program interfaces create an object-oriented, multi-layered architecture that support a distributed environment. Our object-oriented technology enables the design and implementation of software utilizing reusable business objects rather than complex procedural codes. Our layered architecture organizes these business objects to optimize the interface between the user and the application. We implement our software in a distributed configuration. This allows various modules to be installed on different servers to support the system's scalability and security. We believe that our technology allows us to offer products with the following benefits:

fast integration and interoperability with telecommunications equipment of major manufacturers, legacy systems and external software;

modular architecture that allows our products to be easily scalable and enables us to customize our software relatively quickly;

reliable products that support high availability of the service for mission-critical applications. Our automatic fail-over mechanism ensures minimal loss of service in case of a component failure; and

security at all levels of the architecture. Each user of the system may be assigned to different security groups. Service providers are therefore able to determine and audit access to the system. In addition, firewalls can be installed to prevent unauthorized access to the system.

Our software products are based on multiple-tier architecture, consisting of the following tiers:

Client Application Tier: This is the top tier graphic user interface between the user and the application. It includes client applications for customer registration, customer care and billing administration. In addition, it includes Web service interfaces that enable external applications to interact with the business tier;

Business Object Tier: This tier includes the business logic and rules of the system. This tier manages accounts, services, events and tariffs. It includes an object request broker that facilitates the transfer of information requested by the client application tier from the database tier; and

Database Tier: This tier includes the Oracle database server and management software where the actual billing and customer care information is stored.

Sales and Marketing

Sales

Billing and Customer Care Solutions

We conduct our sales and marketing activities primarily directly as well as through our marketing alliances with network equipment vendors and systems integrators. These marketing allies and resellers provide us with a global extension of our direct sales force. We also engage in joint marketing activities with our allies, including joint responses to requests for proposals. We believe that these relationships also help validate our technology and facilitate broad market acceptance of our software.

Our agreements with our marketing allies, distributors and resellers are non-exclusive, do not contain minimum sales or marketing performance requirements and may be terminated at any time with notice.

Enterprise Software

We conduct our sales and marketing activities primarily directly, by our sales force located in the MIND offices in the United States and Israel, as well as through appointed distributors and resellers throughout the world. We engage with our system integrators and equipment vendors for global marketing activities and responses to tenders.

Marketing

Our marketing programs are focused on creating awareness, interest and preference for our products and services. We engage in a variety of marketing activities, including:

participating in industry trade shows and special events;

conducting ongoing public and press relations programs; and conducting training seminars for vendors and system integrators.

Principal Markets

The following table shows our revenues for each of the past three years classified by activity and geographic region.

	Years ended December 31, ($ in thousands)		
	2014	**2015**	**2016**
The Americas (total)	$14,411	$11,292	$12,714
Sale of Licenses	2,625	1,396	2,689
Services	11,786	9,896	10,025
Asia Pacific and Africa (total)	1,188	1,522	1,125
Sale of Licenses	387	458	316
Services	801	1,064	809
Europe (total)	7,165	6,697	3,333
Sale of Licenses	1,832	1,806	732
Services	5,333	4,891	2,601
Israel (total)	2,256	1,417	880
Sale of Licenses	553	282	187
Services	1,703	1,135	693
Total	25,020	20,928	18,052
Sale of Licenses	5,397	3,942	3,924
Services	19,623	16,986	14,128

Customers

Billing and Customer Care Solutions

Our billing and customer care solutions have been installed for a large base of customers worldwide, including:

traditional telephony providers that evolved into quad-play providers, offering wireless, wireline, cable, content and internet services, such as Moldtelecom and Docomo Pacific;

wireless telephony providers and MVNO’s, such as KDDI America, Inc., Chat Mobility and SI Wireless;

LTE operators, such as MaxTelecom Bulgaria;

cable providers that also offer voice services, such as Megacable and EastLink; and

Mobile Virtual Network Enablers (MVNEs), such as Pelephone Telecommunications Ltd.

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Enterprise Software

Our enterprise software has been installed on about 20,000 switches around the world, for customers that include international banking firms, global technology leaders, government agencies and other small to very large organizations.

Competition

Billing and Customer Care Solutions

Competition in the market for billing and customer care software is intense and we expect competition to continue to be strong. We compete with many local companies and worldwide companies such as Amdocs, Redknee and Oracle.

We believe that our competitive advantage is based on:

our ability to rapidly deploy a complete turn-key product based solution;

our truly convergent platform using one database and one product catalog for both prepaid and postpaid subscribers;

our solutions' functionality, which includes billing, customer care, point-of-sale, mediation, provisioning, online charging for multiple services and interconnect reporting;

our proven platform and our many years of wireless and IP experience to satisfy customer requirements; and

our flexibility to meet customer requirements in a short time frame.

Some of our competitors have greater financial, technical, sales, marketing and other resources and greater name recognition than we do. Some of our competitors have lower cost structure and compete with us on pricing. Current and potential competitors have established, and may establish in the future, cooperative relationships among themselves or with third parties to increase their ability to address the needs of prospective customers. Accordingly, new competitors or alliances among competitors may emerge and rapidly acquire significant market share and their solutions could achieve greater market acceptance than our solutions.

Enterprise Software

Our competitors in the market for enterprise software products are mainly local companies. To compete effectively, companies must be able to offer adequate technical support and ongoing product development. In addition, multinational companies prefer call accounting systems that can be installed at their various offices throughout the world, and therefore require call accounting products that are multilingual and support the local telecommunication requirements. The principal factors upon which we compete are scalability, ease of use, being certified by major IP switch vendors and the multi-lingual and multi-currency nature of our system.

C. Organizational Structure

Set forth below is a list of our significant subsidiaries:

MIND Software Limited, a wholly owned subsidiary, incorporated in the United Kingdom;

MIND Software Inc. (formerly Sentori Inc.), a wholly owned subsidiary, incorporated in the State of Delaware;

MIND Software SRL., a wholly owned subsidiary of MIND Software Limited, incorporated in Romania; and

Dirot Comp SRL., a wholly owned subsidiary, incorporated in Romania.

D. Property, Plant and Equipment

Our headquarters are located in Yoqneam, Israel, approximately 50 miles north of Tel Aviv. We lease approximately 10,000 square feet at our Yoqneam headquarters. We also lease approximately 2,100 square feet of office space in Silver Spring, Maryland, approximately 24,000 square feet in Iasi, Romania and approximately 7,400 square feet in Suceava, Romania. The office in Maryland is used primarily for supporting our customers in the United States, while the offices in Iasi and Suceava are used primarily for software development and for customer support. The office in Maryland is the group's headquarters in the Americas.

Item 4A. Unresolved Staff Comments

Not applicable.

Item 5. Operating and Financial Review and Prospects

The following discussion of our results of operations should be read together with our audited consolidated financial statements and the related notes, which appear elsewhere in this annual report. The following discussion contains forward-looking statements that reflect our current plans, estimates and beliefs and involve risks and uncertainties. Our actual results may differ materially from those discussed in the forward-looking statements. Factors that could cause or contribute to such differences include those discussed below and elsewhere in this annual report.

Overview

We were incorporated in Israel in 1995 and started providing our enterprise software products in that year. In 1997, we introduced our billing and customer care software for Voice over IP. We have enhanced our billing solutions since then to support multiple IP services, wireless and wireline carriers and triple play (voice, data and content) service providers. In 2016, 81% of our revenues were derived from providing our billing and customer care software and 19% were derived from providing our enterprise software. In 2016, license fees represented 22% of our revenues and services represented 78%. In 2016, one customer accounted for approximately 14% of total revenues. In 2015, two customers accounted for approximately 10% and 13% of total revenues. In 2014, two customers accounted for approximately 11% and 13% of total revenues. We expect to continue to derive sizeable revenues from a small number of changing customers.

The telecom carriers compete mainly on price. Our customers encounter profitability challenges and continually aim to reduce both operating and capital expenditures. We believe that our up-to-date, versatile, comprehensive product-based billing platform and agile delivery fit perfectly with multi-play service providers and address their challenge of reducing operational cost. While the markets appear to be still active, showing ongoing demand for our products and services, extensive pre-sales efforts are required and many processes are extended or constantly delayed. Consolidation in the telecom markets was not favorable to us in the last years, and we closed fewer deals than in previous years. Accordingly, we expect challenges in maintaining our revenues level in the near term. During the last two years we invested significantly in the new version of MINDBill, which will be released in 2017, and we intend to promote the sales of upgrades. We plan to continue investing in technology, cloud solutions and seeking to enter new markets, as we continue to focus on our profitability targets.

In August 2005, we acquired Sentori Inc., a leading provider of billing and customer care solutions to tier 3 and tier 2 wireless carriers and mobile virtual network operators, or MVNO's, mainly in the United States and the Caribbean. In October 2007, we acquired the U.K.-based Omni Consulting Company Limited, which provides billing and customer care software solutions in a service bureau mode, mainly to European carriers.

In July 2003, we adopted a dividend policy, according to which we declare, subject to specific board approval and applicable law, a dividend distribution once per year, in the amount of our net income from the previous year. In October 2010, our board of directors updated this policy slightly. The new policy changes only the amount to be distributed, the new amount being equal to our EBITDA plus financial income (expenses) minus taxes on income. Additionally, the board approved dividend distributions in 2003, 2007, 2008, 2009, 2010, 2011 and 2014 that were subject to approvals from an Israeli Court in accordance with Section 303 of the Israeli Companies Law due to the fact that we did not have sufficient retained earnings, which court approvals were received. Since 2003, we have distributed aggregate cash dividends of approximately $3.98 per share to our shareholders. The amount per share that we distributed in 2014, 2015, and 2016 was $0.24, $0.30 and $0.27, respectively, and $0.32 per share in March 2017. The board decision to approve the annual distribution is based, among other factors, on our cash position at that time, potential acquisitions and future cash needs. The board may decide to discontinue the dividend distribution in whole or in part at any time.

Revenues. We are paid license fees by our customers for the right to use our products, based on (1) traffic volume, which is measured by factors such as number of subscribers, and (2) the functionality of the system based on application modules that are added to the software. In relation to our professional services, other than maintenance services and managed services, we mainly quote a fixed price based on the type of service offered, estimated direct labor costs and the expenses that we will incur to provide these services. Fees for maintenance services are based on a percentage of the solution fee and are paid annually, quarterly or monthly. Fees for managed services are primarily based on the number of subscribers or customers business volume and are paid monthly.

We primarily use two business models when we sell our solutions, the license model and the managed services model. In the license model, the customer pays a one-time implementation fee, a one-time license fee for a perpetual license limited by the traffic metrics chosen by the customer, and additional fees to expand the chosen traffic metrics limitation. In addition, we are paid maintenance fees to renew periodically the maintenance agreement at the customer discretion. In the managed services model, the customer pays a one-time implementation fee, a monthly fee that includes a periodic license (right to use), maintenance and services fees, calculated by the metrics chosen by the customer (mainly, number of subscribers).

We provide a revenue breakdown for our billing and customer care software and our enterprise call management software. We believe that this information provides a better understanding of our performance and allows investors to make a more informed judgment about our business.

Cost of Revenues. The cost of revenues consists primarily of direct labor costs and overhead expenses related to software installation and maintenance. Cost of revenues also includes, among other things, software license fees to third parties, primarily Oracle, hardware, travel expenses, packaging and shipping costs.

Research and Development Expenses. Our research and development expenses consist primarily of compensation, overhead and related costs for research and development personnel and depreciation of testing and other equipment. Research and development costs related to software products are expensed as incurred until the “technological feasibility” of the product has been established. Because of the relatively short time period between “technological feasibility” and product release, no software development costs have been capitalized. We expect to continue to make investments in research and development.

Selling and Marketing Expenses. Our selling and marketing expenses consist primarily of compensation, overhead and related costs for sales and marketing personnel, the operation of international sales offices, sales commissions, marketing programs, public relations, promotional materials, travel expenses, trade shows and exhibition expenses.

General and Administrative Expenses. Our general and administrative expenses consist primarily of compensation, overhead and related costs for executives and administrative personnel, professional fees, insurance, provisions for doubtful accounts and other general corporate expenses.

Financial Income (Expenses), Net. Our financial income (expenses), net consists mainly of interest earned on bank deposits and short-term investments, gains and losses from the conversion of monetary balance sheet items denominated in non-dollar currencies into U.S. dollars, net of financing costs, and bank charges.

Taxes on Income. See "—Corporate Tax Rate" below.

A. Operating Results

The following discussion of our results of operations for 2014, 2015 and 2016, including the percentage data in the following table, is based upon our statements of operations contained in our financial statements for those periods, and the related notes thereto, contained in Item 18:

	Years ended December 31,		
	2014	**2015**	**2016**
	(% of revenues)		
Revenues	100.0%	100.0%	100.0%
Cost of revenues	39.8	41.2	37.8
Gross profit	60.2	58.8	62.2
Research and development expenses	18.1	14.1	19.5
Selling, general and administrative expenses:			
Selling and marketing expenses	4.6	5.6	6.1
General and administrative expenses	7.7	8.4	7.7
Operating income	29.8	30.7	28.9
Financial income (expenses) – net	(1.2)	(0.6)	0.9
Income before taxes on income	28.6	30.1	29.8
Income tax expense	6.7	6.1	6.5
Net income	21.9	24.0	23.3

Comparison of 2014, 2015 and 2016

Revenues

	Years ended December 31,			% Change	
	2014	2015	2016	2015 vs. 2014	2016 vs. 2015
	($ in millions)				
License sales	5.4	3.9	3.9	(27.8)	-
Professional services	19.6	17.0	14.2	(13.3)	(16.5)
Total revenues	25.0	20.9	18.1	(16.4)	(13.4)

Revenues in 2015 decreased in comparison to 2014 by 16.4%. The decrease was primarily attributed to the decrease in both the number of the new deals and the size of new deals we signed both in 2014 and 2015, in comparison to the three new large deals we signed in 2013, for which the revenues were recognized mainly in 2014. Revenues in 2016 decreased in comparison to 2015 by 13.4%. The decrease was primarily attributed to the total value of the deals we signed both in 2014 and 2015, in comparison to the large deals we signed in 2013, for which the revenues were recognized mainly in 2014 but also in 2015, and a decrease in our volume of sales in Europe, reflecting also the lower Euro to U.S. dollar exchange rate.

Revenues from our billing and customer care product solutions for service providers decreased from $21.0 million in 2014 to $16.6 million in 2015 and decreased to $14.6 million in 2016 for similar reasons to the changes in total revenues.

Revenues from our enterprise products increased from $4.0 million in 2014 to $4.4 million in 2015. The increase was primarily attributed to stronger direct sales to a few large end-users in Europe. Revenues from our enterprise products decreased from $4.4 million in 2015 to $3.5 million in 2016. The decrease was primarily attributed to a significant decrease in our volume of sales in Europe, reflecting also the lower Euro to U.S. dollar exchange rate. Revenues from professional services decreased from $19.6 in 2014 to $17.0 in 2015 and further decreased to $14.1 in 2016. The decreases in 2015 and in 2016 were due to the aforementioned reasons for the changes in total revenues.

The following table presents the geographic distribution of our revenues:

	Years ended December 31,		
	2014	**2015**	**2016**
	(% of revenues)		
The Americas	57.6	54.0	70.4
Asia Pacific and Africa	4.8	7.3	6.2
Europe	28.6	32.0	18.5
Israel	9.0	6.7	4.9
Total	100.0%	100.0%	100.0%

Our revenues in the Americas decreased from $14.4 million in 2014 to $11.3 million in 2015 and as a percentage of total revenues decreased from 57.6% in 2014 to 54.0% in 2015. Our revenues in the Americas increased from $11.3 million in 2015 to $12.7 million in 2016 and as a percentage of total revenues increased from 54.0% in 2015 to 70.4% in 2016 due to two new customers and three large follow-on orders from existing customers in this area. Our revenues in Europe decreased from $7.2 million in 2014 to $6.7 million in 2015 mainly due to lower revenue recognition in regards to the large deal we signed in Europe in December 2013. Our revenues in Europe increased as a percentage of total revenues from 28.6% in 2014 to 32.0% in 2015 mainly due to the significant decrease in total revenues. Our revenues in Europe decreased from $6.7 million in 2015 to $3.3 million in 2016 and as a percentage of total revenues decreased from 32.0% in 2015 to 18.5% in 2016 mainly due to lower revenue recognition of the large deal we signed in late 2013, that approaches completion. Our revenues in Israel decreased from $2.3 million in 2014 to $1.4 million in 2015 and to $0.9 million in 2016, and as a percentage of total revenues decreased from 9.0% in 2014 to 6.7% in 2015 and to 4.9% in 2016, mainly due to completion of a large billing project in Israel during the second quarter of 2015 and a continual decrease in call accounting revenues.

Cost of Revenues

	Years ended December 31,	
Money market fund	15,784,000	17,035,000
Total	$19,193,000	$18,938,000

NOTE G - MARKETABLE SECURITIES

Marketable securities are classified as available-for-sale and are recorded as fair market value. Unrealized gain and losses are reported as other comprehensive income or loss. Realized gains and losses are reclassified from other comprehensive income or loss to net income or loss in the period they are realized. The Company's marketable securities consist of a corporate bond (face value $500,000) with a 5% coupon and term of greater than three months when purchased. The Company's marketable securities mature in June 2015.

NOTE H – OTHER INVESTMENTS

In May 2013, as part of the acquisition of the Mirror Worlds portfolio (see Note B[2]), the Company acquired from Mirror Worlds, LLC 250,000 shares of common stock of Lifestreams Technologies Corporation ("Lifestreams"), a company engaged in the development of next generation applications and methodologies designed to organize and display digital data. In July 2013, the Company made an additional investment of $50,000 in Lifestreams as part of a financing and received 123,456 shares of Series A preferred stock and, as part of an amended license agreement between the Company's subsidiary and Lifestreams, the Company received a warrant to purchase 1,305,000 shares of common stock of Lifestreams. The warrant was valued at $70,000 based on the Black-Scholes option model and recorded as non-cash royalty income for the three and nine months ended September 30, 2013. In March 2014, the Company made an additional investment of $95,000 in Lifestreams in the form of a convertible note as part of the first tranche of an aggregate investment of $380,200 of convertible notes. In May 2014 and August 2014, the Company made additional investments of $95,000 each as part of the second and third tranche of the investment. The convertible notes are due March 31, 2015 and shall automatically convert into shares of preferred stock upon a Lifestreams "qualified" equity financing (at least $3.0 million). Since the Company owns less than 20% of the outstanding equity of Lifestreams at September 30, 2014 and does not have significant influence or control, the Company's investment in Lifestreams is recorded at cost. It was not practicable to determine the fair value of the Company's investment in Lifestreams as it had no readily determinable market value. At September 30, 2014, the Company's investment in Lifestreams, which is included in Other Investments on the condensed consolidated balance sheets, consists of the following:

NOTE H – OTHER INVESTMENTS (continued)

	Number of Shares		Carrying Value
Common Stock	250,000	$	76,000
Series A Preferred Stock	123,456		50,000
Warrants	1,305,000		70,000
Convertible Notes	—		285,000
		$	481,000

NOTE I – COMMITMENTS AND CONTINGENCIES

[1] Legal Fees:

Russ, August & Kabat provides legal services to the Company with respect to its pending patent litigation filed in April 2014 against Google and YouTube in the United States District Court for the Southern District of New York relating to certain patents within the Company's Cox Patent Portfolio (as defined in Note B[2] hereof). The terms of the Company's agreement with Russ, August & Kabat provides for legal fees on a full contingency basis ranging from 15% to 30% of the net recovery (after deduction of expenses) depending on the stage of the proceeding in which the result (settlement or judgment) is achieved. The Company is responsible for all of the expenses incurred with respect to this litigation. Dovel & Luner, LLP provides legal services to the Company with respect to its patent litigation commenced in May 2013 against Apple, Inc., Microsoft, Inc. and other major vendors of document system software and computer systems in the United States District Court of Texas, Tyler Division, for infringement of U.S. Patent No. 6,006,227 (see Note D[1] hereof). The terms of the Company's agreement with Dovel & Luner LLP provide for legal fees on a contingency basis ranging from 25% to 40% of the net recovery (after deduction of expenses) depending upon the stage of proceeding in which a result (settlement or judgment) is achieved, subject to certain agreed upon contingency fee caps depending upon the amount of the net recovery. The Company is responsible for a certain portion of the expenses incurred with respect to the litigation.

Dovel & Luner, LLP provides legal services to the Company with respect to the Company's pending patent litigation filed in September 2011 against eleven (11) data networking equipment manufacturers in the United States District Court for the Eastern District of Texas, Tyler (see Note D[3]). The terms of the Company's agreement with Dovel & Luner LLP essentially provides for legal fees on a full contingency basis ranging from 12.5% to 35% (with certain exceptions) of the net recovery (after deduction for expenses) depending on the stage of the preceding in which a result (settlement or judgment) is achieved. For the nine month period ended September 30, 2014 and September 30, 2013, the Company accrued aggregate contingent legal fees with respect to the litigation of $23,000 and $181,000, respectively, to Dovel & Luner. The Company is responsible for a certain portion of the expenses incurred with respect to the litigation.

NOTE I – COMMITMENTS AND CONTINGENCIES (continued)

Dovel & Luner, LLP provided legal services to the Company with respect to the litigation settled in July 2010 against several major data networking equipment manufacturers (see Note D[2]). The terms of the Company's agreement with Dovel & Luner, LLP with respect to this litigation provided for legal fees of a maximum aggregate cash payment of $1.5 million plus a contingency fee of 24% (based on the settlement being achieved at the trial stage). As a result of the royalty payments payable quarterly by Cisco in accordance with the Company's settlement and license agreement with Cisco (see Note D[4]), the Company has an obligation to pay Dovel & Luner 24% of such royalties received. During the nine months ended September 30, 2014 and September 30, 2013, the Company incurred aggregate legal fees to Dovel & Luner, LLP of approximately $2,461,000 and $1,479,000, respectively, with respect to the aforementioned litigation.

With respect to the Company's litigation against D-Link, which was settled in May 2007, the Company utilized the services of Blank Rome, LLP on a full contingency basis. In accordance with the Company's contingency fee agreement with Blank Rome LLP, once the Company recovers its expenses related to the litigation (which were recovered in the first quarter of 2013), the Company is obligated to pay legal fees to Blank Rome LLP equal to 25% of the royalty revenue received by the Company from its license agreement with D-Link. During the nine month period ended September 30, 2014 and September 30, 2013, the Company accrued legal fees to Blank Rome LLP of $42,000 and $24,000, respectively.

[2] Patent Acquisitions:

On February 28, 2013, the Company completed the acquisition of four (4) patents (as well as a pending patent application) from Dr. Ingemar Cox, a technology leader in digital watermarking content identification, digital rights management and related technologies (the "Cox Patent Portfolio"), for a purchase price of $1,000,000 in cash and 403,226 shares of the Company's common stock. In addition, the Company is obligated to pay Dr. Cox 12.5% of the net proceeds (after deduction of expenses) generated by the Company from licensing, sale or enforcement of the patents. In 2014, the Company was issued three additional patents by the United States Patent and Trademark Office related to the Cox Patent Portfolio.

On May 21, 2013, the Company's wholly-owned subsidiary, Mirror Worlds Technologies, LLC, acquired all of the patents previously owned by Mirror Worlds, LLC (which subsequently changed its name to Looking Glass LLC), consisting of nine (9) issued United States patents and five (5) pending applications covering foundational technologies that enable unified search and indexing, displaying and archiving of documents in a computer system. As consideration for the patent acquisition, the Company paid Looking Glass LLC $3,000,000 in cash, and issued 5-year warrants to purchase an aggregate of 1,750,000 shares of the Company's common stock (875,000 shares of common stock at an exercise price of $1.40 per share and 875,000 shares of the Company's common stock at an exercise price of $2.10 per share) (the "Looking Glass Warrants"). Professional fees and filing fees of $409,000 were capitalized as part of the patent acquisition. On June 3, 2014, the Company repurchased the Looking Glass Warrants from Looking Glass for $505,000. As part of the acquisition of the Mirror Worlds patents, the Company also entered into an agreement with Recognition Interface, LLC ("Recognition"), an entity that financed the commercialization of the patent portfolio prior to its sale to Mirror Worlds, LLC and also retained an interest in the licensing proceeds of the patent portfolio held

NOTE I – COMMITMENTS AND CONTINGENCIES (continued)

by Mirror Worlds, LLC. Pursuant to the terms of the Company's agreement with Recognition, Recognition received (i) 5-year warrants to purchase 250,000 shares of the Company's common stock at an exercise price of $1.40 per share, and (ii) 5-year warrants to purchase 250,000 shares of common stock at an exercise price of $2.10 per share. Recognition also received from the Company an interest in the net proceeds realized from the monetization of the patent portfolio as follows: (i) 10% of the first $125 million of net proceeds, (ii) 15% of the next $125 million of net proceeds, (iii) and 20% of any portion of the net proceeds in excess of $250 million. In addition, Abacus and Associates, Inc. ("Abacus"), an investment entity affiliated with Recognition, received a 60-day warrant to purchase 500,000 shares of the Company's common stock at an exercise price of $2.05 per share. In accordance with the Company's agreement with Recognition, as a result of the exercise of the 60-day warrant by Abacus in July 2013, additional 5-year warrants to purchase an aggregate of 250,000 shares of the Company's common stock were issued to Recognition (125,000 shares at an exercise price of $2.10 per share and 125,000 shares at an exercise price of $1.40 per share).

[3] Amended Patent Purchase Agreement:

In January 2005, the Company and Merlot Communications, Inc., the successor of which is BAXL Technologies, Inc. (the "Seller"), amended the Patent Purchase Agreement originally entered into in November 2003 (the "Amendment") pursuant to which the Company paid an additional purchase price of $500,000 to Seller for the restructuring of future contingent payments to Seller from the licensing or sale of the patents (including the Remote Power Patent and the QoS family of patents). The Amendment provided for future contingent payments by the Company to Seller of $1.0 million upon achievement of $25 million of Net Royalties (as defined) which payment was made in 2012, an additional $1.0 million contingent upon achievement of $50 million of Net Royalties and an additional $500,000 contingent upon achievement of $62.5 million of Net Royalties from the licensing or sale of the patents acquired from Seller.

[4] Services Agreement:

Pursuant to an agreement, dated November 30, 2004, between the Company and ThinkFire Services USA, Ltd. ("ThinkFire"), the Company is obligated to pay ThinkFire fees from royalty payments received from certain licensees in consideration for services performed on behalf of the Company. During the nine month periods ended September 30, 2014 and September 30, 2013, the Company accrued fees of approximately $81,000 and $77,000, respectively, with respect to its obligation to ThinkFire.

[5] Lease Agreements:

The Company currently leases office space in New York, New York at a cost of $3,600 per month pursuant to a lease expiring on November 30, 2014. The Company anticipates entering into an extension of this lease on substantially the same terms.

NOTE I – COMMITMENTS AND CONTINGENCIES (continued)

In June 2011, the Company entered into a four-year lease agreement commencing July 18, 2011 to rent office space, consisting of approximately 2,400 square feet, for offices in New Canaan, Connecticut. The Company pays a base rent of $7,000 per month which is subject to annual adjustments to reflect increases in real estate taxes and operating expenses.

In May 2013, Mirror Worlds Technologies, LLC, the Company's wholly-owned subsidiary, entered into a one year lease, at a base rent of $620 per month, to rent office space consisting of approximately 420 square feet in Tyler, Texas. On January 7, 2014, the lease was renewed for a fifteen (15) month period expiring on April 30, 2015.

NOTE J - EMPLOYMENT ARRANGEMENTS AND OTHER AGREEMENTS

[1] On November 1, 2012, the Company entered into an employment agreement (the "Agreement") with its Chairman and Chief Executive Officer for a one year term (which shall automatically be extended for two successive one year periods unless terminated by the Company) at an annual base salary of $415,000. The Agreement established an annual target bonus of $150,000 for the Chairman and Chief Executive Officer based on performance criteria to be established on an annual basis by the Board of Directors (or compensation committee). For the year ended December 31, 2013, the Chairman and Chief Executive Officer received an annual cash bonus of $175,000. In connection with the Agreement, the Chairman and Chief Executive Officer was issued a ten year option to purchase 500,000 shares of the Company's common stock at an exercise price of $1.19 per share, which vests in equal quarterly amounts of 41,667 shares beginning November 1, 2012 through August 31, 2015, subject to acceleration upon a change of control. The Chairman and Chief Executive Officer shall forfeit the balance of unvested shares if his employment has been terminated "For Cause" (as defined) by the Company or by him without "Good Reason" (as defined). Under the terms of the Agreement, the Chairman and Chief Executive Officer also receives incentive compensation in an amount equal to 5% of the Company's gross royalties or other payments or proceeds (without deduction of legal fees or any other expenses) with respect to its Remote Power Patent and a 10% net interest (gross royalties and other payments or proceeds after deduction of all legal fees and litigation expenses related to licensing, enforcement and sale activities, but in no event shall he receive less than 6.25% of the gross recovery) of the Company's royalties and other payments with respect to its other patents besides the Remote Power Patent (the "Additional Patents") (the "Incentive Compensation"). During the nine months ended September 30, 2014 and September 30, 2013, the Chairman and Chief Executive Officer earned Incentive Compensation of $550,000 and $356,000, respectively. The Incentive Compensation shall continue to be paid to the Chairman and Chief Executive Officer for the life of each of the Company's patents with respect to licenses entered into with third parties during the term of his employment or at anytime thereafter, whether he is employed by the Company or not; provided, that, the Chairman and Chief Executive Officer's employment has not been terminated by the Company "For Cause" (as defined) or terminated by him without "Good Reason" (as defined). In the event of a merger or sale of substantially all of the assets of the Company, the Company has the option to extinguish the right of the Chairman and Chief Executive Officer to receive future Incentive Compensation by payment to him of a lump sum payment, in an amount equal to the fair market value of such future interest as determined by an independent third party expert if the parties do not reach agreement as to such value. In the event that the Chairman and Chief Executive Officer's employment is terminated by the Company "Other Than For Cause" (as defined) or by him for "Good Reason" (as defined), the Chairman and Chief Executive Officer shall also be entitled to

NOTE J - EMPLOYMENT ARRANGEMENTS AND OTHER AGREEMENTS (continued)

(i) a lump sum severance payment of 12 months base salary, (ii) a pro-rated portion of the $150,000 target bonus provided bonus criteria have been satisfied on a pro-rated basis through the calendar quarter in which the termination occurs and (iii) accelerated vesting of all unvested options and warrants.

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

[2] On April 12, 2012, the Company entered into an agreement with its Chief Financial Officer which amended the agreement, dated February 3, 2011, pursuant to which he continued to serve the Company. The amendment (the "Amendment") provided as follows: (i) the term of service of the Chief Financial Officer shall be extended until December 31, 2013; (ii) monthly compensation shall be increased to $11,000 per month; and (iii) the Chief Financial Officer was granted a five year option to purchase 75,000 shares of the Company’s common stock at an exercise price of $1.40 per share, which option vested over a one year period in equal quarterly amounts of 18,750 shares.

[3] On April 9, 2014, the Company’s Chief Financial Officer entered into an offer letter with the Company pursuant to which he continues to serve as Chief Financial Officer, on an at-will basis, at an annual base salary of $157,500. The Chief Financial Officer is eligible to receive incentive or bonus compensation on an annual basis in the discretion of the Company’s Compensation Committee. In connection with the offer letter, the Chief Financial Officer was issued under the Company’s 2013 Stock Incentive Plan a 5-year stock option to purchase 50,000 shares of the Company’s common stock, at an exercise price of $1.65 per share, which option vests in two equal amounts (25,000 shares each) on each of December 31, 2014 and December 31, 2015. In addition, in the event the Chief Financial Officer’s employment is terminated without “Good Cause” (as defined), he shall receive (i) (a) 6 months base salary or (b) 12 months base salary in the event of a termination without “Good Cause” within 6 months following a “Change of Control” of the Company (as defined) and (ii) accelerated vesting of all remaining unvested shares underlying his options or any other awards he may receive in the future.

NOTE K – LEGAL PROCEEDINGS

[1] On April 4, 2014, the Company initiated litigation against Google and YouTube in the United States District Court for the Southern District of New York for infringement of several of its patents within the Company’s Cox Patent Portfolio which relate to the identification of media content on the Internet. The lawsuit alleges that Google and YouTube have infringed and continue to infringe certain of the Company’s patents by making, using, selling and offering to sell unlicensed systems and related products and services, which include YouTube’s Content ID system.

NOTE K – LEGAL PROCEEDINGS (continued)

[2] On May 23, 2013, through the Company's wholly-owned subsidiary Mirror Worlds Technologies, LLC, the Company initiated patent litigation in the United States District Court for the Eastern District of Texas, Tyler Division, against Apple, Inc., Microsoft, Inc., Hewlett-Packard Company, Lenovo Group Ltd., Lenovo (United States), Inc., Dell, Inc., Best Buy Co., Inc., Samsung Electronics America, Inc. and Samsung Telecommunications America L.L.C., for infringement of the U.S. Patent No. 6,006,227 (the "227 Patent") (one of the patents the Company acquired as part of the acquisition of the Mirror Worlds patent portfolio). The Company seeks, among other things, monetary damages based upon reasonable royalties. The lawsuit alleges that the defendants have infringed and continue to infringe the claims of the '227 Patent by making, selling, offering to sell and using infringing products including Mac OS and Windows operating systems and personal computers and tablets that include versions of those operating systems, and by encouraging others to make, sell, and use these products. In September 2013 and October 2013, the defendants filed their answers to the Company's complaint. Defendants Apple and Microsoft, Inc. also filed counterclaims for a declaratory judgment of non infringement of the Company's '227 Patent and invalidity of its '227 Patent. In December 2013, the litigation was severed into two consolidated actions, Mirror Worlds v. Apple, et. al. and Mirror Worlds v. Microsoft, et. al. In September 2013, certain defendants filed a motion to stay the Company's claims against Microsoft's customers and transfer the litigation to the Western District of Washington, which was denied by the Court in September 2014. On October 23, 2014, the defendants in the Mirror Worlds v. Microsoft, et. al. action filed a Petition for a Writ of Mandamus in the United States Court of Appeals for the Federal Circuit directing the District Court to (i) stay the Company's claims against Microsoft's customers, and (ii) transfer the case against Microsoft and its customers to the Western District of Washington. A Markman hearing for the two consolidated actions is scheduled for November 13, 2014 and trial dates have been scheduled for March 2016.

[3] In September 2011, the Company initiated patent litigation against 16 data networking equipment manufacturers in the United States District Court for the Eastern District of Texas, Tyler Division, for infringement of its Remote Power Patent. Named as defendants in the lawsuit, excluding related parties, were Alcatel-Lucent USA, Inc., Allied Telesis, Inc., Avaya Inc., AXIS Communications Inc., Dell, Inc., GarrettCom, Inc., Hewlett-Packard Company, Huawei Technologies USA, Juniper Networks, Inc., Motorola Solutions, Inc., NEC Corporation, Polycom Inc., Samsung Electronics Co., Ltd., ShoreTel, Inc., Sony Electronics, Inc., and Transitions Networks, Inc. Network-1 seeks monetary damages based upon reasonable royalties. During the year ended December 31, 2012, the Company reached settlement agreements with defendants Motorola Solutions, Inc. ("Motorola"), Transition Networks, Inc. ("Transition Networks") and GarretCom, Inc. ("GarretCom"). In February 2013, the Company reached settlement agreements with Allied Telesis, Inc. ("Allied Telesis") and NEC Corporation ("NEC"). As part of the settlements, Motorola, Transition Networks, GarretCom, Allied Telesis and NEC each entered into a non-exclusive license agreement for the Company's Remote Power Patent pursuant to which each such defendant agreed to license the Remote Power Patent for its full term (which expires in March 2020) and pay a license initiation fee and quarterly or annual royalties based on their sales of PoE products. On March 5, 2013, the Court granted the motion of certain of the defendants to stay the litigation until application of a party following completion of the Inter Partes Review proceeding described in Note D[6] below. On September 11, 2014, the Company filed a motion to lift the stay and a decision on the motion is pending.

NOTE K – LEGAL PROCEEDINGS (continued)

[4] In July 2010, the Company settled its patent litigation pending in the United States District Court for the Eastern District of Texas, Tyler Division, against Adtran, Inc, Cisco Systems, Inc. and Cisco-Linksys, LLC, (collectively, “Cisco”), Enterasys Networks, Inc., Extreme Networks, Inc., Foundry Networks, Inc., and 3Com Corporation, Inc. As part of the settlement, Adtran, Cisco, Enterasys, Extreme Networks and Foundry Networks each entered into a settlement agreement with the Company and entered into non-exclusive licenses for the Company’s Remote Power Patent (the “Licensed Defendants”). Under the terms of the licenses, the Licensed Defendants paid the Company aggregate upfront payments of approximately $32 million and also agreed to license the Remote Power Patent for its full term, which expires in March 2020. In accordance with the Settlement and License Agreement, dated May 25, 2011, which expanded upon the July 2010 agreement, Cisco is obliged to pay the Company royalties (which began in the first quarter of 2011) based on its sales of PoE products up to maximum royalty payments per year of $8 million through 2015 and $9 million per year thereafter for the remaining term of the patent. The royalty payments are subject to certain conditions including the continued validity of the Company’s Remote Power Patent, and the actual royalty amounts received may be less than the caps stated above, as was the case in 2013 and 2012. Under the terms of the Agreement, if the Company grants other licenses with lower royalty rates to third parties (as defined in the Agreement), Cisco shall be entitled to the benefit of the lower royalty rates provided it agrees to the material terms of such other license. Under the terms of the Agreement, the Company has certain obligations to Cisco and if it materially breaches such terms, Cisco will be entitled to stop paying royalties to the Company. This would have a material adverse effect on the Company’s business, financial condition and results of operations.

[5] On July 20, 2012, an unknown third party filed with the United States Patent and Trademark Office (USPTO) a request for an Ex Parte Reexamination, requesting that the Company’s Remote Power Patent be reexamined by the USPTO. The reexamination was stayed beginning in December 2012 until May 2014 (the completion of the Inter Partes review proceeding as described in Note D[6] below). On October 14, 2014, the USPTO issued a Reexamination Certificate, rejecting a challenge to the patentability of the Company’s Remote Power Patent (U.S. Patent No. 6,218,930). The Reexamination Certificate confirms the patentability of the challenged claims of the Remote Power (claims 6, 8 and 9) without any amendment or modification. The USPTO allowed fourteen new claims, bringing the total claims in the Remote Power Patent to twenty-three claims. No claims were rejected.

[6] Avaya Inc., Dell Inc., Sony Corporation of America and Hewlett Packard Co. were petitioners in Inter Partes Review proceedings (which were joined together) (the “IPR Proceeding”) at the United States Patent and Trademark Office before the Patent Trial and Appeal Board (the “Patent Board”) involving the Company’s Remote Power Patent. Petitioners in the IPR Proceeding sought to cancel certain claims of the Company’s Remote Power as unpatentable. A hearing on the merits of the IPR Proceeding was held on January 9, 2014. On May 22, 2014, the Patent Board issued its Final Written Decision in favor of the Company, rejecting a challenge to the patentability of the Company’s Remote Power Patent. On July 24, 2014, the Petitioners in the IPR Proceeding each filed a Notice of Appeal of the Patent Board’s decision to the United States Court of Appeals for the Federal Circuit. In the event the decision of the Patent Board is reversed by the United States Court of Appeals for the Federal Circuit and the Remote Power Patent is determined to be invalid, such a decision would have a material adverse effect on our business, financial condition and results of operations as our entire revenue stream is dependent upon the continued validity of our Remote Power Patent.

NOTE L – STOCK REPURCHASE

On August 22, 2011, the Company announced that its Board of Directors approved a share repurchase program to repurchase up to $2,000,000 of shares of its common stock over the next 12 months ("Share Repurchase Program"). On June 3, 2014, the Board of Directors authorized its fourth increase to the Company's Share Repurchase Program authorizing the repurchase of up to an additional $5.0 million of shares of common stock over the subsequent 12 month period (for a total of up to $12 million since inception of the program in August 2011). The common stock may be repurchased from time to time in open market transactions or privately negotiated transactions in the Company's discretion. The timing and amount of the shares repurchased is determined by management based on its evaluation of market conditions and other factors. The Share Repurchase Program may be increased, suspended or discontinued at any time. Since inception of the Share Repurchase Program in August 2011 through September 30, 1014, the Company has repurchased an aggregate of 5,144,068 shares of its common stock at an average price per share of $1.47 or an aggregate cost of $7,555,857. During the three month period ended September 30, 2014, the Company repurchased 177,000 shares of its common stock at an average price per share of $2.15 or an aggregate cost of $380,550. All such repurchased shares have been cancelled.

NOTE M – CISCO ROYALTY AUDIT AND CONCENTRATION

In late December 2013, the Company exercised its right to audit the royalties paid to it by Cisco for the years 2012 and 2013 (the "Audit Period") in accordance with its May 2011 license agreement with Cisco. As a result of the audit, Cisco agreed to pay the Company additional royalty payments pursuant to the May 2011 license agreement of $3,281,000 for the Audit Period and other periods covered by the license agreement. These additional aggregate royalty payments of $3,281,000 were all recorded as royalty revenue in the three month period ended June 30, 2014, at the time the additional royalty payments were agreed to by the parties.

Cisco constituted approximately 89% and 80% of the Company's revenue, respectively, for the nine months periods ended September 30, 2014 and September 30, 2013. Cisco constituted approximately 72% and 62% of the Company's revenue, respectively, for the three months periods ended September 30, 2014 and September 30, 2013. At September 30, 2014 and December 31, 2013, the royalty receivable from Cisco constituted approximately 75% and 52% of the Company's royalty receivables, respectively.

NOTE N – RECENTLY ISSUED ACCOUNTING STANDARD

In June 2014, FASB issued Accounting Standards Update ("ASU") No. 2014-09, "Revenue from Contracts with Customers". The update gives entities a single comprehensive model to use in reporting information about the amount and timing of revenue resulting from contracts to provide goods or services to customers. The ASU, which would apply to any entity that enters into contracts to provide goods or services, would supersede the revenue recognition requirements in Topic 605, Revenue Recognition, and most industry-specific guidance throughout the Industry Topics of the Codification. Additionally, the update would supersede some cost guidance included in Subtopic 605-35, Revenue Recognition – Construction-Type and Production-Type Contracts. The update removes inconsistencies and weaknesses in revenue requirements and provides a more robust framework for addressing revenue issues and more useful information to users of financial statements through improved disclosure requirements. In addition, the update improves comparability of revenue recognition practices across entities,

NOTE N – RECENTLY ISSUED ACCOUNTING STANDARD (continued)

industries, jurisdictions, and capital markets and simplifies the preparation of financial statements by reducing the number of requirements to which an entity must refer. The update is effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. The Company is currently reviewing the provisions of this ASU to determine if there will be any impact on its results of operations, cash flows or financial condition.

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

THIS QUARTERLY REPORT ON FORM 10-Q CONTAINS FORWARD-LOOKING STATEMENTS WHICH ARE STATEMENTS THAT INCLUDE INFORMATION BASED UPON BELIEF OF OUR MANAGEMENT, AS WELL AS ASSUMPTIONS MADE BY AND INFORMATION AVAILABLE TO MANAGEMENT. STATEMENTS CONTAINING TERMS SUCH AS “BELIEVES”, “EXPECTS”, “ANTICIPATES”, “INTENDS” OR SIMILAR WORDS ARE INTENDED TO IDENTIFY FORWARD LOOKING STATEMENTS. ACTUAL RESULTS, EVENTS AND CIRCUMSTANCES (INCLUDING FUTURE PERFORMANCE, RESULTS AND TRENDS) COULD DIFFER MATERIALLY FROM THOSE SET FORTH IN SUCH STATEMENTS DUE TO VARIOUS RISKS AND UNCERTAINTIES, INCLUDING, BUT NOT LIMITED TO, THOSE DISCUSSED BEGINNING ON PAGES 8-19 OF OUR POST-EFFECTIVE AMENDMENT NO. 2 TO FORM S-1 REGISTRATION STATEMENT (REGISTRATION STATEMENT NO. 333-190719) FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ON SEPTEMBER 30, 2014.

OVERVIEW

Our principal business is the development, licensing and protection of our intellectual property assets. We presently own twenty-two (22) patents that relate to various technologies including patents covering (i) the delivery of power over Ethernet cables for the purpose of remotely powering network devices, such as wireless access ports, IP phones and network based cameras; (ii) foundational technologies that enable unified search and indexing, displaying and archiving of documents in a computer system; (iii) enabling technology for identifying media content on the Internet and taking further action to be performed based on such identification including, among others, the insertion of advertising and the facilitation of the purchase of goods and services related to such content; and (iv) systems and methods for the transmission of audio, video and data in order to achieve high quality of service (QoS) over computer and telephony networks. In addition, we continually review opportunities to acquire or license additional intellectual property.

We have been actively engaged in the licensing of our patent (U.S. Patent No. 6,218,930) covering delivery of power over Ethernet cables (the “Remote Power Patent”). As of September 30, 2014, we had entered into sixteen (16) license agreements with respect to our Remote Power Patent which, among others, include license agreements with Cisco Systems, Inc. and Cisco Linksys, LLC, Extreme Networks, Inc., Netgear, Inc., Microsemi Corporation, Motorola Solutions, Inc. and NEC Corporation and several other major data networking equipment manufacturers (see Note D to our financial statements included in this quarterly report). Our current strategy includes continuing our licensing efforts with respect to our Remote Power Patent and our efforts to monetize the two patent portfolios (the Cox Patent Portfolio and the Mirror Worlds Patent Portfolio) we acquired in 2013. In addition, we continue to seek to acquire additional intellectual property assets to develop, commercialize, license or otherwise monetize such intellectual property. Our strategy includes working with inventors and patent owners to assist in the development and monetization of their patented technologies. We may also enter into strategic relationships with third parties to develop, commercialize, license or otherwise monetize their intellectual property. Our acquisition strategy is to focus on acquiring high quality patents which management believes have the potential to generate significant licensing opportunities as we have achieved with respect to our Remote Power Patent. Our Remote Power Patent generated licensing revenue in excess of $65,000,000 from May 2007 through September 30, 2014.

On February 28, 2013, as part of our acquisition strategy, we acquired from Dr. Ingemar Cox, a technology leader in digital watermarking content identification, digital rights management and related technologies, four (4) patents (as well as a pending patent application) (the “Cox Patent Portfolio”) for a purchase price of $1,000,000 in cash and 403,226 shares of our common stock. In addition, we are obligated to pay Dr. Cox 12.5% of the net proceeds generated by us from licensing, sale or enforcement of the patents (see Note B[2] to our financial statements included in this quarterly report). In 2014, we were issued three additional patents (U.S. Patent No. 8,640,179, U.S. Patent No. 8,656,441 and U.S. Patent No. 8,782,726) by the United States Patent and Trademark Office related to the Cox Patent Portfolio.

On May 21, 2013, Mirror Worlds Technologies, LLC, our wholly-owned subsidiary, acquired all of the patents previously owned by Mirror Worlds, LLC (which subsequently changed its name to Looking Glass LLC) including nine (9) issued United States patents and five (5) pending applications covering foundational technologies that enable unified search and indexing, displaying and archiving of documents in a computer system (the “Mirror Worlds Patent Portfolio”). The consideration we paid for the Mirror Worlds Patent Portfolio consisted of (i) $3,000,000 in cash, (ii) 5-year warrants to purchase 875,000 shares of our common stock at an exercise price of $1.40 per share, and (iii) 5-year warrants to purchase 875,000 shares of our common stock at an exercise price of $2.10 per share (the “Looking Glass Warrants”) (see Note B[2] to our financial statements included in this quarterly report). On June 3, 2014, we repurchased the Looking Glass Warrants from Looking Glass at a cost of $505,000. As part of the acquisition of the Mirror Worlds Patent Portfolio, we also entered into an agreement with Recognition Interface, LLC (“Recognition”), an entity that financed the commercialization of the Mirror Worlds Patent Portfolio prior to its sale to Mirror Worlds, LLC and also retained an interest in the licensing proceeds of the patent portfolio held by Mirror Worlds, LLC. Pursuant to the terms of our agreement with Recognition, Recognition received (i) 5-year warrants to purchase 250,000 shares of our common stock at an exercise price of $1.40 per share, and (ii) 5-year warrants to purchase 250,000 shares of our common stock at an exercise price of $2.10 per share. Recognition also received from us an interest in the net proceeds realized from the monetization of the Mirror Worlds Patent Portfolio as follows: (i) 10% of the first $125 million of net proceeds; (ii) 15% of the next $125 million of net proceeds; and (iii) 20% of any portion of the net proceeds in excess of $250 million. In addition, Abacus and Associates, Inc., an entity affiliated with Recognition, received a 60-day warrant to purchase 500,000 shares of our common stock at an exercise price of $2.05 per share which it exercised in full on July 22, 2013 resulting in proceeds to us of $1,025,000. As a result of such warrant exercise and in accordance with our agreement with Recognition, we issued additional warrants to Recognition to purchase an aggregate of 250,000 shares of our common stock (125,000 shares at an exercise price of $2.10 per share and 125,000 shares at an exercise price of $1.40 per share).

On May 22, 2013, through our wholly-owned subsidiary, Mirror Worlds Technologies, LLC, we initiated patent litigation against Apple, Inc., Microsoft, Inc., Hewlett-Packard Company, Lenovo Group Ltd., Lenovo (United States), Inc., Dell, Inc., Best Buy Co., Inc., Samsung Electronics America, Inc. and Samsung Telecommunications America L.L.C., in the United States District Court for the Eastern District of Texas, Tyler Division, for infringement of U.S. Patent No. 6,006,227 (part of the Mirror Worlds Patent Portfolio we acquired) (see “Legal Proceedings” at page 30 hereof).

On April 4, 2014, we initiated litigation against Google and YouTube in the United States District Court for the Southern District of New York for infringement of several of our patents within the Cox Patent Portfolio relating to the identification of media content on the Internet. The lawsuit alleges that Google and YouTube have infringed and continue to infringe certain of our patents by making, using, selling and offering to sell unlicensed systems and related products and services, which include YouTube’s Content ID system (see “Legal Proceedings at page 30 hereof).

In September 2011, we initiated patent litigation against sixteen (16) data networking equipment manufacturers in the United States District Court for the Eastern District of Texas, Tyler Division, for infringement of our Remote Power Patent. During the years ended December 31, 2012 and December 31, 2013, we settled the litigation against five (5) of the defendants. In March 2013 the Court granted certain defendants motion and stayed the litigation until application following disposition of the Inter Partes Review proceeding involving our Remote Power Patent. On September 11, 2014, we filed a motion to lift the stay and a decision by the Court is pending (see “Legal Proceedings” at page 31 hereof).

As a result of a settlement in July 2010 of patent litigation we had initiated against Cisco Systems, Inc. and Cisco-Linksys, LLC (collectively “Cisco”), we entered into non-exclusive licenses for our Remote Power Patent with Cisco and the other defendants. For the years ended December 31, 2013 and December 31, 2012, our royalty revenue from Cisco constituted 77% of our revenue. For the nine month period ended September 30, 2014 and September 30, 2013, our royalty revenue from Cisco constituted 89% and 81% of our revenue, respectively. In accordance with our Settlement and License Agreement, dated May 25, 2011 (the “Agreement”), which expanded upon the July 2010 agreement, Cisco is obligated to pay us royalties (which began in the first quarter of 2011) based on its sales of PoE products up to maximum royalty payments per year of $8 million through 2015 and $9 million per year thereafter for the remaining term of the patent. The royalty payments are subject to certain conditions including the continued validity of our Remote Power Patent. Due to our annual royalty rate structure with Cisco which includes declining rates as the volume of PoE product sales increase during the year, royalties from Cisco are anticipated to be highest in the first quarter of the calendar year and decline for each of the remaining calendar quarters of the year. However, in 2014 we had greater royalty revenue from Cisco in the second quarter as compared to the first quarter because we recorded additional royalty revenue from Cisco in the second quarter as a result of our recently completed audit of Cisco for the years ended December 31, 2013 and December 31, 2012 (see below and Note M to our financial statements included in this quarterly report).

In late December 2013 we exercised our right to audit the royalties paid to us by Cisco for the years 2012 and 2013 (the “Audit Period”) in accordance with our May 2011 license agreement with Cisco. As a result of the audit, Cisco agreed to pay the Company additional royalty payments pursuant to the May 2011 license agreement of $3,281,000 for the Audit Period and other periods covered by license agreement. These additional aggregate royalty payments of $3,281,000 were all recorded as revenue in the three month period ended June 30, 2014, at the time the parties agreed to the amount of the additional royalty revenue (See Note M to our financial statements included in this quarterly report).

On July 20, 2012, an unknown third party filed with the United States Patent and Trademark Office ("USPTO") a request for ex parte reexamination of certain claims of our Remote Power Patent. On September 5, 2012, the USPTO issued an order granting the reexamination. The request for reexamination was stayed by the USPTO on December 21, 2012 until May 2014 (the completion of the Inter Partes Review proceedings at the USPTO involving our Remote Power Patent described below). On October 14, 2014, the USPTO issued a Reexamination Certificate, rejecting a challenge to the patentability of our Remote Power Patent (U.S Patent No. 6,218,930). The Reexamination Certificate confirmed the patentability of the challenged claims of the Remote Power (claims 6, 8 and 9) without any amendment or modification. The USPTO also allowed fourteen new claims, bringing the total claims in the Remote Power Patent to twenty-three claims. No claims were rejected.

Avaya Inc., Dell Inc., Sony Corporation of America and Hewlett Packard Co. were petitioners in Inter Partes Review proceedings (which were joined together) (the "IPR Proceeding") at the USPTO before the Patent Trial and Appeal Board (see "Legal Proceedings" at pages 31-32 of this quarterly report). A hearing on the merits of the IPR Proceeding was held on January 9, 2014. On May 22, 2014, the Patent Board issued its Final Written Decision in favor of the Company rejecting a challenge to the patentability of our Remote Power Patent. On July 24, 2014, the Petitioners in the IPR Proceeding each filed a Notice of Appeal of the Patent Board's decision to the United States Court of Appeals for the Federal Circuit. In the event the decision of the Patent Board is reversed by the United States Court of Appeals for the Federal Circuit and the Remote Power Patent is determined to be invalid, such a decision would have a material adverse effect on our business, financial condition and results of operations as our entire revenue stream is dependent upon the continued validity of our Remote Power Patent.

At September 30, 2014, we had net operating loss carryforwards (NOLs) totaling approximately $22,862,000 expiring through 2029, with a future tax benefit of approximately $7,773,000. At September 30, 2014 and December 31, 2013, $4,128,000 and $5,659,000, respectively, was recorded as a deferred tax asset on our balance sheet. During the nine months ended September 30, 2014, as a result of income (before taxes) for the quarter of $4,582,000, $1,621,000 was recorded as income tax expense and the deferred tax asset was reduced by $1,531,000 to $4,128,000. To the extent that we have taxable income in the future, we will report income tax expense and such expense attributable to federal income taxes will reduce the deferred tax asset reflected on our balance sheet. Management will continue to evaluate the recoverability of our NOLs and adjust the deferred tax asset accordingly. Utilization of NOLs can be subject to a substantial annual limitation due to ownership change limitations that could occur in the future, as required by Section 382 of the Internal Revenue Code of 1986, as amended, as well as similar state provisions.

RESULTS OF OPERATIONS

Three Months Ended September 30, 2014 Compared To Three Months Ended September 30, 2013

Revenue. We had revenue of $1,367,000 for the three months ended September 30, 2014 as compared to revenue of $1,227,000 for the three months ended September 30, 2013, which was related to the receipt of royalties pursuant to license agreements for our Remote Power Patent. The increase in revenue of $140,000 or 11.4% for the three months ended September 30, 2014 was due to increased royalty revenue from our licensees.

Cost of Revenue. We had a cost of revenue of $337,000 and $345,000 for the three months ended September 30, 2014 and September 30, 2013, respectively. Included in the cost of revenue for the three months ended September 30, 2014 were contingent legal fees of $229,000 payable to our patent litigation counsel (see Note B[1] to our financial statements included herein) and $68,000 of incentive (royalty bonus) compensation payable to our Chairman and Chief Executive Officer pursuant to his employment agreement (see Note C[1] to our financial statements included in this quarterly report). Included in the cost of revenue for the three months ended September 30, 2013 were contingent legal fees of $241,000 payable to our patent litigation counsel and $58,000 of incentive (royalty bonus) compensation payable to our Chairman and Chief Executive Officer pursuant to his employment agreement.

Gross Profit. The gross profit for the three months ended September 30, 2014 was $1,030,000 as compared to $882,000 for the three months ended September 30, 2013. The increased gross profit of $148,000 or 16.7% for the three months ended September 30, 2014 was primarily due to increased royalties.

Operating Expenses. Operating expenses for the three months ended September 30, 2014 were $1,121,000 as compared to $1,226,000 for the three month period ended September 30, 2013. General and administrative expenses include overhead expenses, and finance, accounting, legal and other professional services incurred by us. General and administrative expenses decreased by $70,000 from $738,000 for the three months ended September 30, 2013 to $668,000 for the three months ended September 30, 2014, due primarily to decreased legal fees. Amortization of patents was $408,000 for the three months ended September 30, 2014 as compared to $418,000 for the three months ended September 30, 2013. Non-cash compensation expense related to the issuance of stock options was $45,000 for the three months ended September 30, 2014 as compared to $70,000 for the three months ended September 30, 2013.

Interest Income. Interest income for the three months ended September 30, 2014 was $8,000 as compared to interest income of $9,000 for the three months ended September 30, 2013.

Operating Loss. We had an operating loss of $91,000 for the three months ended September 30, 2014 compared with an operating loss of $344,000 for the three months ended September 30, 2013. The decreased operating loss of $253,000 was primarily due to increased revenue and related gross profit and decreased operating expenses.

Income Taxes (Benefit). Benefits for federal, state and local income taxes of $47,000 and $127,000 were recorded for the three months ended September 30, 2014 and September 30, 2013, respectively.

Deferred Tax Benefit/NOLs. At September 30, 2014, we had net operating loss carryforwards (NOLs) totaling approximately $22,862,000 expiring through 2029, with a future tax benefit of approximately $7,773,000. At September 30, 2014 and June 30, 2014, $4,128,000 and $4,093,000, respectively, has been recorded as a deferred tax benefit on our balance sheet. During the three month period ended September 30, 2014 as a result of a loss before taxes of $83,000, $47,000 was recorded as an income tax benefit and our deferred tax asset was increased by $35,000 to $4,128,000.

Net Loss. As a result of the foregoing, we realized a net loss of $36,000 and a loss per share of $(0.00) (basic and diluted) for the three months ended September 30, 2014 compared with net loss of $208,000 or $(0.01) per share (basic and diluted) for the three months ended September 30, 2013. The decreased net loss of $172,000 was primarily due to increased revenue from existing licensees.

RESULTS OF OPERATIONS

Nine Months Ended September30, 2014 Compared To Nine Months Ended September 30, 2013

Revenue. We had revenue of $11,024,000 for the nine months ended September 30, 2014 as compared to revenue of $7,198,000 for the nine months ended September 30, 2013, which was related to the receipt of royalties pursuant to license agreements for our Remote Power Patent. The increase in revenue of $3,826,000 or 53% for the nine months ended September 30, 2014 included $3,281,000 of additional royalty payments from Cisco as a result of our audit of Cisco (see Note M to our financial statements included in this quarterly report).

Cost of Revenue. We had a cost of revenue of $3,157,000 and $2,117,000 for the nine months ended September 30, 2014 and September 30, 2013, respectively. Included in the cost of revenue for the nine months ended September 30, 2014 were contingent legal fees of $2,484,000 payable to our patent litigation counsel (See Note B[1] to our financial statements included herein) and $550,000 of incentive (royalty bonus) compensation payable to our Chairman and Chief Executive Officer pursuant to his employment agreement (see Note C[1] to our financial statements included in this quarterly report). Included in the cost of revenue for the nine months ended September 30, 2013 were contingent legal fees of $1,660,000 payable to our patent litigation counsel and $356,000 of incentive (royalty bonus) compensation payable to our Chairman and Chief Executive Officer pursuant to his employment agreement.

Gross Profit. The gross profit for the nine months ended September 30, 2014 was $7,867,000 as compared to $5,081,000 for the nine months ended September 30, 2013. The increased gross profit of $2,786,000 or 54.8% for the nine months ended September 30, 2014 was primarily due to additional revenue of $3,281,000 from the Cisco audit (see Note M to our financial statements included in this quarterly report) and increased royalty revenue (exclusive of the Cisco audit) of $545,000.

Operating Expenses. Operating expenses for the nine month period ended September 30, 2014 were $3,314,000 as compared to $2,927,000 for the nine month period ended September 30, 2013. General and administrative expenses include overhead expenses and finance, accounting, legal and other professional services incurred by us. General and administrative expenses decreased by $52,000 from $1,933,000 for the nine months ended September 30, 2013 to $1,881,000 for the nine months ended September 30, 2014. Amortization of patents was $1,226,000 for the nine months ended September 30, 2014 as compared to $668,000 for the nine months ended September 30, 2013. The increased cost of amortization of patents for the nine months ended September 30, 2014 was due to our acquisition of thirteen (13) patents in 2013. Non-cash compensation expense related to the issuance of stock options was $207,000 for the nine months ended September 30, 2014 as compared to $326,000 for the nine months ended September 30, 2013.

Interest Income. Interest income for the nine months ended September 30, 2014 was $29,000 as compared to interest income of $27,000 for the nine months ended September 30, 2013.

Operating Income. We had an operating income of $4,553,000 for the nine months ended September 30, 2014 compared with operating income of $2,154,000 for the nine months ended September 30, 2013. The increase in operating income of $2,399,000 was primarily due to additional revenue of $3,281,000 as a result of the Cisco audit (see Note M to our financial statements included in this quarterly report) and increased royalty revenue (exclusive of the Cisco audit) of $545,000.

Income Taxes (Benefit). A provision for federal, state and local income taxes of $1,621,000 and $215,000 which included reductions of $1,531,000 and $192,000 in our deferred tax asset for the nine months ended September 30, 2014 and September 30, 2013, respectively.

Deferred Tax Benefit/NOLs. At September 30, 2014, we had net operating loss carryforwards (NOLs) totaling approximately $22,862,000 expiring through 2029, with a future tax benefit of approximately $7,773,000. At September 30, 2014 and December 31, 2013, $4,128,000 and $5,659,000 and were recorded as a deferred tax asset on our balance sheet. During the nine month period ended September 30, 2014 as a result of income before taxes for the period of $4,582,000, the deferred tax asset was reduced by $1,531,000 to $4,128,000.

Net Income. As a result of the foregoing, we realized net income of $2,961,000 or $0.12 per share (basic) and $0.11 per share (diluted) for the nine months ended September 30, 2014 compared with net income of $1,966,000 or $0.08 per share (basic) and $0.07 per share (diluted) for the nine months ended September 30, 2013. The increased net income of $995,000 was primarily due to increased revenue from licensees including the additional revenue from the Cisco audit offset by corresponding increases in cost of revenue, operating expenses and income taxes.

LIQUIDITY AND CAPITAL RESOURCES

We have financed our operations primarily from royalty revenue from licensing our Remote Power Patent. In accordance with our patent litigation settlement achieved in July 2010, we received aggregate upfront payments of approximately $32 million (net proceeds of $22 million after payment of legal fees and expenses and bonus compensation) and Cisco agreed to pay us quarterly royalties (which began for the first quarter of 2011). (See Note D[3] to our financial statements included in this quarterly report). At September 30, 2014 our principal sources of liquidity consisted of cash and cash equivalents of $19,193,000 and working capital of $20,532,000. We believe based on our current cash position and projected licensing revenue from our existing license agreements that we will have sufficient cash to fund our operations for the foreseeable future, although this may not be the case.

Working capital increased by $738,000 to $20,532,000 at September 30, 2014 as compared to working capital of $19,794,000 at December 31, 2013. The increase in working capital was primarily due to increased royalty revenue offset by the cost of repurchase of shares and warrants.

We maintain our cash primarily in money market accounts. Accordingly, we do not believe that our investments have significant exposure to interest rate risk.

OFF-BALANCE SHEET ARRANGEMENTS

We do not have any off-balance sheet arrangements.

CONTRACTUAL OBLIGATIONS

We do not have any long-term debt, capital lease obligations, operating lease obligations, purchase obligations or other long-term liabilities except for the lease obligations set forth in Note B[5] to our condensed consolidated financial statements included in this quarterly report.

CRITICAL ACCOUNTING POLICIES

See Note B to our financial statements included in this quarterly report.

ITEM 3.QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Not Applicable

ITEM 4. CONTROLS AND PROCEDURES.

(a) Evaluation of Disclosure Controls and Procedures.

Our Chief Executive Officer and Chief Financial Officer have evaluated the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) of the Securities Exchange Act of 1934) as of the end of the period covered by this Quarterly Report on Form 10-Q. Based upon this review, these officers concluded that, as of the end of the period covered by this Quarterly Report on Form 10-Q, our disclosure controls and procedures are effective to ensure that information required to be disclosed by us in the reports we file or submit under the Securities Exchange

Act of 1934 is recorded, processed, summarized and reported, within the time periods specified in applicable rules and forms and is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure.

(b) Changes in Internal Controls

There was no change in our internal control over financial reporting that occurred during the fiscal quarter ended September 30, 2014 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

On April 4, 2014, we initiated litigation against Google and YouTube in the United States District Court for the Southern District of New York for infringement of several of our patents within our Cox Patent Portfolio which relate to the identification of media content on the Internet. The lawsuit alleges that Google and YouTube have infringed and continue to infringe certain of our patents by making, using, selling and offering to sell unlicensed systems and related products and services, which include YouTube's Content ID system.

On May 23, 2013, through our subsidiary Mirror Worlds Technologies, LLC, we initiated patent litigation in the United States District Court for the Eastern District of Texas, Tyler Division, against Apple, Inc., Microsoft, Inc., Hewlett-Packard Company, Lenovo Group Ltd., Lenovo (United States), Inc., Dell, Inc., Best Buy Co., Inc., Samsung Electronics America, Inc. and Samsung Telecommunications America L.L.C., for infringement of U.S. Patent No. 6,006,227 (the "'227" Patent") (one of the patents we acquired as part of the acquisition of the Mirror Worlds patent portfolio – see Note B[2] to our financial statements included in this quarterly report). We seek, among other things, monetary damages based upon reasonable royalties. The lawsuit alleges that the defendants have infringed and continue to infringe the claims of the '227 Patent by making, selling, offering to sell and using infringing products including Mac OS and Windows operating systems and personal computers and tablets that include versions of those operating systems, and by encouraging others to make, sell, and use these products. In September 2013 and October 2013, the defendants filed their answers to our complaint. Defendants Apple and Microsoft, Inc. also filed counterclaims for a declaratory judgment of non infringement of our '227 Patent and invalidity of our '227 Patent. On December 10, 2013, the litigation was severed into two consolidated actions, Mirror Worlds v. Apple, et al. (case no. 6:13-cv-419), and Mirror Worlds v. Microsoft, et al., (case no. 6:13-cv-941). On September 12, 2013, certain defendants filed a motion to stay our claims against Microsoft's customers and transfer the litigation to the Western District of Washington, which motion was denied by the Court in September 2014. On October 23, 2014, the defendants in the Mirror Worlds v. Microsoft, et al. action filed a Petition for a Writ of Mandamus in the United States Court of Appeals for the Federal Circuit directing the District Court to (i) stay our claims against Microsoft's customers, and (ii) transfer the case against Microsoft and its customers to the Western District of Washington. A Markman hearing for the two consolidated actions is scheduled for November 13, 2014 and trial dates have been scheduled for March 2016.

Several patents in the portfolio of patents that we acquired from Mirror Worlds, LLC (now Looking Glass LLC) on May 21, 2013 were the subject of prior litigation in Mirror Worlds, LLC v. Apple, Inc. ("Apple") (No. 6:08-cv-00088). On October 1, 2010, a jury returned a verdict in that action in favor of Mirror Worlds upholding the validity of the three patents tried in the case (U.S. Patent Nos. 6,006,227, 6,638,313, and 6,725,427), and finding that Apple had willfully infringed each of these patents. Further, the jury awarded Mirror Worlds $208.5 million in damages for each of these patents. After the trial, the district court vacated the jury verdict on infringement, and concluded that Mirror Worlds failed to present sufficient evidence of direct or indirect infringement. While the infringement, willfulness and damages verdicts were vacated at the trial level, the jury's validity verdicts were not overturned. The validity of the '227 Patent has also been reaffirmed by the U.S. Patent and Trademark Office since the trial in reexamination proceedings initiated by Apple resulting in two re-examination certificates which further validates the '227 Patent. On appeal, a divided panel of the Federal Circuit Court of Appeals upheld the district court ruling overturning the jury verdict on direct and indirect infringement.

In September 2011, we initiated patent litigation against 16 data networking equipment manufacturers in the United States District Court for the Eastern District of Texas, Tyler Division, for infringement of our Remote Power Patent. Named as defendants in the lawsuit, excluding affiliated parties, were Alcatel-Lucent USA, Inc., Allied Telesis, Inc., Avaya Inc., AXIS Communications Inc., Dell, Inc., GarrettCom, Inc., Hewlett-Packard Company, Huawei Technologies USA, Juniper Networks, Inc., Motorola Solutions, Inc., NEC Corporation, Polycom Inc., Samsung Electronics Co., Ltd., ShoreTel, Inc., Sony Electronics, Inc., and Transition Networks, Inc. We seek monetary damages based upon reasonable royalties. In March 2012, we reached settlement agreements with defendants Motorola Solutions, Inc. ("Motorola") and Transition Networks, Inc. ("Transition Networks"). In October 2012, we reached a settlement with defendant GarretCom, Inc (“GarretCom”). In February 2013, we reached settlement agreements with Allied Telesis, Inc. (“Allied Telesis”) and NEC Corporation (“NEC”). As part of the settlements, Motorola, Transition Networks, GarretCom, Allied Telesis and NEC each entered into a non-exclusive license agreement for our Remote Power Patent pursuant to which each such defendant agreed to license our Remote Power Patent for its full term (which expires in March 2020) and pay a license initiation fee and quarterly or annual royalties based on their sales of PoE products. On June 27, 2012, defendant Axis Communications made a motion to dismiss, or alternatively to sever, on the grounds of misjoinder. Several defendants joined in the motion. On July 16, 2012 we filed our opposition to the motion. On January 17, 2013, the Court granted in part defendants’ motion by granting severance and consolidating all the actions for pre-trial issues, except venue. On January 25, 2013, certain defendants filed a motion to stay the litigation pending completion or termination of the Inter Partes review proceedings at the United States Patent and Trademark Office (see below and Notes D[3] and D[6] to our financial statements included in this quarterly report). On March 5, 2013, the Court granted certain defendants’ motion and stayed the litigation until application by a party following the disposition of the Inter Partes Review proceeding described below. On September 11, 2014, we filed a motion to lift the stay and a decision by the Court is pending.

On July 20, 2012, an unknown third party filed with the United States Patent and Trademark Office (“USPTO”) a request for ex parte reexamination of certain claims of our Remote Power Patent. On September 5, 2012, the USPTO issued an order granting the reexamination. The reexamination was stayed by the USPTO beginning in December 2012 until May 2014 (the completion of the Inter Partes review proceeding described below). On October 14, 2014, the USPTO issued a Reexamination Certificate, rejecting a challenge to the patentability of our Remote Power Patent (U.S Patent No. 6,218,930). The Reexamination Certificate confirms the patentability of the challenged claims of our Remote Power (claims 6, 8 and 9) without any amendment or modification. The USPTO also allowed fourteen new claims, bringing the total claims in the Remote Power Patent to twenty-three claims. No claims were rejected.

Avaya Inc., Dell Inc., Sony Corporation of America and Hewlett Packard Co. were petitioners in Inter Partes Review proceedings (which have been joined together) (the “IPR Proceeding”) at the United States Patent and Trademark Office before the Patent Trial and Appeal Board (the “Patent Board”) involving our Remote Power Patent. Petitioners in the IPR Proceeding sought to cancel certain claims of our Remote Power as unpatentable. A hearing on the merits of the IPR Proceeding was held on January 9, 2014. On May 22, 2014, the Patent Board issued its Final Written Decision in our favor rejecting a challenge to the patentability of our Remote Power Patent. On July 24, 2014, the Petitioners in the IPR Proceeding each filed a Notice of Appeal of the Patent Board's decision to the United States Court of Appeals for the Federal Circuit. In the event the decision of the Patent Board is reversed by the United States Court of Appeals for the Federal Circuit and the Remote Power Patent is determined to be invalid, such a decision would have a material adverse effect on our business, financial condition and results of operations as our entire revenue stream is dependent upon the continued validity of our Remote Power Patent.

ITEM 1A. Risk Factors.

Our operations and financial results are subject to various risks and uncertainties that could adversely affect our business, financial condition, results of operations and trading price of our common stock. Our Post-Effective Amendment No. 2 to Form S-1 Registration Statement (Registration No. 333-190719) filed with the Securities and Exchange Commission on September 30, 2014 includes a discussion of our risk factors on pages 8-19 and should be carefully considered by investors.

ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds.

Recent Issuances of Unregistered Securities

There were no such issuances during the three month period ended September 30, 2014.

Stock Repurchases

On August 22, 2011, we announced that our Board of Directors approved a share repurchase program to repurchase up to $2,000,000 of shares of our common stock over the next 12 months ("Share Repurchase Program"). On June 30, 2014, our Board of Directors authorized its fourth increase to our Share Repurchase Program authorizing the repurchase of up to an additional $5.0 million of shares of our common stock over the subsequent 12 month period (for a total of up to $12.0 million since inception of the program in August 2011). The common stock may be repurchased from time to time in open market transactions or privately negotiated transactions in our discretion. The timing and amount of the shares repurchased is determined by management based on its evaluation of market conditions and other factors. The Share Repurchase Program may be increased, suspended or discontinued at any time. Since inception of the Share Repurchase Program in August 2011 through September 30, 2014, the Company has repurchased an aggregate of 5,144,068 shares of its common stock at an average per share price of $1.47 or an aggregate cost of $7,555,857. During the three month period ended September 30, 2014, we repurchased 177,000 of our shares of common stock at an average price per share of $2.15 or an aggregate cost of $380,550.

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs(1)
July 1 to July 31, 2014	-0-	—	-0-	$4,824,692
August 1 to August 31, 2014	100,000	$2.15	100,000	$4,609,692
September 1 to September 30, 2014	77,000	$2.15	77,000	$4,444,124
Total	177,000	$215,000	177,000	

(1) The dollar amounts in this column reflect an increase of $5,000,000 in our Share Repurchase Program approved by the Board of Directors on June 3, 2014.

ITEM 3. Defaults Upon Senior Securities.

None.

ITEM 5. Other Information.

None

ITEM 6. Exhibits

(a) Exhibits

31.1 Controls and Procedure Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.2 Controls and Procedure Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32.1 Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

32.2 Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

101	Interactive data files:**
101.INS	XBRL Instance Document
101.SCH	XBRL Scheme Document
101.CAL	XBRL Calculation Linkbase Document
101.DEF	XBRL Definition Linkbase Document
101.LAB	XBRL Label Linkbase Document
101.PRE	XBRL Presentation Linkbase Document

SIGNATURES

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

NETWORK-1 TECHNOLOGIES, INC.

Date: November 12, 2014	By:	/s/ Corey M. Horowitz Corey M. Horowitz Chairman and Chief Executive Officer
Date: November 12, 2014	By:	/s/ David C. Kahn David C. Kahn Chief Financial Officer